Perfect Optronics Limited
圓美光電有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8311)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2016

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

This announcement, 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 enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement 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 announcement 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

		Three months ended 30 June		**Six months ended 30 June**	
		2016	2015	**2016**	2015
	Note	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Revenue	3	**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	5	**(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	6	**(460)**	(228)	**(997)**	(487)
Finance income/(costs), net		**(360)**	102	**(741)**	36
Profit before income tax	7	**4,717**	782	**11,490**	5,968
Income tax expense	8	**(836)**	(364)	**(2,243)**	(1,479)
Profit for the period		**3,881**	418	**9,247**	4,489
Other comprehensive income:					
Items that may be reclassified subsequently to income statement					
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	2015	**2016**	2015
		HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)	**(Unaudited)**	(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	10	**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		**3,913**	4,784
Intangible assets		**12,295**	12,552
Available-for-sale financial assets		**32,343**	32,285
		48,551	49,621
Current assets			
Inventories		**66,552**	77,111
Trade and other receivables	11	**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	12	**102,886**	164,429
Note payable		**10,000**	10,000
Bank borrowings		**—**	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

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 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.

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. REVENUE

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

4. 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.

(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	*HK\$'000*	***HK\$'000***	*HK\$'000*	***HK\$'000***	*HK\$'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(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	*HK\$'000*
	(Unaudited)	(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

(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.

(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	**The PRC**	**Taiwan**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'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

5. OTHER LOSSES, NET

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

6. 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

7. 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

8. 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

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.

9. 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.

10. 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

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.

11. TRADE AND OTHER RECEIVABLES

	30 June	31 December
	2016	2015
	HK$'000	*HK$'000*
	(Unaudited)	(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

12. TRADE AND OTHER PAYABLES

	30 June 2016 *HK$'000* **(Unaudited)**	31 December 2015 *HK$'000* (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 *HK$'000* **(Unaudited)**	31 December 2015 *HK$'000* (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

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).

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.

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.

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.

CAPITAL COMMITMENTS

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

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 Limited, 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 announcement and has provided advice and comments thereon.

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

Hong Kong, 8 August 2016

As at the date of this announcement, the Board comprises three executive directors, namely, Mr. Cheng Wai Tak, Mr. Liu Ka Wing and Mr. Tse Ka Wing and three independent non-executive directors, namely, Mr. Wong Yik Chung John, Mr. Wong Chi Chiu and Mr. Li Shui Yan.

This announcement will remain on the GEM website at http://www.hkgem.com on the "Latest Company Announcements" page for at least 7 days from the day of its posting and on the Company's website at http://www.perfect-optronics.com.