



Perfect Optronics Limited 圓美光電有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 8311

Interim Report | **2016**



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This report, for which the directors (the “Directors”) of Perfect Optronics Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquires, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

HIGHLIGHTS

- The Group recorded revenue of approximately HK\$574.1 million for the six months ended 30 June 2016 (six months ended 30 June 2015: approximately HK\$488.0 million).
- Profit attributable to equity holders of the Company for the six months ended 30 June 2016 amounted to approximately HK\$10.6 million (six months ended 30 June 2015: approximately HK\$6.0 million).
- The Board does not declare an interim dividend for the six months ended 30 June 2016 (six months ended 30 June 2015: Nil).

FINANCIAL RESULTS

The board of directors (the "Board") of Perfect Optronics Limited (the "Company") is pleased to announce the unaudited consolidated financial results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2016 together with the comparative unaudited figures for the corresponding period in 2015 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2016

	Note	Three months ended 30 June		Six months ended 30 June	
		2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Revenue	4	279,046	265,096	574,105	487,969
Cost of sales		(259,164)	(247,787)	(533,263)	(450,269)
Gross profit		19,882	17,309	40,842	37,700
Other losses, net	6	(221)	(420)	(462)	(546)
Distribution and selling expenses		(3,596)	(4,505)	(7,638)	(9,244)
General and administrative expenses		(9,144)	(9,997)	(16,676)	(18,841)
Research and development expenses		(1,844)	(1,707)	(3,835)	(3,137)
Operating profit		5,077	680	12,231	5,932
Finance income		100	330	256	523
Finance costs	7	(460)	(228)	(997)	(487)
Finance income/(costs), net		(360)	102	(741)	36
Profit before income tax	8	4,717	782	11,490	5,968
Income tax expense	9	(836)	(364)	(2,243)	(1,479)
Profit for the period		3,881	418	9,247	4,489
Other comprehensive income:					
<i>Items that may be reclassified subsequently to income statement</i>					
Change in value of available-for-sale financial assets		16	(52)	58	(105)
Currency translation differences		(180)	37	(145)	86
Total comprehensive income for the period		3,717	403	9,160	4,470

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

For the six months ended 30 June 2016

	Note	Three months ended 30 June		Six months ended 30 June	
		2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Profit for the period attributable to:					
Equity holders of the Company		4,434	1,137	10,554	5,994
Non-controlling interests		(553)	(719)	(1,307)	(1,505)
		3,881	418	9,247	4,489
Total comprehensive income					
for the period attributable to:					
Equity holders of the Company		4,262	1,148	10,438	6,027
Non-controlling interests		(545)	(745)	(1,278)	(1,557)
		3,717	403	9,160	4,470
Basic and diluted earnings per share	11	HK0.30 cent	HK0.08 cent	HK0.71 cent	HK0.40 cent

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

	Note	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	12	3,913	4,784
Intangible assets	13	12,295	12,552
Available-for-sale financial assets	14	32,343	32,285
		48,551	49,621
Current assets			
Inventories		66,552	77,111
Trade and other receivables	15	125,830	203,095
Tax recoverable		—	151
Restricted bank deposits		20,735	20,316
Fixed deposits with original maturity date more than three months		14,071	17,755
Cash and cash equivalents		121,354	127,953
		348,542	446,381
Total assets		397,093	496,002
EQUITY			
Equity attributable to equity holders of the Company			
Share capital		14,837	14,837
Reserves		122,115	122,231
Retained earnings		130,549	127,413
		267,501	264,481
Non-controlling interests		13,970	15,248
Total equity		281,471	279,729

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 30 June 2016

	Note	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
LIABILITIES			
Non-current liabilities			
Note payable		—	10,000
Deferred income tax liabilities		558	644
		558	10,644
Current liabilities			
Trade and other payables	16	102,886	164,429
Note payable		10,000	10,000
Bank borrowings	17	—	31,200
Current income tax liabilities		2,178	—
		115,064	205,629
Total liabilities		115,622	216,273
Total equity and liabilities		397,093	496,002

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016

	Attributable to equity holders of the Company									Total equity HK\$'000 (Unaudited)
	Share capital HK\$'000 (Unaudited)	Share premium HK\$'000 (Unaudited)	Other reserves* HK\$'000 (Unaudited)	Merger reserve HK\$'000 (Unaudited)	Revaluation reserve HK\$'000 (Unaudited)	Exchange reserve HK\$'000 (Unaudited)	Retained earnings HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)	Non-controlling interests HK\$'000 (Unaudited)	
Balance at										
1 January 2016	14,837	465,738	67,349	(415,675)	7,091	(2,272)	127,413	264,481	15,248	279,729
Profit for the period	—	—	—	—	—	—	10,554	10,554	(1,307)	9,247
Other comprehensive income	—	—	—	—	29	(145)	—	(116)	29	(87)
Total comprehensive income for the period	—	—	—	—	29	(145)	10,554	10,438	(1,278)	9,160
Dividend relating to 2015 paid in June 2016										
— Note 10	—	—	—	—	—	—	(7,418)	(7,418)	—	(7,418)
Total transaction with owners in their capacity as owners	—	—	—	—	—	—	(7,418)	(7,418)	—	(7,418)
Balance at 30 June 2016	14,837	465,738	67,349	(415,675)	7,120	(2,417)	130,549	267,501	13,970	281,471

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the six months ended 30 June 2016

	Attributable to equity holders of the Company									
	Share capital HK\$'000 (Unaudited)	Share premium HK\$'000 (Unaudited)	Other reserves* HK\$'000 (Unaudited)	Merger reserve HK\$'000 (Unaudited)	Revaluation reserve HK\$'000 (Unaudited)	Exchange reserve HK\$'000 (Unaudited)	Retained earnings HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)	Non-controlling interests HK\$'000 (Unaudited)	Total equity HK\$'000 (Unaudited)
Balance at 1 January 2015	13,200	77,800	38,000	3,900	(3)	(1,185)	107,099	238,811	18,326	257,137
Profit for the period	—	—	—	—	—	—	5,994	5,994	(1,505)	4,489
Other comprehensive income	—	—	—	—	(53)	86	—	33	(52)	(19)
Total comprehensive income for the period	—	—	—	—	(53)	86	5,994	6,027	(1,557)	4,470
Issue of new shares as consideration for common control combination	1,637	387,938	—	(419,575)	—	—	—	(30,000)	—	(30,000)
Contribution from shareholder under common control combination	—	—	29,349	—	—	—	—	29,349	—	29,349
Dividend relating to 2014 paid in June 2015	—	—	—	—	—	—	(7,418)	(7,418)	—	(7,418)
Total transaction with owners in their capacity as owners	1,637	387,938	29,349	(419,575)	—	—	(7,418)	(8,069)	—	(8,069)
Balance at 30 June 2015	14,837	465,738	67,349	(415,675)	(56)	(1,099)	105,675	236,769	16,769	253,538

* Other reserves include: (1) the difference between the share capital issued by the Company for acquisition of the subsidiaries pursuant to a reorganisation for the listing of the Company and the aggregate capital of the subsidiaries being acquired at the time of the Reorganisation; and (2) the amount of shareholder's loan waived by the vendor upon completion of the common control combination.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2016

	Note	Six months ended 30 June	
		2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Net cash generated from operating activities		38,870	12,865
Cash flows from investing activities			
Purchases of property, plant and equipment	12	(245)	(1,348)
Purchases of available-for-sale financial assets	14	—	(23,400)
Decrease in fixed deposits with original maturity date more than three months		3,684	2,548
Interest received		256	523
Net cash generated from/(used in) investing activities		3,695	(21,677)
Cash flows from financing activities			
Proceeds from bank borrowings	17	15,600	34,917
Repayments of bank borrowings	17	(46,800)	(41,830)
Increase in restricted bank deposits		(419)	(263)
Payment of cash as part of the consideration for common control combination	1	—	(10,000)
Repayment of note payable		(10,000)	—
Advances from a shareholder		—	1,580
Dividend paid	10	(7,418)	(7,418)
Net cash used in financing activities		(49,037)	(23,014)
Net decrease in cash and cash equivalents		(6,472)	(31,826)
Cash and cash equivalents at beginning of period		127,953	112,436
Exchange differences on cash and cash equivalents		(127)	86
Cash and cash equivalents at end of period		121,354	80,696

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The Company was incorporated in the Cayman Islands on 13 June 2013, as an exempted company with limited liability under the Companies Law (as Revised) of the Cayman Islands. The Company's shares are listed on the GEM since 7 February 2014 (the "Listing").

Pursuant to a group reorganisation (the "Reorganisation") and capitalisation issue of 989,990,000 shares in preparation for the Listing, the Company became the holding company of the subsidiaries now comprising the Group, except for Perfect Shiny Technology Limited ("Perfect Shiny") and its subsidiaries ("Perfect Shiny Group"), on 31 December 2013, the details of which are as set out in the prospectus issued by the Company dated 24 January 2014 (the "Prospectus").

On 22 January 2015, Rightone Resources Limited ("Rightone"), a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement (the "Agreement") to acquire the entire equity interest in Perfect Shiny (the "Acquisition") from Mr. Cheng Wai Tak ("Mr. Cheng"), a director and a substantial shareholder of the Company. Pursuant to the Agreement, the consideration for the Acquisition was HK\$323,000,000, of which HK\$20,000,000 was satisfied by the issuing and delivering of a promissory note in favour of Mr. Cheng in the same amount; HK\$10,000,000 was settled by cash to Mr. Cheng upon completion of the Acquisition; and the rest was satisfied by the allotment and issue by the Company of 163,687,151 new shares (the "Consideration Shares") to the nominee of Mr. Cheng. Pursuant to the Agreement, Mr. Cheng agreed to irrevocably warrant and guarantee to Rightone that the sum of the profit attributable to equity holders of Perfect Shiny Group for the two financial years ending 31 December 2016 shall be not less than HK\$34,000,000 ("Profit Guarantee"). Mr. Cheng agreed to pay to the Group the amount that corresponds to the amount of any shortfall from HK\$34,000,000 multiplied by 9.513 (being the implied multiple derived from the valuation of Perfect Shiny Group at HK\$323,442,000 as at 31 December 2014 performed by an independent valuer divided by the guaranteed profit amount of HK\$34,000,000 under the Profit Guarantee). The liability may be settled in cash or, if agreed by the Group and Mr. Cheng and subject to regulatory compliance, by the buy-back by the Company of the Consideration Shares at their original issue price. However, the maximum liability of Mr. Cheng in respect of the nonfulfillment of the Profit Guarantee shall not exceed HK\$323,000,000. No amount has been recognised with respect to the Profit Guarantee as at 30 June 2016 (31 December 2015: Nil). Furthermore, pursuant to the Agreement, a shareholder's loan of approximately HK\$29,349,000 payable by Perfect Shiny to Mr. Cheng was waived upon completion of the Acquisition. Details of the Acquisition are set out in the Company's circular to its shareholders dated 6 March 2015. The Acquisition was approved by an ordinary resolution passed by the shareholders of the Company by way of poll in an extraordinary general meeting held on 17 April 2015. The Acquisition was completed and the Consideration Shares were issued on 30 April 2015, on which date the closing price of the shares of the Company was HK\$2.38 per share.

1. BASIS OF PREPARATION (CONTINUED)

In the preparation of the unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2016 (the “2016 Interim Financial Statements”), it was determined that the Group and Perfect Shiny Group were ultimately controlled by Mr. Cheng before and after the Acquisition, and that control is not transitory. The Group and Perfect Shiny Group were regarded as continuing entities as at the date of business combination and hence the Acquisition was accounted for as a combination of entities under common control by applying the principles of merger accounting in accordance with the Accounting Guideline 5 “Merger accounting for common control combinations” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) as if the Acquisition had occurred on the date when the combining entities first came under the control of the substantial shareholder. Accordingly, the assets and liabilities acquired in the common control combinations are stated at their carrying amounts as if they had been held or incurred by the Group from the later of the date on which the combining entities first came under the control of the substantial shareholder or the relevant transactions giving rise to the assets or liabilities arose.

The 2016 Interim Financial Statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim financial reporting” issued by the HKICPA and the disclosure requirements of the GEM Listing Rules. The 2016 Interim Financial Statements are presented in Hong Kong dollars (“HK\$”), unless otherwise stated; and have been prepared under the historical cost convention, except for available-for-sale financial assets which have been measured at fair value.

The 2016 Interim Financial Statements have been reviewed by the audit committee of the Company.

2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these unaudited condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2015, except as described below.

The Group has adopted and applied, for the first time, the following new standards, amendments to standards and interpretations that have been issued and effective for the accounting periods beginning on 1 January 2016:

HKAS 1 Amendment	Disclosure Initiative
HKAS 16 and HKAS 38 Amendments	Clarification of Acceptable Methods of Depreciation and Amortisation
HKAS 16 and HKAS 41 Amendments	Agriculture: Bearer Plants
HKAS 27 Amendment	Equity Method in Separate Financial Statements
HKFRS 10, HKFRS 12 and HKAS 28 Amendments	Investment Entities: Applying the Consolidation Exception
HKFRS 11 Amendment	Accounting for Acquisitions of Interests in Joint Operations
HKFRS 14	Regulatory Deferral Accounts
Annual Improvement Project	Annual Improvements 2012–2014 cycle

For those new standards, amendments to standards and interpretations which have been issued but are not yet effective and have not been early adopted in prior accounting periods, the Group is in the process of assessing their impact on the Group's results and financial position.

The preparation of the 2016 Interim Financial Statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2015.

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk and price risk), credit risk and liquidity risk.

The 2016 Interim Financial Statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2015.

There have been no changes in the risk management policies since 31 December 2015.

3.2 Liquidity risk

Compared to the year ended 31 December 2015, there was no material change in the contractual undiscounted cash out flows for financial liabilities.

3.3 Fair value estimation

Financial instruments carried at fair value are analysed by valuation method. The different levels have been defined as follows:

- (i) Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- (ii) Inputs other than quoted prices included within level 1 that are observable for the assets or liabilities, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- (iii) Inputs for the assets or liabilities that are not based on observable market data (that is, unobservable inputs) (level 3).

The carrying amounts of the Group's financial assets, including cash and cash equivalents, fixed deposits with original maturity date more than three months, restricted bank deposits, and trade and other receivables; and the Group's financial liabilities, including trade and other payables, note payable and bank borrowings, approximate their fair values due to their short maturities.

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

3.3 Fair value estimation (Continued)

As at 30 June 2016, the Group's available-for-sale financial assets at fair values amounted to approximately HK\$1,242,000 (31 December 2015: HK\$1,184,000) and HK\$31,101,000 (31 December 2015: HK\$31,101,000) which are included in level 1 and level 3, respectively. The Group did not have any financial assets measured at fair value which are included in level 2 as at 30 June 2016 (31 December 2015: Nil). The fair value of financial instruments traded in active markets is based on quoted market prices at the date of the statement of financial position. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. The Group's financial instrument included in level 1 comprises the open-ended unlisted fund which mainly invested in debt investment with quoted bid price in an active market and classified as available-for-sale financial assets. The Group's financial instrument included in level 3 is an unlisted available-for-sale equity investment which consists of preferred shares issued by a private entity. The fair value of the preferred shares held is derived by using option-pricing methods to allocate the equity value of the entity, which is implied from the issue prices of recent transactions and justified by comparable company valuation multiples approach.

During the six months ended 30 June 2016, there were no transfers amongst levels 1, 2, and 3 (six months ended 30 June 2015: Nil).

There were neither additions nor disposals of the Group's financial instrument in level 3 during the period. Furthermore, there were no changes in its fair value, valuation techniques and significant unobservable input during the period.

4. REVENUE

Revenue represents the sales of display panels, optics products and related electronic components to external parties.

5. SEGMENT INFORMATION

The chief operating decision-maker has been identified as the directors of the Company. The directors review the Group's internal reporting in order to assess performance and allocate resources and have determined the operating segments based on these reports.

The Group has two reportable operating segments, including the Display Products Segment and the Optics Products Segment.

The directors assess the performance of the operating segments based on a measure of revenue and results of each segment and do not assess the performance based on segment assets and liabilities.

5. SEGMENT INFORMATION (CONTINUED)

(a) The segment information provided to the directors for the reportable segments for the six months ended 30 June 2016 and 2015 is as follows:

	Display Products		Optics Products		Total	
	2016	2015	2016	2015	2016	2015
	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Segment revenue (all from external customers)	568,811	487,055	5,294	914	574,105	487,969
Segment results	36,541	39,167	466	(4,604)	37,007	34,563
Unallocated operating costs					(24,776)	(28,631)
Finance income/(costs), net					(741)	36
Profit before income tax					11,490	5,968

(b) The Group's revenue from its major products for the six months ended 30 June 2016 and 2015 are as follows:

	Six months ended 30 June	
	2016	2015
	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Thin film transistor liquid crystal display ("TFT-LCD") panels and modules	522,304	365,050
Driver integrated circuits ("ICs")	37,944	98,236
Polarisers	5,667	17,970
Optics products	5,294	914
Others	2,896	5,799
	574,105	487,969

5. SEGMENT INFORMATION (CONTINUED)

(c) Segment revenue by customers' geographical location

During the six months ended 30 June 2016 and 2015, most of the Group revenues were derived in Hong Kong, where the Group's products were delivered by the Group to its customers.

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Hong Kong	562,868	472,619
The People's Republic of China ("PRC")	10,905	14,454
Taiwan	332	896
	574,105	487,969

(d) Revenues from major customers who have individually contributed to 10% or more of the total revenue of the Group are disclosed as follows:

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Customer A (Note)	101,296	15,648
Customer B (Note)	89,143	46,080
Customer C	66,520	82,657
Customer D (Note)	61,299	38,161
	318,258	182,546

Note: Revenues from Customer A, B and D contribute less than 10% of the total revenue of the Group during the six months ended 30 June 2015.

The above four customers are included in the Display Products Segment.

5. SEGMENT INFORMATION (CONTINUED)

- (e) An analysis of the Group's non-current segment assets (other than available-for-sale financial assets) by location of assets is as follows:

	Hong Kong HK\$'000	The PRC HK\$'000	Taiwan HK\$'000	Total HK\$'000
As at 30 June 2016				
(Unaudited):				
Non-current assets				
Property, plant and equipment	1,884	648	1,381	3,913
Goodwill	—	—	6,519	6,519
Other intangible assets	2,000	1,122	2,654	5,776
	3,884	1,770	10,554	16,208
As at 31 December 2015				
(Audited):				
Non-current assets				
Property, plant and equipment	2,277	925	1,582	4,784
Goodwill	—	—	6,519	6,519
Other intangible assets	2,000	1,122	2,911	6,033
	4,277	2,047	11,012	17,336

6. OTHER LOSSES, NET

	Six months ended 30 June	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Net exchange loss	514	655
Others	(52)	(109)
	462	546

7. FINANCE COSTS

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest expense on:		
Bank advances from factored receivables	—	33
Bank borrowings wholly repayable within five years	156	47
Factoring charges	841	407
	997	487

8. PROFIT BEFORE INCOME TAX

The Group's profit before income tax is arrived at after charging:

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Cost of inventories sold	478,874	441,597
Provision for obsolete inventories	2,209	336
Depreciation of property, plant and equipment	1,098	997
Amortisation of other intangible assets	257	278

9. INCOME TAX EXPENSE

The amount of income tax charged to the income statement represents:

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current income tax:		
Hong Kong profits tax	2,329	1,497
Deferred income tax	(86)	(18)
	2,243	1,479

9. INCOME TAX EXPENSE (CONTINUED)

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2015: 16.5%) on the estimated assessable profit during the period arising in or derived from Hong Kong. The Group's subsidiaries in the PRC are subject to PRC corporate income tax at a standard rate of 25% during the period (six months ended 30 June 2015: 25%). No PRC corporate income tax has been provided as the Group has available tax losses to offset the assessable profit generated during the period (six months ended 30 June 2015: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/ jurisdictions in which the Group operates.

10. DIVIDEND

The Board does not declare an interim dividend for the six months ended 30 June 2016 (six months ended 30 June 2015: Nil).

Final dividend for the year ended 31 December 2015 of approximately HK\$7,418,000 was paid in June 2016.

11. EARNINGS PER SHARE

Basic earnings per share for the six months ended 30 June 2016 is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the six months ended 30 June 2016. Basic earnings per share for the six months ended 30 June 2015 is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares deemed to be in issue during the six months ended 30 June 2015.

In determining the weighted average number of ordinary shares deemed to be in issue during the six months ended 30 June 2015, the 163,687,151 ordinary shares with par value of HK\$0.01 each issued during the six months ended 30 June 2015 as part of the consideration of the common control combination as mentioned in note 1 above have been regarded as if these shares were in issue since 1 January 2015.

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
Profit attributable to equity holders of the Company (HK\$'000)	10,554	5,994
Weighted average number of ordinary shares in issue (thousands)	1,483,687	1,483,687
Basic and diluted earnings per share (HK cent per share)	HK0.71 cent	HK0.40 cent

11. EARNINGS PER SHARE (CONTINUED)

For the purpose of determining the diluted earnings per share amount, no adjustment has been made to the basic earnings per share amount for the six months ended 30 June 2016 and 2015 as the Group had no potentially dilutive ordinary shares in issue during these periods.

12. PROPERTY, PLANT AND EQUIPMENT

	HK\$'000 (Unaudited)
Six months ended 30 June 2016	
<i>Net book value</i>	
Opening amount as at 1 January 2016	4,784
Additions	245
Depreciation	(1,098)
Currency translation difference	(18)
<hr/>	
Closing amount as at 30 June 2016	3,913
<hr/>	
Six months ended 30 June 2015	
<i>Net book value</i>	
Opening amount as at 1 January 2015	4,781
Additions	1,348
Depreciation	(997)
<hr/>	
Closing amount as at 30 June 2015	5,132
<hr/>	

13. INTANGIBLE ASSETS

	Goodwill HK\$'000 (Unaudited)	Other intangible assets HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
Six months ended 30 June 2016			
<i>Net book value</i>			
Opening amount as at 1 January 2016	6,519	6,033	12,552
Amortisation	—	(257)	(257)
Closing amount as at 30 June 2016	6,519	5,776	12,295
Six months ended 30 June 2015			
<i>Net book value</i>			
Opening amount as at 1 January 2015	6,791	6,690	13,481
Amortisation	—	(278)	(278)
Closing amount as at 30 June 2015	6,791	6,412	13,203

14. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Six months ended 30 June	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
At 1 January	32,285	1,344
Additions	—	23,400
Net gains/(losses) transfer to equity	58	(105)
At 30 June	32,343	24,639
Less: Current portion	—	—
Non-current portion	32,343	24,639

14. AVAILABLE-FOR-SALE FINANCIAL ASSETS (CONTINUED)

Available-for-sale financial assets include the following:

	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
Unlisted equity investment, at fair value	31,101	31,101
Unlisted debt investment, at quoted price	1,242	1,184
	32,343	32,285

15. TRADE AND OTHER RECEIVABLES

	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
Trade receivables (Note)	61,435	75,472
Bills receivables (Note)	60,950	123,209
	122,385	198,681
Prepayments, deposits and other receivables	3,445	4,414
	125,830	203,095

Note:

The Group generally grants credit periods of 30 to 120 days. The ageing analysis of trade and bills receivables based on invoice dates is as follows:

	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
0–30 days	77,164	106,393
31–60 days	34,429	78,214
61–90 days	10,455	13,193
91–180 days	337	881
	122,385	198,681

16. TRADE AND OTHER PAYABLES

	30 June 2016	31 December 2015
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Trade payable (Note)	87,479	143,272
Deposits received from customers	10,315	10,727
Accruals and other payables	5,092	10,430
	102,886	164,429

Note:

The ageing analysis of trade payable based on invoice dates is as follows:

	30 June 2016	31 December 2015
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
0–30 days	77,872	118,563
31–60 days	4,756	12,666
61–90 days	4,851	11,990
91–180 days	—	53
	87,479	143,272

17. BANK BORROWINGS

	30 June 2016	31 December 2015
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Short-term bank loans	—	31,200

17. BANK BORROWINGS (CONTINUED)

Movement in bank borrowings is analysed as follows:

	HK\$'000 (Unaudited)
Six months ended 30 June 2016	
Opening amount as at 1 January 2016	31,200
Proceeds of new borrowings	15,600
Repayments of borrowings	(46,800)
Closing amount as at 30 June 2016	—
Six months ended 30 June 2015	
Opening amount as at 1 January 2015	47,141
Proceeds of new borrowings	34,917
Repayments of borrowings	(41,830)
Closing amount as at 30 June 2015	40,228

18. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in these unaudited condensed consolidated interim financial statements, the Group had the following transactions with related parties:

- (a) During the six months ended 30 June 2016, rental expenses of approximately HK\$408,000 (six months ended 30 June 2015: HK\$408,000) were paid to Earn Master Limited, a related company entirely owned by the spouse of Mr. Cheng.
- (b) During the six months ended 30 June 2015, the Group acquired the entire equity interest in Perfect Shiny from Mr. Cheng. Further details of the Acquisition are set out in note 1 above and the Company's circular dated 6 March 2015.

18. RELATED PARTY TRANSACTIONS (CONTINUED)

Key management compensation

Key management includes directors and senior management. The compensation paid or payable to key management for employee services is shown below:

	Six months ended 30 June	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Short-term employee benefits	3,726	3,814
Post-employment benefits		
— defined contribution plans	27	33
	3,753	3,847

19. MAJOR NON-CASH TRANSACTIONS

Major non-cash transactions during the six months ended 30 June 2015 were: (i) the issue of Consideration Shares as consideration for the Acquisition as detailed in note 1 above; and (ii) Mr. Cheng waived a shareholder's loan of approximately HK\$29,349,000 payable by Perfect Shiny upon completion of the Acquisition, pursuant to the Agreement.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group is principally engaged in the trading of display panels, optics products and related electronic components. The Group also processes some of the products which it trades.

During the six months ended 30 June 2016 (the "Period"), the Group maintained the competitiveness of its core business and recorded a satisfactory revenue and profit level against the backdrop of weakened consumer sentiment and uncertain global economy, China's GDP growth slowdown and volatile situation of the European Union.

As the smart phone market becomes mature, the growth rate of demand for its essential display components is slowing down. Thanks to the management's foresight, the Group has already deployed its strategy and has decisively stepped into the Virtual Reality ("VR") and Augmented Reality ("AR") products market. Through the acquisition of Perfect Shiny Group in 2015 and its further development, the Group has already mastered the key technologies to grasp the business opportunities. It has been widely expected within the industrial sector and financial communities that VR and AR technologies would create the next boom in the technology market.

During the Period, the Group endeavored to improve its profitability. Despite the fact that one of the Group's suppliers suffered damage to its production plants due to the earthquake in Taiwan in early February 2016 which caused a temporary impact on products shipments, the Group has been constantly widening its product base which enabled it to overcome such impact. The production plants of the aforementioned supplier had gradually resumed operations during the Period. Profit attributable to equity holders of the Company amounted to approximately HK\$10,554,000 during the Period, which increased by 76% as compared with the corresponding period in 2015. This was mainly attributable to the increase in sales of TFT-LCD panels and modules and decrease in operating expenses during the Period. The Group recorded revenue of approximately HK\$574,105,000 during the Period, representing an increase of 18% as compared with the corresponding period in 2015.

Display Products

During the Period, revenue of the display products segment amounted to approximately HK\$568,811,000, representing an approximately 17% increase as compared to the corresponding period in 2015. Benefited from the remarkable sales performance of those 5-inch panels used for smart phones, revenue from sales of TFT-LCD panels and modules amounted to approximately HK\$522,304,000 during the Period, increased by approximately 43% year-on-year. Such increase in sales of TFT-LCD panels and modules alleviated the impact of the decrease in sales of driver ICs and polarisers during the Period. Affected by the keen price competition in the market, the Group's revenue from sales of driver ICs decreased by 61%, from approximately HK\$98,236,000 during the six months ended 30 June 2015 to approximately HK\$37,944,000 during the Period. Sales of polarisers decreased by 68%, from approximately HK\$17,970,000 during the six months ended 30 June 2015 to approximately HK\$5,667,000 during the Period.

Optics Products

Following the completion of the acquisition of Perfect Shiny Group and putting in additional resources, the Group is ready to march into the VR and AR market by developing new trendy products, including smart glasses, virtual reality entertainment headsets/head-mount display ("HMD") and head-up display ("HUD") devices.

During the Period, the Group focused on improving its new products' design and planning their deployments. Before the commencement of mass production of its major products, the Group's revenue from optics products segment amounted to approximately HK\$5,294,000 during the Period, yet representing a significant growth as compared with the relatively low base in the same period in 2015.

To enhance its corporate profile and public image, the Company made a formal application to the Stock Exchange for the transfer of listing of its shares from GEM to the main board ("Main Board") of the Stock Exchange in May 2016. The Company believes that the transfer of listing will be beneficial to the Group in terms of improving the trading liquidity of the shares and fostering its future growth, financial flexibility and business development.

Prospects

Looking ahead, the Group will continue to explore potential partners and best channel for its VR and AR products. According to a research institution, the combined device markets of AR and VR will see hardware shipments surge past 110 million units in 2020. A brilliant business outlook on the products is expected. Possessing major technologies for the aforementioned products, the Group is confident about its optics products business.

As to the display products business, the Group remains positive on the prospects of display products for mobile phones in China. According to the recent figures published by China Academy of Information and Communications Technology, smart phone shipments during the six months ended 30 June 2016 were 234.8 million units, up 13.0% year over year. The trend of consumers' replacement for higher function specifications mobile phones and the increasing popularity of 4G services in China are expected to continue to support the demand for mobile phones and benefit the mobile phone display components industry. In addition, the increasing smart phone penetration in developing countries will contribute to the growth of mobile phone market in the future.

Subject to the approval of the transfer of listing of the Company's shares to the Main Board by the Stock Exchange, the Group looks forward to a broader horizon in the capital market, which will be favorable to its business development and is in line with the shareholders' long-term interests.

Financial Review

Revenue

For the six months ended 30 June 2016, total revenue of the Group amounted to approximately HK\$574,105,000, which increased by about 18% as compared with the corresponding period in 2015 of approximately HK\$487,969,000. Such increase in total revenue was mainly due to the increase in revenue from the sales of TFT-LCD panels and modules.

Gross profit

Gross profit for the six months ended 30 June 2016 increased by about 8% to approximately HK\$40,842,000, which was mainly attributable to the increase in revenue. Gross profit margin decreased slightly by 0.6 percentage point to 7.1% as compared with the corresponding period in 2015.

Other losses, net

Net other losses of approximately HK\$462,000 was recorded for the six months ended 30 June 2016 (six months ended 30 June 2015: HK\$546,000). The balance mainly comprised of the exchange losses incurred during the Period.

Expenses

The Group's distribution and selling expenses for the six months ended 30 June 2016 amounted to approximately HK\$7,638,000, representing an approximately 17% decrease as compared with the corresponding period in 2015 of approximately HK\$9,244,000. The decrease was mainly attributable to the decrease in rental during the Period.

The Group's general and administrative expenses for the six months ended 30 June 2016 amounted to approximately HK\$16,676,000, representing an approximately 11% decrease as compared with the corresponding period in 2015 of approximately HK\$18,841,000. The decrease was mainly due to the decrease in professional fees. As compared with the Period, more professional fees were incurred due to the acquisition of Perfect Shiny in 2015.

Research and development ("R&D") expenses amounted to approximately HK\$3,835,000 for the six months ended 30 June 2016, representing an approximately 22% increase as compared with the corresponding period in 2015 of approximately HK\$3,137,000. The increase was mainly due to the increase in staff costs and development fees incurred for the R&D activities of the Group.

Profit attributable to equity holders of the Company

Profit attributable to equity holders of the Company for the six months ended 30 June 2016 amounted to approximately HK\$10,554,000, representing an increase of approximately 76% as compared with the corresponding period in 2015 of approximately HK\$5,994,000, which was benefited from the increase in revenue and the decrease in operating expenses during the Period.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's principal sources of funds are used to finance working capital, and the growth and expansion of the Group's operations and sales network. The Group's principal sources of funds are cash generated from operations and bank borrowings. The Group had cash and cash equivalents of approximately HK\$121,354,000 as at 30 June 2016 (31 December 2015: HK\$127,953,000).

	30 June 2016 HK\$'000	31 December 2015 HK\$'000
Total bank deposits, bank balances and cash	156,160	166,024
Less: Restricted bank deposits included in current assets	(20,735)	(20,316)
Fixed deposits with original maturity date more than three months	(14,071)	(17,755)
Cash and cash equivalents	121,354	127,953

The carrying amounts of the Group's total bank deposits, bank balances and cash are denominated in the following currencies:

	30 June 2016 HK\$'000	31 December 2015 HK\$'000
United States dollars	124,021	122,619
Renminbi	7,541	22,197
Hong Kong dollars	8,559	6,966
New Taiwan dollars	16,039	14,242
	156,160	166,024

The Group had no bank borrowings as at 30 June 2016. All of the Group's bank borrowings as at 31 December 2015 were fixed interest rate bank loans denominated in United States dollars. The scheduled repayment dates of the Group's bank borrowings as at 31 December 2015, as set out in the loan agreements and without considering the effect of any repayment on demand clauses, were within one year.

As at 30 June 2016, the Group's unutilised banking facilities restricted for trade finance purposes amounted to approximately HK\$223.8 million (31 December 2015: HK\$194.1 million).

GEARING RATIO

As the Group had no interest-bearing debt as at 30 June 2016, the Group's gearing ratio was 0%. The Group's gearing ratio as at 31 December 2015 was 11.2%, which was calculated based on the Group's total interest-bearing debt of approximately HK\$31,200,000 and the Group's total equity of approximately HK\$279,729,000 as at 31 December 2015.

CAPITAL STRUCTURE

There has been no change in the capital structure of the Group during the six months ended 30 June 2016. The capital of the Company only comprises of ordinary shares.

TREASURY POLICIES

The Group has adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout the period.

The Group strives to reduce exposure to credit risk by monitoring on an ongoing basis with reference to the financial position of the debtors, past experience and other factors. The Group performs regular credit evaluations of its major customers. To manage liquidity risk, the management closely monitors the Group's liquidity position and maintain sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to settle the payables of the Group.

CONTINGENT LIABILITIES

As at 30 June 2016, the Group had no material contingent liabilities (31 December 2015: Nil).

CHARGE OF ASSETS

As at 30 June 2016, the Group had pledged its bank deposits of approximately HK\$20,735,000 (31 December 2015: HK\$20,316,000) to certain banks in Hong Kong to secure the banking facilities granted to the Group.

FOREIGN CURRENCY RISK

The Group's business transactions, assets and liabilities are principally denominated in United States dollars, Hong Kong dollars, Renminbi and New Taiwan dollars. The Group currently does not have a foreign currency hedging policy. However, the Board will continuously monitor the related foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

INFORMATION ON EMPLOYEES

The Group offers competitive remuneration packages commensurate with industry practice and provides various fringe benefits to employees including medical benefits, social insurance, provident funds, bonuses and a share option scheme.

As at 30 June 2016, the employee headcount of the Group was 142 (31 December 2015: 145) and the total staff costs, including directors' emoluments, amounted to approximately HK\$16,260,000 for the six months ended 30 June 2016 (six months ended 30 June 2015: HK\$18,131,000).

DISCLOSURE OF INFORMATION ON DIRECTORS

Pursuant to Rule 17.50A of the GEM Listing Rules, the changes in information on directors of the Company are as follows:

Mr. Wong Yik Chung John retired as an independent non-executive director of Yang Guang Co. Ltd (stock code: 000608), which is listed on the Shenzhen Stock Exchange, while he was appointed as the independent non-executive director of Kee Holdings Company Limited (stock code: 2011) and Beijing Capital Land Ltd. (stock code: 2868) respectively, both companies' shares are listed on the Stock Exchange.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

The Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies during the six months ended 30 June 2016.

CAPITAL COMMITMENTS

As at 30 June 2016, the Group did not have any significant capital commitments (31 December 2015: Nil).

SIGNIFICANT INVESTMENTS HELD

Save as the Group's investment in certain preferred shares of Mobvoi Inc., the Group did not hold any significant investment in equity interest in any other company as at 30 June 2016.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed in the Prospectus, the Group did not have other plans for material investments and capital assets as at 30 June 2016.

COMPARISON BETWEEN FUTURE PLANS WITH ACTUAL BUSINESS PROGRESS

A comparison of the Group's business plan as set out in the Prospectus with actual business progress for the period from 14 January 2014 (being the Latest Practicable Date as defined in the Prospectus) to 30 June 2016 (the "Review Period") is set out below. Capitalised terms used herein shall have the same meanings as those defined in the Prospectus unless the content requires otherwise.

Business objectives for the Review Period

Actual Business Progress for the Review Period

(a) Establishment or acquisition of panel processing plants in the PRC to expand our business vertically

- Perform technology and capacity forecast and planning
 - Perform due diligence studies on target panel processing plant(s) or rules and compliance of operating panel processing plant(s) in the PRC
 - Identify potential equipment supplier and carrying out evaluation
 - Confirm expansion plan for cutting processing plant
 - Commence acquisition or establishment of cutting processing plant
 - Purchase equipment (if establish cutting processing plant)
 - Recruit staff
 - Perform trial run for cutting processing plant
 - Commence acquisition or establishment of slimming processing plant(s)
 - Purchase equipment (if establish slimming processing plant)
 - Purchase additional equipment for the cutting processing plant
 - Commence full operation of cutting processing plant(s)
 - Perform trial run for slimming processing plant
- Technology and capacity forecast and planning had been performed
 - A potential existing panel processing plant had been identified and related due diligence work had commenced
 - The Group was identifying potential equipment supplier
 - The Group had decided to expand through acquisition of panel processing plant

Business objectives for the Review Period

(b) Expansion of our sales support team in the PRC to provide high quality services to our customers

- Recruit staff
- Continue to recruit staff if necessary

- Arrange training to staff

- Organise marketing activities

Actual Business Progress for the Review Period

- The Group had recruited additional sales and engineering staff to strengthen its sales support team in the PRC
- Relevant training activities had been provided to new and existing staff
- The Group had continuously organised various marketing activities to promote sales and strengthen its market position

(c) Expansion of our product portfolio to strengthen our product offerings

- Explore new products and suppliers

 - Evaluate new products and perform due diligence on new supplier if necessary
- The Group had introduced new products, such as medium sized display products for automotives and tablets; and new suppliers in the PRC
 - Due diligence work on new suppliers had been performed

USE OF PROCEEDS

The Company offered 330,000,000 shares for subscription by way of placing in 2014 (the “Placing”). The net proceeds from the Placing were approximately HK\$76 million. During the Review Period, the net proceeds from the Placing had been applied as follows:

	Planned use of proceeds as stated in the Prospectus HK\$'million	Actual use of proceeds during the Review Period HK\$'million
Establishment or acquisition of panel processing plants in the PRC to expand business vertically	40	—
Repayment of bank loans	17	17
Expansion of sales support team in the PRC to provide high quality services to customers	8	8
Expansion of product portfolio to strengthen product offerings	4	4
General working capital	7	7
	76	36

Notes:

The business objectives as stated in the Prospectus were based on the best estimation of the future market conditions made by the Group at the time of preparing the Prospectus. The uses of proceeds were applied in accordance with the actual development of the market:

1. The Group had identified a potential existing panel processing plant and related due diligence work had commenced. In view of the uncertainty of recent economic conditions in the PRC, the management of the Group is taking a prudent approach in making progress on the possible acquisition. Negotiations with the vendor of the target plant are still in progress. At the same time, the Group is trying to identify other targets of panel processing plants to acquire.
2. The remaining net proceeds as at 30 June 2016 had been placed on interest-bearing deposits in banks in Hong Kong.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 30 June 2016, interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) held by the Directors and chief executives of the Company which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) or have been entered in the register maintained by the Company pursuant to section 352 of the SFO, or otherwise have been notified to the Company and the Stock Exchange pursuant to the standard of dealings by directors set out in Rules 5.46 to 5.67 of the GEM Listing Rules were as follows:

Long positions in shares of the Company:

Name of Director	Capacity	Number of shares held	Percentage of the Company's issued share capital
Mr. Cheng Wai Tak	Interest in controlled corporation	923,427,151 (Note)	62.24%
	Beneficial owner	2,220,000	0.15%

Note: These 923,427,151 shares are held by Winful Enterprises Limited ("Winful Enterprises"), which in turn is entirely beneficially owned by Mr. Cheng Wai Tak. Accordingly, Mr. Cheng Wai Tak is deemed under the SFO to be interested in these 923,427,151 shares held by Winful Enterprises.

Save as disclosed above, as at 30 June 2016, none of the Directors and chief executives of the Company had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register maintained by the Company pursuant to section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the standard of dealings by directors set out in Rules 5.46 to 5.67 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

So far as the Directors are aware, as at 30 June 2016, other than the Director and chief executive of the Company, the following persons/entities have an interest or a short position in the shares or the underlying shares of the Company which were required to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO or which were required to be recorded in the register of the Company required to be kept under section 336 of the SFO:

Long position in shares of the Company:

Name	Nature of interests	Number of shares held	Percentage of the Company's issued share capital
Winful Enterprises	Directly beneficially owned	923,427,151 (Note)	62.24%

Note: Mr. Cheng Wai Tak is deemed under the SFO to be interested in these 923,427,151 shares held by Winful Enterprises.

Save as disclosed above, as at 30 June 2016, no other person had any interests or short positions in the shares or underlying shares of the Company which were required to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO or which were required to be recorded in the register of the Company required to be kept under section 336 of the SFO.

SHARE OPTION SCHEME

The Company has a share option scheme (the “Share Option Scheme”) which was approved and adopted by the sole shareholder of the Company by way of written resolutions passed on 20 January 2014.

No share option has been granted under the Share Option Scheme since its adoption.

DIRECTORS’ RIGHTS TO ACQUIRE SHARES

At no time during the six months ended 30 June 2016 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them, or was the Company, its holding company, or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the six months ended 30 June 2016, the Company did not redeem any of its shares, and neither did the Company nor any of its subsidiaries purchase or sell any shares of the Company.

COMPLIANCE WITH CODE OF CONDUCT FOR DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, all Directors confirmed that they have complied with the required standard of dealings and the code of conduct regarding securities transactions by directors adopted by the Company throughout the six months ended 30 June 2016.

COMPLIANCE WITH NON-COMPETITION UNDERTAKING

On 20 January 2014, Mr. Cheng Wai Tak and Winful Enterprises, the controlling shareholders of the Company (collectively, the “Covenantors”) entered into a deed of non-competition undertaking (“Non-Competition Deed”) in favour of the Company (for itself and for and on behalf of all members of the Group), pursuant to which each of the Covenantors, irrevocably and unconditionally, undertakes and covenants with the Company that with effect from the listing date of the Company and for as long as the shares of the Company remain so listed on the Stock Exchange and he/it, individually or collectively with any other Covenantor(s), is, directly or indirectly, interested in 30% or more of the shares of the Company in issue, or is otherwise regarded as a controlling shareholder (as

defined under the GEM Listing Rules from time to time) of the Company, he/it shall not, and shall procure that none of his/its associates (for the purpose of the Non-Competition Deed, shall have the meaning as defined under Rule 1.01 of the GEM Listing Rules but excluding the Group) shall:

- (a) directly or indirectly (other than through the Group) engage, participate or hold any right or interest in or render any services to or otherwise be involved in any business in competition with or likely to be in competition with existing business activity of the Group and any business activities undertaken by the Group from time to time (the "Restricted Business") except for the holding of not more than 5% shareholding interests (individually or any of the Covenantors with their associates collectively) in any publicly listed company; and
- (b) take any direct or indirect action which constitutes an interference with or a disruption to the Restricted Business including, but not limited to, solicitation of the Group's customers, suppliers or staff.

Further details of the Non-Competition Deed have been set out in the section headed "Relationship with the Controlling Shareholders" of the Prospectus.

COMPETING INTERESTS

Based on the information available to the Company and within the knowledge and belief of the Directors, none of the Directors or the controlling shareholders of the Company (as defined under the GEM Listing Rules) had any business or interest which competes or may compete with the business of the Group, or had any other conflict of interest with the Group throughout the six months ended 30 June 2016.

INTERESTS OF THE COMPLIANCE ADVISER

As notified by Grand Vinco Capital Limited ("Vinco"), the compliance adviser of the Company, neither Vinco nor its directors or employees or associates had any interest in the securities of the Company or any other companies of the Group (including options or rights to subscribe for such securities) as at 30 June 2016. Pursuant to the compliance adviser agreement, Vinco received and will receive fees for acting as the compliance adviser of the Company.

CORPORATE GOVERNANCE

The Company has adopted the principles and the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 15 of the GEM Listing Rules. Throughout the six months ended 30 June 2016, the Company had complied with all the code provisions of the CG Code, except for the deviation stipulated below.

According to the code provision A.2.1 of the CG Code, the roles of the chairman and chief executive should be separate and should not be performed by the same individual. Under the current management structure of the Company, Mr. Cheng Wai Tak is the Chairman of the Board (the “Chairman”) and Chief Executive Officer of the Company (the “Chief Executive Officer”). With Mr. Cheng’s extensive experience in the industry, the Board believes that vesting the roles of both Chairman and Chief Executive Officer in the same person would provide the Company with strong and consistent leadership, allow for effective and efficient planning and implementation of business decisions and strategies, and would be beneficial to the business prospects and management of the Group. Although Mr. Cheng performs both the roles of Chairman and Chief Executive Officer, the division of responsibilities between the Chairman and Chief Executive Officer is clearly established. In general, the Chairman is responsible for supervising the functions and performance of the Board, while the Chief Executive Officer is responsible for the management of the business of the Group. The two roles are performed by Mr. Cheng distinctly. The Board also considers that the current management structure does not impair the balance of power and authority between the Board and the management of the Company given the appropriate delegation of the power of the Board and the effective functions of the independent non-executive Directors. However, it is the long-term objective of the Company to have these two roles performed by separate individuals when suitable candidates are identified.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with the code provision C.3.3 of the CG Code. The audit committee consists of three independent non-executive Directors, namely Mr. Wong Yik Chung John, who has the appropriate accounting and financial related management expertise and serves as the chairman of the audit committee, Mr. Wong Chi Chiu and Mr. Li Shui Yan. The audit committee has reviewed this report and has provided advice and comments thereon.

By order of the Board
Perfect Optronics Limited
Cheng Wai Tak
Chairman

Hong Kong, 8 August 2016