



Perfect Optronics Limited 圓美光電有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 8311

First Quarterly 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 a revenue of approximately HK\$295.1 million for the three months ended 31 March 2016 (three months ended 31 March 2015: approximately HK\$222.9 million).
- Profit attributable to equity holders of the Company for the three months ended 31 March 2016 amounted to approximately HK\$6.1 million (three months ended 31 March 2015: approximately HK\$4.9 million).
- The Board does not declare an interim dividend for the three months ended 31 March 2016 (three months ended 31 March 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 three months ended 31 March 2016 together with the comparative unaudited figures for the corresponding period in 2015 as follows:

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months ended 31 March 2016

	Note	Three months ended 31 March	
		2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited and restated)
Revenue	3	295,059	222,873
Cost of sales		(274,099)	(202,482)
Gross profit		20,960	20,391
Other losses, net		(241)	(126)
Distribution and selling expenses		(4,042)	(4,739)
General and administrative expenses		(7,532)	(8,844)
Research and development expenses		(1,991)	(1,430)
Operating profit		7,154	5,252
Finance income		156	192
Finance costs		(537)	(258)
Finance costs, net		(381)	(66)
Profit before income tax		6,773	5,186
Income tax expense	4	(1,407)	(1,115)
Profit for the period		5,366	4,071
Other comprehensive income:			
<i>Items that may be reclassified subsequently to income statement</i>			
Change in value of available-for-sale financial assets		42	(53)
Currency translation differences		35	49
Total comprehensive income for the period		5,443	4,067

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

For the three months ended 31 March 2016

		Three months ended 31 March	
		2016	2015
	Note	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited and restated)
Profit for the period attributable to:			
Equity holders of the Company		6,120	4,857
Non-controlling interests		(754)	(786)
		5,366	4,071
Total comprehensive income for the period attributable to:			
Equity holders of the Company		6,176	4,879
Non-controlling interests		(733)	(812)
		5,443	4,067
Basic and diluted earnings per share	6	HK0.41 cent	HK0.33 cent

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 31 March 2016

	Attributable to equity holders of the Company							Non-		Total equity HK\$'000
	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)	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
Comprehensive income										
Profit for the period	—	—	—	—	—	—	6,120	6,120	(754)	5,366
Other comprehensive income										
Change in value of available-for-sale financial assets	—	—	—	—	21	—	—	21	21	42
Currency translation differences	—	—	—	—	—	35	—	35	—	35
Total other comprehensive income	—	—	—	—	21	35	—	56	21	77
Total comprehensive income	—	—	—	—	21	35	6,120	6,176	(733)	5,443
Balance at 31 March 2016	14,837	465,738	67,349	(415,675)	7,112	(2,237)	133,533	270,657	14,515	285,172
Balance at 1 January 2015										
As previously reported	13,200	77,800	38,000	—	—	(177)	113,976	242,799	—	242,799
Adjusted for common control combination — Note 1	—	—	—	3,900	(3)	(1,008)	(6,877)	(3,988)	18,326	14,338
As restated	13,200	77,800	38,000	3,900	(3)	(1,185)	107,099	238,811	18,326	257,137
Comprehensive income										
Profit for the period (as restated)	—	—	—	—	—	—	4,857	4,857	(786)	4,071
Other comprehensive income										
Change in value of available-for-sale financial assets (as restated)	—	—	—	—	(27)	—	—	(27)	(26)	(53)
Currency translation differences (as restated)	—	—	—	—	—	49	—	49	—	49
Total other comprehensive income (as restated)	—	—	—	—	(27)	49	—	22	(26)	(4)
Total comprehensive income (as restated)	—	—	—	—	(27)	49	4,857	4,879	(812)	4,067
Balance at 31 March 2015 (as restated)	13,200	77,800	38,000	3,900	(30)	(1,136)	111,956	243,690	17,514	261,204

* 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.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL RESULTS

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 (the "Capitalisation Issue") 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, 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, 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 shares (the "Consideration Shares") to the nominee of Mr. Cheng. 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, at which time the closing price of shares of the Company was HK\$2.38 per share.

In the preparation of the unaudited consolidated financial results of the Group for the three months ended 31 March 2016 ("Consolidated Financial Results"), it was determined that the Group and Perfect Shiny and its subsidiaries (the "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" ("AG 5") 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 combination 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.

1. BASIS OF PREPARATION (CONTINUED)

In accordance with AG 5, the comparative amounts of the financial statements of the Group have been restated to include the financial statement items of Perfect Shiny Group. The effect of the common control combination of Perfect Shiny Group on the Group's results for the three months ended 31 March 2015 was as follows:

	As previously reported	Perfect Shiny Group	Consolidation adjustment	As restated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue	222,737	136	—	222,873
Profit/(loss) for the period attributable to:				
Equity holders of the Company	5,709	(852)	—	4,857
Non-controlling interests	—	(786)	—	(786)
	5,709	(1,638)	—	4,071

The Consolidated Financial Results have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the HKICPA and the disclosure requirements of the GEM Listing Rules. The Consolidated Financial Results 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 Consolidated Financial Results 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 the Consolidated Financial Results 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:

Hong Kong Accounting Standard ("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 Consolidated Financial Results 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.

The Group's revenue from its major products are as follows:

	Three months ended 31 March	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited and restated)
Thin film transistor liquid crystal display ("TFT-LCD") panels and modules	269,154	169,524
Driver integrated circuits ("ICs")	21,268	40,358
Polarisers	2,749	8,724
Others	1,888	4,267
	295,059	222,873

4. INCOME TAX EXPENSE

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

	Three months ended 31 March	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited and restated)
Current income tax:		
Hong Kong profits tax	1,450	1,155
Deferred income tax	(43)	(40)
	1,407	1,115

Hong Kong profits tax has been provided at the rate of 16.5% (three months ended 31 March 2015: 16.5%) on the estimated assessable profit during the period arising in or derived from Hong Kong. The Group's subsidiaries in the People's Republic of China (the "PRC") are subject to PRC corporate income tax at a standard rate of 25% during the period (three months ended 31 March 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 (three months ended 31 March 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.

5. INTERIM DIVIDEND

The Board does not declare an interim dividend for the three months ended 31 March 2016 (three months ended 31 March 2015: Nil).

6. EARNINGS PER SHARE

Basic earnings per share for the three months ended 31 March 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 three months ended 31 March 2016. Basic earnings per share for the three months ended 31 March 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 three months ended 31 March 2015.

In determining the weighted average number of ordinary shares deemed to be in issue during the three months ended 31 March 2015, the 163,687,151 ordinary shares with par value of HK\$0.01 each issued in 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.

	Three months ended 31 March	
	2016	2015
	(Unaudited)	(Unaudited and restated)
Profit attributable to equity holders of the Company (HK\$'000)	6,120	4,857
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)	HK0.41 cent	HK0.33 cent

No adjustment has been made to the basic earnings per share amount for the three months ended 31 March 2016 and 2015 as the Group had no potentially dilutive ordinary shares in issue during these periods.

MANAGEMENT DISCUSSION AND ANALYSIS


Business review and prospects

The Group is principally engaged in the trading of display components of electronics, which are the major components of display technology used for mobile phones. It also processes some of the products which it trades.

According to the recent figures published by the China Academy of Information and Communications Technology, the smart phone shipments during January to March 2016 recorded a 11.9% increase as compared with the same period in 2015. During the three months ended 31 March 2016 (the "Period"), the Group recorded a revenue of approximately HK\$295,059,000, which increased by approximately 32% as compared with the corresponding period in 2015. Profit attributable to equity holders of the Company for the Period amounted to approximately HK\$6,120,000, representing an increase of approximately 26% as compared with the corresponding period in 2015.

During the Period, one of the Group's suppliers suffered damage to their production plants due to the earthquake in Taiwan in early February 2016 which caused a temporary impact on the shipments in the first quarter of 2016. Nevertheless, the Group has been constantly refining its product mix that enables the Group to weather those influences and achieve a satisfying start of year. Thanks to the effective business strategy and widened product base, the Group's sales of TFT-LCD panels and modules amounted to approximately HK\$269,154,000 during the Period, represented an increase of 59% as compared with the corresponding period in 2015 of approximately HK\$169,524,000. However, due to keen competition in the driver IC and polariser markets, the Group's revenue from sales of driver ICs decreased by 47%, from approximately HK\$40,358,000 during the three months ended 31 March 2015 to approximately HK\$21,268,000 during the Period. Sales of polarisers decreased by 68%, from approximately HK\$8,724,000 during the three months ended 31 March 2015 to approximately HK\$2,749,000 during the Period.

For the Group's new business of optics-related products, the Group has continued to accelerate its new products development to echo the explosive expansion of the trendy virtual reality ("VR") and wearable products market, i.e. smart glasses, VR gaming headsets/head-mount display ("HMD") and head-up display ("HUD") devices. As these products are at the developing stage, no significant contribution to the Group's revenue was recorded during the Period. Following the completion of several transactions, which include the acquisition of Perfect Shiny, and subscription for preferred shares of Mobvoi Inc., the Group is well-equipped with key technologies and networks and is getting ready for the booming VR and augmented reality ("AR") market.



Looking forward, the Group remains positive on the prospects of display products for mobile phones in China. Chinese brands contributed significantly to the global smart phone shipments in the first quarter in 2016 and are expected to be the growth engine in the coming years. The Group will maintain a flexible business strategy to allow swift response to the market changes and optimise the profit margin.

Likewise, the Group is proud to be one of the pioneers in the Asian market to develop wearable devices as part of its strategies towards the VR and AR markets. According to the forecast of a leading research institution in the industry, VR device shipments in China will reach 480,000 units in 2016 and exceed 1 million units in 2017, presenting an enormous growth potential and business opportunity. The Group believes that its new products will embrace tremendous potential and generate considerable return to the Company and its shareholders.

Financial Review

Revenue

For the three months ended 31 March 2016, total revenue of the Group amounted to approximately HK\$295,059,000, which increased by 32% as compared with the corresponding period in 2015 of approximately HK\$222,873,000. Increase in total revenue was mainly due to the increase in revenue from the sales of TFT-LCD panels and modules, which alleviated the negative impact from the decrease in sales of driver ICs and polarisers as a result of keen competition in the market.

Gross profit

Gross profit for the three months ended 31 March 2016 increased by about 3% to approximately HK\$20,960,000, which was attributable to the increase in the Group's revenue. Gross profit margin decreased by 2 percentage points to 7.1% as compared with the corresponding period in 2015, mainly due to the decrease in proportion of sales of certain higher profit margin hot panel products in the Group's sales mix during the Period. The earthquake in Taiwan in February 2016 affected the supply of these hot products.

Other losses, net

Net other losses of approximately HK\$241,000 was recorded for the three months ended 31 March 2016 (three months ended 31 March 2015: HK\$126,000). The balance mainly comprised of the exchange losses incurred during the Period.

Expenses

The Group's distribution and selling expenses for the three months ended 31 March 2016 amounted to approximately HK\$4,042,000, representing an approximately 15% decrease as compared with the corresponding period in 2015 of approximately HK\$4,739,000. The decrease was mainly attributable to the decrease in rental during the Period.

The Group's general and administrative expenses for the three months ended 31 March 2016 amounted to approximately HK\$7,532,000, representing an approximately 15% decrease as compared with the corresponding period in 2015 of approximately HK\$8,844,000. 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\$1,991,000 for the three months ended 31 March 2016, representing an approximately 39% increase as compared with the corresponding period in 2015 of approximately HK\$1,430,000. The increase was mainly due to more resources being put into the R&D of the Group's optics products during the Period.

Profit for the period attributable to equity holders of the Company

Profit attributable to equity holders of the Company for the three months ended 31 March 2016 amounted to approximately HK\$6,120,000, representing an increase of approximately 26% as compared with the corresponding period in 2015 of approximately HK\$4,857,000, which was mainly attributable to the decrease in operating expenses during the Period.

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 31 March 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 position 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. As such, 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 31 March 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 31 March 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 31 March 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 three months ended 31 March 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 three months ended 31 March 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 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 three months ended 31 March 2016.

COMPLIANCE WITH NON-COMPETITION UNDERTAKING

On 20 January 2014, each of 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, undertook and covenanted 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) 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 three months ended 31 March 2016.

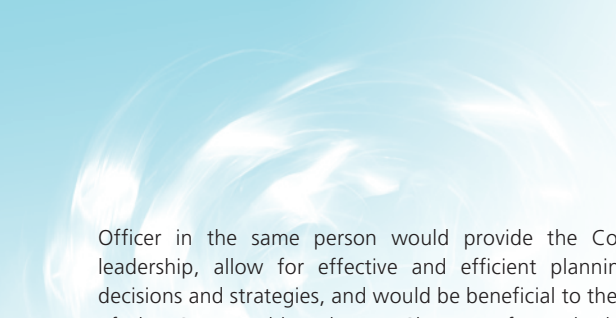
INTERESTS OF THE COMPLIANCE ADVISER

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 31 March 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 three months ended 31 March 2016, 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 report and has provided advice and comments thereon.

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

Hong Kong, 9 May 2016