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# 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 2014

## 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 GEM (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 announcement is accurate and complete in all material aspects 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 a revenue of approximately HK$683.6 million for the six months ended 30 June 2014 (six months ended 30 June 2013: approximately HK$877.4 million).
- Profit attributable to equity holders of the Company for the six months ended 30 June 2014 amounted to approximately HK$22.2 million (six months ended 30 June 2013: approximately HK$40.9 million).
- The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2014 (six months ended 30 June 2013: 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 2014 together with the comparative unaudited figures for the corresponding period in 2013 as follows:

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the six months ended 30 June 2014*

| | | Three months ended 30 June | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | | **2014** | 2013 | **2014** | 2013 |
| | *Note* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| | | **(Unaudited)** | (Unaudited) | **(Unaudited)** | (Unaudited) |
| **Revenue** | 3, 4 | **388,307** | 482,089 | **683,594** | 877,384 |
| Cost of sales | | **(362,887)** | (437,006) | **(631,301)** | (800,907) |
| **Gross profit** | | **25,420** | 45,083 | **52,293** | 76,477 |
| Other losses, net | 5 | **(60)** | (305) | **(1,158)** | (206) |
| Distribution and selling expenses | | **(3,207)** | (3,157) | **(7,165)** | (6,749) |
| General and administrative expenses | | **(7,989)** | (9,003) | **(16,068)** | (18,311) |
| **Operating profit** | | **14,164** | 32,618 | **27,902** | 51,211 |
| Finance income | | **192** | 10 | **270** | 32 |
| Finance costs | 6 | **(756)** | (343) | **(1,292)** | (929) |
| **Profit before income tax** | 7 | **13,600** | 32,285 | **26,880** | 50,314 |
| Income tax expense | 8 | **(2,419)** | (5,855) | **(4,652)** | (9,400) |
| **Profit for the period** | | **11,181** | 26,430 | **22,228** | 40,914 |
| **Other comprehensive income** | | | | | |
| *Item that may be reclassified subsequently to profit or loss* | | | | | |
| Currency translation differences | | **13** | (77) | **(29)** | (77) |
| **Total comprehensive income for the period** | | **11,194** | 26,353 | **22,199** | 40,837 |
| **Profit for the period attributable to:** | | | | | |
| Equity holders of the Company | | **11,181** | 26,430 | **22,228** | 40,914 |
| **Total comprehensive income for the period attributable to:** | | | | | |
| Equity holders of the Company | | **11,194** | 26,353 | **22,199** | 40,837 |
| **Basic and diluted earnings per share** | 10 | **HK0.84 cents** | HK2.67 cents | **HK1.77 cents** | HK4.13 cents |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 30 June 2014*

| | Note | 30 June 2014 HK$'000 (Unaudited) | 31 December 2013 HK$'000 (Audited) |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | **1,541** | 1,537 |
| Intangible asset | | **2,000** | — |
| Deferred income tax assets | | **72** | 57 |
| | | **3,613** | 1,594 |
| **Current assets** | | | |
| Inventories | | **194,934** | 131,426 |
| Trade and other receivables | 11 | **149,563** | 152,459 |
| Restricted bank deposits | | **38,969** | 35,038 |
| Cash and cash equivalents | | **73,405** | 62,869 |
| | | **456,871** | 381,792 |
| **Total assets** | | **460,484** | 383,386 |
| **EQUITY** | | | |
| Share capital | | **13,200** | — |
| Reserves | | **115,721** | 37,950 |
| Retained earnings | | **103,213** | 100,785 |
| **Total equity** | | **232,134** | 138,735 |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Deferred income tax liabilities | | **—** | — |
| | | **—** | — |
| **Current liabilities** | | | |
| Trade and other payables | 12 | **156,946** | 159,411 |
| Bank borrowings | | **57,028** | 75,531 |
| Current income tax liabilities | | **14,376** | 9,709 |
| | | **228,350** | 244,651 |
| **Total liabilities** | | **228,350** | 244,651 |
| **Total equity and liabilities** | | **460,484** | 383,386 |
| **Net current assets** | | **228,521** | 137,141 |
| **Total assets less current liabilities** | | **232,134** | 138,735 |

# 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 of 989,990,000 shares in preparation for the Listing, the Company became the holding company of the subsidiaries now comprising the 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").

The unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2014 are presented in Hong Kong dollars ("HK$"), unless otherwise stated.

The unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2014 have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim financial reporting" issued by the Hong Kong Institutes of Certified Public Accountants ("HKICPA") and the disclosure requirements of the GEM Listing Rules. The unaudited condensed consolidated interim financial statements have been prepared under the historical cost convention, as modified by financial assets at fair value through profit or loss.

The unaudited condensed consolidated 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 2013, 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 2014:

| | |
|---|---|
| HK(IFRIC) 21 | Levies |
| Amendments to HKAS 32 | Offsetting Financial Assets and Financial Liabilities |
| Amendments to HKAS 36 | Recoverable Amount Disclosures for Non-financial Assets |
| Amendments to HKAS 39 | Novation of Derivatives and Continuation of Hedge Accounting |
| Amendments to HKFRS 10, HKFRS 12 and HKAS 27 | Investment Entities |

For those new standards, amendment 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 unaudited condensed consolidated interim financial statements in conformity with Hong Kong Financial Reporting Standards ("HKFRSs") requires the use of certain critical accounting estimates. It also requires directors to exercise its judgement in the process of applying the Group's accounting policies. The unaudited condensed consolidated interim financial statements should be read in conjunction with the Group's audited consolidated financial statements and notes thereto for the year ended 31 December 2013.

## 3. REVENUE

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

| | Three months ended 30 June | | Six months ended 30 June | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) | **(Unaudited)** | (Unaudited) |
| Unprocessed thin film transistor liquid crystal display panels ("TFT-LCD panels") and other unprocessed products ("Unprocessed Panel Segment") | **99,522** | 306,677 | **184,482** | 495,042 |
| Processed TFT-LCD panels ("Processed Panel Segment") | **212,881** | 108,276 | **355,097** | 230,833 |
| Integrated circuits ("IC Segment") | **69,935** | 50,477 | **133,030** | 123,718 |
| Polarisers ("Polariser Segment") | **5,969** | 16,659 | **10,985** | 27,791 |
| | **388,307** | 482,089 | **683,594** | 877,384 |

## 4. SEGMENT INFORMATION

The chief operating decision-maker has been identified as the directors of the Group. 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 directors consider the Group's business from a product perspective and determine that the Group has four reportable operating segments as follows:

(i) Unprocessed Panel Segment

(ii) Processed Panel Segment

(iii) IC Segment

(iv) Polariser Segment

The directors assess the performance of the operating segments based on a measure of revenue and gross profit 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 2014 and 2013 is as follows:

| | Unprocessed Panel Segment | | Processed Panel Segment | | IC Segment | | Polariser Segment | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 | **2014** | 2013 | **2014** | 2013 | **2014** | 2013 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) | **(Unaudited)** | (Unaudited) | **(Unaudited)** | (Unaudited) | **(Unaudited)** | (Unaudited) | **(Unaudited)** | (Unaudited) |
| Segment revenue (all from external customers) | **184,482** | 495,042 | **355,097** | 230,833 | **133,030** | 123,718 | **10,985** | 27,791 | **683,594** | 877,384 |
| Cost of sales | **(172,298)** | (442,706) | **(317,687)** | (210,889) | **(130,495)** | (120,769) | **(10,821)** | (26,543) | **(631,301)** | (800,907) |
| Gross profit | **12,184** | 52,336 | **37,410** | 19,944 | **2,535** | 2,949 | **164** | 1,248 | **52,293** | 76,477 |
| Gross profit margin | **6.6%** | 10.6% | **10.5%** | 8.6% | **1.9%** | 2.4% | **1.5%** | 4.5% | **7.6%** | 8.7% |
| Unallocated operating costs | | | | | | | | | **(24,391)** | (25,266) |
| Finance costs, net | | | | | | | | | **(1,022)** | (897) |
| Profit before income tax | | | | | | | | | **26,880** | 50,314 |

**(b) Segment revenue by customers' geographical location**

During the six months ended 30 June 2014 and 2013, 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 | |
|---|---|---|
| | **2014** | 2013 |
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) |
| Hong Kong | **665,647** | 877,384 |
| The People's Republic of China ("PRC") | **17,947** | — |
| | **683,594** | 877,384 |

**(c)** 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 | |
|---|---|---|
| | **2014** | 2013 |
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) |
| Customer A | **168,235** | 172,011 |
| Customer B | **104,110** | 126,943 |
| Customer C (i) | **93,105** | 34,463 |
| | **365,450** | 333,417 |

(i) Revenue from Customer C contributes less than 10% of the total revenue of the Group during the six months ended 30 June 2013.

The three customers are included in the Unprocessed Panel Segment, Processed Panel Segment, IC Segment and Polariser Segment.

**(d)** As at 30 June 2014, excluding deferred income tax assets of HK$72,000 (31 December 2013: HK$57,000), non-current segment assets of HK$2,705,000 (31 December 2013: HK$852,000) are located in Hong Kong and HK$836,000 (31 December 2013: HK$685,000) are located in the PRC.

## 5. OTHER LOSSES, NET

| | Six months ended 30 June | |
|---|---|---|
| | **2014** | 2013 |
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) |
| Net exchange loss | **1,158** | 105 |
| Loss on disposal of property, plant and equipment | **—** | 87 |
| Loss on financial assets at fair value through profit or loss | **—** | 17 |
| Others | **—** | (3) |
| | **1,158** | 206 |

## 6. FINANCE COSTS

| | Six months ended 30 June | |
|---|---|---|
| | **2014** | 2013 |
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) |
| Interest expense on: | | |
| Bank advances from factored receivables | **315** | 156 |
| Bank borrowings wholly repayable within five years | **202** | 268 |
| Factoring charges | **775** | 505 |
| | **1,292** | 929 |

## 7. PROFIT BEFORE INCOME TAX

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

| | Six months ended 30 June | |
|---|---|---|
| | **2014** | 2013 |
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) |
| Cost of inventories sold | **581,944** | 772,101 |
| Provision for obsolete inventories | **7,275** | 5,178 |
| Depreciation of property, plant and equipment | **266** | 216 |
| Professional service fees in respect of the Listing | **1,084** | 6,391 |

## 8. INCOME TAX EXPENSE

The amount of income tax charged to the profit or loss represents:

| | Six months ended 30 June | |
|---|---|---|
| | **2014** | 2013 |
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) |
| Current income tax: | | |
| Hong Kong profits tax | **4,667** | 9,439 |
| PRC corporate income tax | **—** | — |
| Deferred income tax | **(15)** | (39) |
| | **4,652** | 9,400 |

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2013: 16.5%) on the estimated assessable profit during the period arising in or derived from Hong Kong. The Group's subsidiary in the PRC is subject to PRC corporate income tax at a standard rate of 25% during the period (six months ended 30 June 2013: 25%).

## 9. DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2014 (six months ended 30 June 2013: Nil).

Final dividend for the year ended 31 December 2013 of HK$19,800,000 was paid in May 2014.

## 10. EARNINGS PER SHARE

Basic earnings per share 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 2014 and 2013.

In determining the weighted average number of ordinary shares deemed to be in issue during the six months ended 30 June 2014 and 2013, the 10,000 ordinary shares with par value of HK$0.01 each issued during the year ended 31 December 2013 and the 989,990,000 shares with par value of HK$0.01 each issued upon the capitalisation issue and Reorganisation have been regarded as if these shares were in issue since 1 January 2013.

| | Six months ended 30 June | |
|---|---|---|
| | **2014** | 2013 |
| | **(Unaudited)** | (Unaudited) |
| Profit attributable to equity holders of the Company (HK$'000) | **22,228** | 40,914 |
| Weighted average number of ordinary shares in issue (thousands) | **1,252,541** | 990,000 |
| Basic and diluted earnings per share (HK cents per share) | **HK1.77 cents** | HK4.13 cents |

No adjustment has been made to the basic earnings per share amount for the six months ended 30 June 2014 and 2013 as the Group had no potentially dilutive ordinary shares in issue during these periods.

## 11. TRADE AND OTHER RECEIVABLES

| | 30 June 2014 *HK$'000* (Unaudited) | 31 December 2013 *HK$'000* (Audited) |
|---|---|---|
| Trade receivables *(Note)* | **79,466** | 51,271 |
| Bills receivables *(Note)* | **66,968** | 95,470 |
| | **146,434** | 146,741 |
| Deposits and other receivables | **3,129** | 1,144 |
| Deferred professional service fees in respect of preparation for share placing | **—** | 4,574 |
| | **149,563** | 152,459 |

*Note:* The Group generally grants credit periods of 30 to 60 days. The ageing analysis of trade and bills receivables based on invoice dates is as follows:

| | 30 June 2014 *HK$'000* (Unaudited) | 31 December 2013 *HK$'000* (Audited) |
|---|---|---|
| 1–30 days | **123,017** | 132,013 |
| 31–60 days | **21,879** | 14,151 |
| 61–90 days | **1,191** | 574 |
| 91–180 days | **347** | 3 |
| | **146,434** | 146,741 |

## 12. TRADE AND OTHER PAYABLES

| | 30 June 2014 *HK$'000* (Unaudited) | 31 December 2013 *HK$'000* (Audited) |
|---|---|---|
| Trade payables *(Note)* | **146,254** | 137,819 |
| Deposits received from customers | **7,163** | 8,737 |
| Accruals and other payables | **2,779** | 5,636 |
| Accrued auditor's remuneration | **750** | 1,280 |
| Accrued professional service fees in respect of the Listing | **—** | 5,939 |
| | **156,946** | 159,411 |

*Note:* The ageing analysis of trade payables based on invoice dates is as follows:

| | 30 June 2014 *HK$'000* (Unaudited) | 31 December 2013 *HK$'000* (Audited) |
|---|---|---|
| 1–30 days | **86,330** | 106,322 |
| 31–60 days | **56,874** | 31,481 |
| 61–90 days | **3,050** | — |
| 91–180 days | **—** | 16 |
| | **146,254** | 137,819 |

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

The Group is principally engaged in the trading of display components of electronics, namely TFT-LCD panels, driver integrated circuits ("ICs") and polarisers, which are the major components of display technology used for mobile phones. It also processes some of the TFT-LCD panels which it trades.

According to a recent report of China Academy of Telecommunication Research of the Ministry of Industrial and Information Technology of the PRC, China brand mobile phone shipments in the first half of 2014 dropped by 27.6% as compared with the corresponding period in 2013. Such a slowdown in the PRC mobile phone market had impacted the financial performance of the Group for the six months ended 30 June 2014. Revenue of the Group amounted to approximately HK$683,594,000 during the six months ended 30 June 2014, representing a decrease of approximately 22% as compared with the corresponding period in 2013. Profit attributable to equity holders of the Company for the six months ended 30 June 2014 was approximately HK$22,228,000, representing a decrease of approximately 46% as compared with the corresponding period in 2013.

The Group experienced a significant decrease in the revenue from the Unprocessed Panel Segment of approximately HK$310,560,000 during the six months ended 30 June 2014, representing a decrease of approximately 63% as compared with the corresponding period in 2013. As mentioned in the 2014 first quarterly report of the Company, it took time for the Group's supplier to ramp up its production of new technology-demanding premium TFT-LCD panels to meet the demand of high-specification smart phones, which affected the Group's sales volume of unprocessed TFT-LCD panels. The Group's revenue from Unprocessed Panel Segment continued to drop in the second quarter of 2014, as telecommunication operators in the PRC changed their strategies in relation to their subsidies to end users on mobile phones purchases which resulted in a decrease in the market demand for certain premium quality mobile phones, including those installed with TFT-LCD panels sold by the Group. Furthermore, consumers in the PRC might hold off purchases as they anticipated the upgrade from 3G to 4G mobile phones. Nevertheless, thanks to the vigorous development of the Group's Processed Panel Segment, revenue of this segment increased by 54% from HK$230,833,000 for the six months ended 30 June 2013 to HK$355,097,000 for the six months ended 30 June 2014. Processed Panel Segment became the largest segment of the Group during the six months ended 30 June 2014. Processed Panel Segment provides more value-added services to its customers and can generally achieve higher selling prices and profit margins.

For the IC Segment and Polariser Segment, the market competition remained intense. Revenue from Polariser Segment for the six months ended 30 June 2014 decreased by approximately 60% to HK$10,985,000 from HK$27,791,000 of the corresponding period in 2013, while revenue from IC Segment increased by approximately 8% to HK$133,030,000 for the six months ended 30 June 2014 from HK$123,718,000 of the corresponding period in 2013. Advanced ICs were introduced and the Group managed to grasp market share and consequently had an increase in revenue but a decrease in its gross profit margin due to intense competition.

During the period, the decrease in the gross profit margins of the Unprocessed Panel Segment, IC Segment and Polariser Segment outweighed the positive impact of the increase in gross profit margin of the Processed Panel Segment. Thus, the Group's overall gross profit margin dropped from 8.7% for the six months ended 30 June 2013 to 7.6% for the six months ended 30 June 2014.

**Prospects**

During the period, the Company offered 330,000,000 new shares for subscription by way of placing and raised net proceeds of approximately HK$76 million. The Company was listed on the GEM on 7 February 2014 (the "Listing Date"). The net proceeds raised and the listing status of the Company will provide a solid bedrock for future development of the Group.

Looking forward, through the launch of 4G services in the PRC, the management is confident in maintaining the growth momentum of the Group. The Group also started the process for vertical expansion of its business to acquire panel processing plants to take up the slimming down and cutting work which is currently undertaken by its subcontractors, so as to reduce outsourcing costs and to preserve its technical know-how in its main products. In addition, the Group will continue to expand its sales and support team in the PRC and to seek to diversify its product mix with the aim to achieve higher selling prices, better profit margins, and thus greater returns for the shareholders of the Company.

**Financial Review**

*Revenue*

For the six months ended 30 June 2014, total revenue of the Group amounted to approximately HK$683,594,000 decreased by about 22% as compared with the corresponding period in 2013 of approximately HK$877,384,000. Decrease in total revenue was mainly due to the decrease in revenue from the Unprocessed Panel Segment as mentioned above.

*Gross profit*

Gross profit for the six months ended 30 June 2014 decreased by about 32% to approximately HK$52,293,000 and gross profit margin decreased by 1.1 percentage point to 7.6% as compared with the corresponding period in 2013. The decrease in gross profit margin of the Unprocessed Panel Segment led to the decrease in the overall gross profit margin during the period.

*Other losses, net*

Net other losses of approximately HK$1,158,000 was recorded for the six months ended 30 June 2014 (six months ended 30 June 2013: HK$206,000). The balance mainly comprised of the unrealised exchange losses on the Group's Renminbi bank deposits arising from the depreciation of Renminbi against Hong Kong Dollars during the period.

*Expenses*

The Group's distribution and selling expenses for the six months ended 30 June 2014 amounted to approximately HK$7,165,000, representing an approximately 6% increase as compared with the corresponding period in 2013 of approximately HK$6,749,000.

The Group's general and administrative expenses for the six months ended 30 June 2014 amounted to approximately HK$16,068,000, representing an approximately 12% decrease as compared with the corresponding period in 2013 of approximately HK$18,311,000. Non-recurring expenses in relation to the listing of the Company included in the general and administrative expenses during the period amounted to approximately HK$1,084,000 (six months ended 30 June 2013: HK$6,391,000). Excluding the effect of these non-recurring expenses, the Group's general and administrative expenses for the period increased by approximately HK$3,064,000, representing an approximately 26% increase over the last corresponding period.

The increase in distribution and selling expenses, general and administrative expenses (excluding non-recurring listing expenses) during the six months ended 30 June 2014 as compared with the corresponding period in 2013 was mainly attributable to the additional operating expenses incurred by the Group's PRC subsidiary, which was established in April 2013, and the increase in various professional fees after the listing of the Company.

*Profit for the period*

Profit attributable to equity holders of the Company for the six months ended 30 June 2014 amounted to approximately HK$22,228,000, representing a decrease of approximately 46% as compared with the corresponding period in 2013 of approximately HK$40,914,000, which was mainly attributable to the decrease in revenue 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$73,405,000 as at 30 June 2014 (31 December 2013: HK$62,869,000).

As at 30 June 2014, the Group's total bank borrowings comprised bank loans and bank advances for factored receivables of approximately HK$nil (31 December 2013: HK$17,280,000) and HK$57,028,000 (31 December 2013: HK$58,251,000) respectively.

## GEARING RATIO

As at 30 June 2014, the Group's gearing ratio was 24.6% (31 December 2013: 54.4%), which is calculated based on the Group's total interest-bearing debt of approximately HK$57,028,000 (31 December 2013: HK$75,531,000) and the Group's total equity of approximately HK$232,134,000 (31 December 2013: HK$138,735,000).

## CONTINGENT LIABILITIES

As at 30 June 2014, the Group had no material contingent liabilities (31 December 2013: Nil).

## CHARGE OF ASSETS

As at 30 June 2014, the Group had pledged its bank deposits of approximately HK$38,969,000 (31 December 2013: HK$35,038,000) to certain banks in Hong Kong to secure the banking facilities granted to the Group.

## CAPITAL COMMITMENTS

As at 30 June 2014, the Group did not have any significant capital commitments (31 December 2013: Nil).

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the six months ended 30 June 2014, 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 OF 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 period form 7 February 2014 (the Listing Date) to 30 June 2014.

## COMPLIANCE OF NON-COMPETITION UNDERTAKING

On 20 January 2014, each of Mr. Cheng Wai Tak and Winful Enterprises Limited, the controlling shareholders of the Company (collectively, the "Covenantors") have 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 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

Save as the information set out in the section headed "COMPLIANCE OF NON-COMPETITION UNDERTAKING", 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) have any business or interest which competes or may compete with the business of the Group, or have any other conflict of interest which any such person has or may have with the Group throughout the period from 7 February 2014 (the Listing Date) to 30 June 2014.

## INTERESTS OF THE COMPLIANCE ADVISER

As notified by Grand Vinco Capital Limited ("Vinco"), 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 2014. 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 period from 7 February 2014 (the Listing Date) to 30 June 2014, the Company has complied with all the code provisions of the CG Code, except 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 ("Mr. Cheng") 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 2014

*As at the date of this announcement, the Board comprises three executive directors, namely, Mr. Cheng Wai Tak, Mr. Cheng Cheung Wai and Mr. Liu 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.*