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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)

ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 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.

FINANCIAL HIGHLIGHTS

- Revenue for the year ended 31 December 2016 amounted to approximately HK\$1,150.0 million, representing a decrease of 10% as compared with that of approximately HK\$1,274.2 million in 2015.
- Profit attributable to equity holders of the Company for the year ended 31 December 2016 amounted to approximately HK\$90.7 million, representing an increase of more than two-fold as compared with that of approximately HK\$27.7 million in 2015. Excluding the non-recurring items of gain on disposal of subsidiaries and gain on Profit Guarantee, profit attributable to equity holders of the Company for the year ended 31 December 2016 amounted to approximately HK\$43.0 million, representing an increase of 55% year-on-year.
- The total sum of audited consolidated profit attributable to equity holders of Perfect Shiny for the two financial years ended 31 December 2016 was not up to the amount of the Profit Guarantee and resulted in a shortfall of approximately HK\$2,233,000. Mr. Cheng would pay the Group the amount due under the compensation amount of approximately HK\$21,238,000, partly by setting off against a promissory note issued by the Group and partly in cash, which is expected to be settled on or before 31 March 2017.
- The board of directors of the Company proposed a final dividend of HK1.0 cent per ordinary share for the year ended 31 December 2016, subject to the Company's shareholders' approval at the forthcoming annual general meeting to be held on 8 May 2017.

RESULTS

The board of directors (the “Board”) of Perfect Optronics Limited is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the year ended 31 December 2016, together with the comparative figures for the previous year as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

		2016	2015
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	4	1,149,998	1,274,174
Cost of sales		<u>(1,037,263)</u>	<u>(1,177,343)</u>
Gross profit		112,735	96,831
Other gains/(losses), net	5	47,067	(1,749)
Distribution and selling expenses		(16,636)	(16,354)
General and administrative expenses		(37,729)	(37,123)
Research and development expenses		<u>(6,559)</u>	<u>(9,256)</u>
Operating profit		98,878	32,349
Finance income		417	1,101
Finance costs		<u>(1,765)</u>	<u>(1,423)</u>
Finance costs, net		<u>(1,348)</u>	<u>(322)</u>
Profit before income tax	6	97,530	32,027
Income tax expense	7	<u>(9,195)</u>	<u>(6,585)</u>
Profit for the year		88,335	25,442
Other comprehensive income:			
<i>Items that may be reclassified subsequently to income statement</i>			
Change in value of available-for-sale financial assets		570	7,041
Currency translation differences		<u>(476)</u>	<u>(1,822)</u>
Total comprehensive income for the year		<u>88,429</u>	<u>30,661</u>
Profit for the year attributable to:			
Equity holders of the Company		90,729	27,732
Non-controlling interests		<u>(2,394)</u>	<u>(2,290)</u>
		<u>88,335</u>	<u>25,442</u>
Total comprehensive income for the year attributable to:			
Equity holders of the Company		90,823	33,739
Non-controlling interests		<u>(2,394)</u>	<u>(3,078)</u>
		<u>88,429</u>	<u>30,661</u>
Basic and diluted earnings per share	8	<u>HK6.12 cents</u>	<u>HK1.87 cents</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION*As at 31 December 2016*

	<i>Note</i>	2016 HK\$'000	2015 <i>HK\$'000</i>
Assets			
Non-current assets			
Property, plant and equipment		3,193	4,784
Intangible assets		3,122	12,552
Available-for-sale financial assets	10	31,671	32,285
		37,986	49,621
Current assets			
Inventories		167,523	77,111
Trade and other receivables	11	97,785	203,095
Tax recoverable		—	151
Restricted bank deposits		24,702	20,316
Fixed deposits with original maturity date more than three months		—	17,755
Cash and cash equivalents		174,126	127,953
		464,136	446,381
Total assets		502,122	496,002
Equity and liabilities			
Equity attributable to equity holders of the Company			
Share capital	12	14,837	14,837
Reserves		124,398	122,231
Retained earnings		210,724	127,413
		349,959	264,481
Non-controlling interests		—	15,248
Total equity		349,959	279,729

	<i>Note</i>	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Liabilities			
Non-current liabilities			
Note payable		—	10,000
Deferred income tax liabilities		137	644
		<u>137</u>	<u>10,644</u>
Current liabilities			
Trade and other payables	13	149,371	164,429
Note payable	14	—	10,000
Bank borrowings		—	31,200
Current income tax liabilities		2,655	—
		<u>152,026</u>	<u>205,629</u>
Total liabilities		<u>152,163</u>	<u>216,273</u>
Total equity and liabilities		<u>502,122</u>	<u>496,002</u>

1. GENERAL INFORMATION

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 immediate and ultimate holding company is Winful Enterprises Limited, a company incorporated in the British Virgin Islands (the "BVI"), and ultimately controlled by Mr. Cheng Wai Tak ("Mr. Cheng"). The address of its registered office is Clifton House, 75 Fort Street, PO Box 1350, Grand Cayman KY1-1108, Cayman Islands. The Company's shares are listed on the GEM of the Stock Exchange.

The Company is an investment holding company and the Group is principally engaged in the trading and processing of display panels, development and sale of optics products and trading of related electronic components.

The financial statements are presented in Hong Kong dollars ("HK\$"), unless otherwise stated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The consolidated financial statements have been prepared under the historical cost convention, except for available-for-sale financial assets which have been measured at fair value.

2.1.1 Common control combination and gain on Profit Guarantee

Common control combination

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 Technology Limited ("Perfect Shiny") (the "Acquisition") from Mr. Cheng, a director and controlling shareholder of the Company. Pursuant to the Agreement, the consideration of the Acquisition was HK\$323,000,000, of which HK\$20,000,000 was satisfied by the issuance 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 of the Company (the "Consideration Shares") to the nominee of Mr. Cheng. Furthermore, a shareholder's loan of approximately HK\$29,349,000 payable by Perfect Shiny to Mr. Cheng was waived upon the 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 at 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 the shares of the Company was HK\$2.38 per share.

In preparing the consolidated financial statements of the Company, it was determined that the Group and Perfect Shiny and its subsidiaries ("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 the 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 HKICPA as if the Acquisition had occurred on the date when the combining entities first came under the control of the controlling 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 controlling shareholder or the relevant transactions giving rise to the assets or liabilities arose.

Pursuant to the Agreement, Mr. Cheng agreed to irrevocably warrant and guarantee to Rightone that the sum of the audited consolidated profit attributable to equity holders of Perfect Shiny for the two financial years ending 31 December 2016 shall be not less than HK\$34,000,000 (“Profit Guarantee”). Mr. Cheng agrees 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 in the 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 certain number of the Consideration Shares. However, the maximum liability of Mr. Cheng in respect of the non-fulfillment of the Profit Guarantee shall not exceed HK\$323,000,000.

The sum of the audited consolidated profit attributable to equity holders of Perfect Shiny for the two financial years ended 31 December 2016 according to its audited consolidated financial statements is approximately HK\$31,767,000. Since the shortfall of the Profit Guarantee is approximately HK\$2,233,000, a gain of approximately HK\$21,238,000, being the compensation payable by Mr. Cheng, was recognised in the consolidated income statement of the Company for the year ended 31 December 2016. Part of the compensation receivable is settled against the outstanding amount payable to Mr. Cheng under the promissory note issued by Rightone of HK\$10,000,000. The remaining compensation receivable from Mr. Cheng of approximately HK\$11,238,000 is expected to be settled in cash on or before 31 March 2017.

2.1.2 Changes in accounting policy and disclosures

(a) New standards and amendments to standards adopted by the Group

The following new standards and amendments to standards are mandatory for accounting periods beginning on or after 1 January 2016. The adoption of these new standards and amendments to standards does not have any significant impact to the results and financial position of the Group:

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

(b) *New standards and amendments to standards not yet adopted*

The following are new standards and amendments to standards which have been issued but are not effective and have not been early adopted. The Group plans to adopt these new standards and amendments to standards when they become effective:

		Effective for accounting periods beginning on or after
HKAS 7 Amendment	Statement of Cash Flows	1 January 2017
HKAS 12 Amendment	Income Taxes	1 January 2017
HKFRS 2 Amendment	Classification and Measurement of Share- Based Payment Transactions	1 January 2018
HKFRS 4 Amendment	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts	1 January 2018
HKFRS 9	Financial Instruments	1 January 2018
HKFRS 10 and HKAS 28 Amendments	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2019
HKFRS 15	Revenue from Contracts with Customers	1 January 2018
HKFRS 15 Amendment	Clarification to HKFRS 15	1 January 2018
HKFRS 16	Leases	1 January 2019

The Group has not early applied these new and revised HKFRSs that have been issued but are not yet effective in the preparation of the consolidated financial statements.

The directors of the Company anticipate that the application of the new and revised HKFRSs will have no material impact on the financial statements of the Group.

3. 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 determine the operating segments based on these reports.

The directors determine that the Group has two reportable operating segments as follows:

- (a) Display products segment; and
- (b) 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 years ended 31 December 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
Segment revenue (all from external customers)	<u>1,123,950</u>	<u>1,272,975</u>	<u>26,048</u>	<u>1,199</u>	<u>1,149,998</u>	<u>1,274,174</u>
Segment results	<u>95,335</u>	<u>95,605</u>	<u>58,560</u>	<u>(8,030)</u>	<u>153,895</u>	<u>87,575</u>
Unallocated operating costs					(55,017)	(55,226)
Finance costs, net					(1,348)	(322)
Profit before income tax					<u>97,530</u>	<u>32,027</u>
Other segment information:						
Gain on disposal of subsidiaries	—	—	26,481	—	26,481	—
Gain on Profit Guarantee	—	—	21,238	—	21,238	—

- (b) The Group's revenues from its major products for the years ended 31 December 2016 and 2015 are as follows:

	2016	2015
	HK\$'000	HK\$'000
TFT-LCD panels and modules	1,051,095	1,076,227
Driver integrated circuits	58,032	156,180
Optics products	26,048	1,199
Polarisers	7,871	31,436
Others	6,952	9,132
	<u>1,149,998</u>	<u>1,274,174</u>

- (c) Segment revenue by customers' geographical location

During the years ended 31 December 2016 and 2015, most of the Group's revenues were derived in Hong Kong, where the Group's products were delivered by the Group to its customers.

	2016	2015
	HK\$'000	HK\$'000
Hong Kong	1,132,080	1,244,104
The People's Republic of China (the "PRC")	17,424	28,893
Taiwan	494	1,177
	<u>1,149,998</u>	<u>1,274,174</u>

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Customer A	192,748	167,160
Customer B	168,579	143,110
	<u>361,327</u>	<u>310,270</u>

The above two 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 <i>HK\$'000</i>	The PRC <i>HK\$'000</i>	Taiwan <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 31 December 2016:				
Non-current assets				
Property, plant and equipment	2,123	1,070	—	3,193
Other intangible assets	2,000	1,122	—	3,122
	<u>4,123</u>	<u>2,192</u>	<u>—</u>	<u>6,315</u>
As at 31 December 2015:				
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
	<u>4,277</u>	<u>2,047</u>	<u>11,012</u>	<u>17,336</u>

4. REVENUE

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

5. OTHER GAINS/(LOSSES), NET

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Gain on disposal of subsidiaries (<i>Note</i>)	26,481	—
Gain on Profit Guarantee (<i>Note 2.1.1</i>)	21,238	—
Net exchange loss	(769)	(1,893)
Others	117	144
	<u>47,067</u>	<u>(1,749)</u>

Note: On 22 December 2016, Perfect Shiny, a subsidiary of the Group completed the disposal of the entire issued shares of Morning Beauty Developments Limited (the "Disposal"), a wholly owned subsidiary of Perfect Shiny, to an independent third party, for a cash consideration of HK\$48,000,000. The principal business activity of Morning Beauty Developments Limited is investment holding and it directly owned approximately 50.14% of the equity interest in Shinyoptics Corporation as of the date of the Disposal.

6. PROFIT BEFORE INCOME TAX

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Cost of inventories sold	935,418	1,054,067
Provision for obsolete inventories	14,390	12,669
Depreciation of property, plant and equipment	2,173	2,006
Amortisation of intangible assets	471	514

7. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 16.5%) on the estimated assessable profit during the year arising in or derived from Hong Kong. Taxation on profits assessable elsewhere have been calculated at the rates of taxation prevailing in the countries/jurisdictions in which the Group operates.

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Current income tax:		
Current income tax on profits for the year	9,331	6,658
Adjustments in respect of prior years	(44)	(20)
Total current income tax	9,287	6,638
Deferred income tax — Origination and reversal of temporary differences	(92)	(53)
Income tax expense	9,195	6,585

8. EARNINGS PER SHARE

Basic earnings per share for the year ended 31 December 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 year ended 31 December 2016. Basic earnings per share for the year ended 31 December 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 year ended 31 December 2015.

In determining the weighted average number of ordinary shares deemed to be in issue during the year ended 31 December 2015, the 163,687,151 ordinary shares issued as part of the consideration of the common control combination as mentioned in Note 2.1.1 had been regarded as if these shares had been in issue since 1 January 2015.

	2016	2015
Profit attributable to equity holders of the Company (<i>HK\$'000</i>)	<u>90,729</u>	<u>27,732</u>
Weighted average number of ordinary shares in issue (<i>thousands</i>)	<u>1,483,687</u>	<u>1,483,687</u>
Basic and diluted earnings per share (<i>HK cents per share</i>)	<u>6.12</u>	<u>1.87</u>

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 years ended 31 December 2016 and 2015 as the Group had no potentially dilutive ordinary shares in issue during these years.

9. DIVIDENDS

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Proposed final dividend of HK1.0 cent (2015: HK0.5 cent) per ordinary share	<u>14,837</u>	<u>7,418</u>

10. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Unlisted equity investment, at fair value	31,671	31,101
Unlisted debt investment, at quoted price	—	1,184
	<u>31,671</u>	<u>32,285</u>

11. TRADE AND OTHER RECEIVABLES

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Trade receivables	47,696	75,472
Bills receivables	32,956	123,209
	<u>80,652</u>	<u>198,681</u>
Receivable from Mr. Cheng (<i>Note 2.1.1</i>)	11,238	—
Prepayments, deposits and other receivables	5,895	4,414
	<u>97,785</u>	<u>203,095</u>

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
0–30 days	41,777	106,393
31–60 days	29,091	78,214
61–90 days	7,138	13,193
91–180 days	2,646	881
	<u>80,652</u>	<u>198,681</u>

12. SHARE CAPITAL

	31 December 2016		31 December 2015	
	Number of shares (<i>thousands</i>)	Amount <i>HK\$'000</i>	Number of shares (<i>thousands</i>)	Amount <i>HK\$'000</i>
Authorised:				
Ordinary shares of HK\$0.01 each	<u>5,000,000</u>	<u>50,000</u>	<u>5,000,000</u>	<u>50,000</u>
			Number of shares	Ordinary shares of HK\$0.01 each <i>HK\$'000</i>
Issued and fully paid:				
At 1 January 2015			1,320,000,000	13,200
Issue of new shares as consideration for common control combination (<i>Note</i>)			<u>163,687,151</u>	<u>1,637</u>
At 31 December 2015, 1 January 2016 and 31 December 2016			<u>1,483,687,151</u>	<u>14,837</u>

Note: As part of the consideration of the Acquisition pursuant to the Agreement, 163,687,151 ordinary shares were issued on 30 April 2015 (*Note 2.1.1*).

13. TRADE AND OTHER PAYABLES

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Trade payables	85,553	143,272
Bills payables	33,415	—
	<u>118,968</u>	<u>143,272</u>
Deposits received from customers	22,089	10,727
Accruals and other payables	8,314	10,430
	<u>149,371</u>	<u>164,429</u>

The ageing analysis of trade and bills payables based on invoice date is as follows:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
0–30 days	98,283	118,563
31–60 days	17,416	12,666
61–90 days	3,269	11,990
91–180 days	—	53
	<u>118,968</u>	<u>143,272</u>

14. NOTE PAYABLE

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Promissory note payable to Mr. Cheng	10,000	20,000
Offset against the compensation receivable arising from the Profit Guarantee	(10,000)	—
	—	20,000
Less: Portion classified under current liabilities	—	(10,000)
	—	10,000
Non-current portion	—	10,000

Pursuant to the Agreement, promissory note in favour of Mr. Cheng in the amount of HK\$20,000,000 was issued as part of the consideration of the Acquisition (Note 2.1.1). The promissory note was unsecured, interest-free and repayable in two equal portions in the amount of HK\$10,000,000 each on 30 April 2016 and 30 April 2017, respectively.

As at 31 December 2016, the remaining promissory note was offset against the compensation receivable arising from the Profit Guarantee. Further details of the Profit Guarantee are set out in Note 2.1.1.

BUSINESS REVIEW

The Group is principally engaged in the trading of display components of electronics, which are the major display components applied on mobile phones. In addition, it is also engaged in the development and sale of optics products and related electronic components. The Group also processes some of the products which it trades.

During the year ended 31 December 2016 (the “Year”), as a result of major display panel makers in Korea closing down some of its liquid crystal display panel production lines, the display panel market saw a tightened supply during the Year. This also narrowed down the total sales volume of the Group’s display products and affected the revenue of the Group. Total revenue of the Group during the Year amounted to approximately HK\$1,149,998,000, representing a decrease of approximately 10% year-on-year. Despite the decrease of revenue, the Group was able to trade related display components at a more favorable price and enhanced its profit margin. With the beneficial business environment and flexible marketing strategies, the Group managed to achieve delightful results in 2016.

During the Year, the Group achieved significant increase in profit as compared with the previous year, mainly attributable to the improved profit margin, increase in profit contribution from the Group’s optics products segment and non-recurring items of gain on disposal of subsidiaries and gain on Profit Guarantee. Profit attributable to equity holders of the Company amounted to approximately HK\$90,729,000, up by more than two-fold as compared with the previous year. Excluding the non-recurring items of gain on disposal of subsidiaries and gain on Profit Guarantee, profit attributable to equity holders of the Company amounted to approximately HK\$43,010,000, up by approximately 55% year-on-year.

Display products

The Group recorded approximately HK\$1,123,950,000 of revenue from its display products segment during the Year, which decreased by approximately 12% year-on-year. As affected by tightened supply in the market, sales of thin film transistor liquid crystal display (“TFT-LCD”) panels and modules amounted to approximately HK\$1,051,095,000 during the Year, slightly decreased by approximately 2%. For other products such as driver integrated circuits (“ICs”) and polarisers, considering the intense price competition in the driver ICs and polarisers markets, the Group focused on more profitable products which led to a significant drop in revenue from driver ICs and polarisers. Revenue from driver ICs and polarisers amounted to approximately HK\$58,032,000 (2015: HK\$156,180,000) and HK\$7,871,000 (2015: HK\$31,436,000) respectively during the Year.

Although there was a drop in revenue, the Group succeeded in improving its profit thanks to the promising performance of its major segment of display products during the Year. Because of the tightened supply in the market, prices of display panels that the Group trades surged significantly during the Year, which provided a favourable environment for the Group to enhance its results.

Optics-related products

Through the acquisition of Perfect Shiny Group in 2015, which is principally engaged in the design, development and sale of applied optics-related products (“Optics Products”), the Group has diversified its business into the applied Optics Products market. During the Year, revenue for Optics Products segment amounted to approximately HK\$26,048,000 (2015: HK\$1,199,000), representing a significant increase as compared to the relatively low base in 2015.

The industry performance of Optics Products for the Year was weaker than expected due to limited content and an immature augmented reality (“AR”) and virtual reality (“VR”) ecosystem. Nevertheless, the Group has taken advantage of its technology and business network, supplied Optics Products related components and launched its self-developed products during the Year which contributed profit to the Group. Perfect Shiny Technology (Shenzhen) Company Limited was established during the Year as an effort of the Group to expand its development in the Optics Products market in the PRC. Certain of the Group’s self-developed Optics Products, such as automotive head-up display (“HUD”) devices and VR entertainment headsets were also recently launched on an electronic commerce platform in the PRC for sale.

For the Year, consolidated profit attributable to equity holders of Perfect Shiny amounted to approximately HK\$35,659,000 (2015: loss of HK\$3,892,000). As the total sum of audited consolidated profit attributable to equity holders of Perfect Shiny for the two financial years ended 31 December 2016 was not up to the amount of the Profit Guarantee and resulted in a shortfall of approximately HK\$2,233,000, Mr. Cheng Wai Tak (“Mr. Cheng”), as vendor, has to pay the Group the compensation amount of approximately HK\$21,238,000, partly by setting off against the amount due under a promissory note issued by the Group and partly in cash, which is expected to be settled on or before 31 March 2017. Further details are set out in the paragraph below headed “PROFIT GUARANTEE IN RELATION TO THE ACQUISITION OF THE ENTIRE EQUITY INTEREST IN PERFECT SHINY TECHNOLOGY LIMITED”.

During the Year, considering the mature and essential technology that the Group has already mastered for the development of its self-developed Optics Products, as well as the unsatisfactory performance of and further expenses to be incurred by Shinyoptics Corporation (“Shinyoptics”), the Group disposed of Morning Beauty Developments Limited which held approximately 50.14% of the issued share capital of Shinyoptics. Shinyoptics is principally engaged in the design, development, production and sale of micro-projector optical engines. The gain arising from the disposal of subsidiaries was included in the consolidated profit attributable to equity holders of Perfect Shiny for the Year. It is considered that the disposal is a good opportunity to realise the Group’s investments in the business of developing and researching micro-projector optical engines, which enhances the cash resources of the Group for better investment opportunities as and when they arise.

Prospects

Looking ahead, due to the uncertainties in the global and China’s economy, the prospects for the Group’s display products business will become more challenging. It is expected that the Group will face keener competition and be impacted by weaker market growth. Facing the challenging operating environment, the Group will remain its focus on diversifying its products portfolio, introducing new suppliers and customers. Nevertheless, the Group’s display products business is expected to somewhat benefit from the trend of consumers’ replacement for high-end smartphones, as well as the increasing smartphone penetration in developing countries.

As to the Optics Products, the Group will keep updating its technologies from time to time so that the Group can maximize its benefits when the AR/VR markets enjoy more robust growth. The Group believes that as AR and VR technologies and associated software as well as content support become mature, consumers’ demand will be stimulated and the related markets will have a bright future in the long run.

Facing the challenges and opportunities in the market, the Group will fully utilise its own competitive edges including its good relationships with suppliers and clients, advanced technology knowhow and professional sales team, to make a quick response to market changes.

FINANCIAL REVIEW

Revenue

Revenue of the Group for the year ended 31 December 2016 amounted to approximately HK\$1,149,998,000, which decreased by approximately 10% as compared to approximately HK\$1,274,174,000 in 2015. The decrease in revenue was mainly due to the decrease in sales of display products segment, including TFT-LCD panels, driver ICs and polarisers, which overrode the increase in revenue from optics products segment during the Year.

Cost of sales

Cost of sales during the Year primarily consisted of purchase costs, processing and subcontracting charges, scrap loss, provision for obsolete inventories, transportation charges and other direct costs. The Group's cost of sales decreased by approximately 12% from approximately HK\$1,177,343,000 for the year ended 31 December 2015 to approximately HK\$1,037,263,000 for the year ended 31 December 2016, which was mainly due to the decrease in purchase costs associated with the decrease in revenue.

Gross profit and gross profit margin

The increase in the Group's gross profit margin from 7.6% in 2015 to 9.8% in 2016 offset the effect of decrease in revenue during the Year and led to the increase of the Group's gross profit amount for the Year by approximately 16% to approximately HK\$112,735,000 as compared with the year ended 31 December 2015. The increase in the prices of display panels during the Year contributed to the increase in overall gross profit margin.

Other gains/(losses), net

Net other gains of approximately HK\$47,067,000 was recorded during the Year (2015: net losses of HK\$1,749,000). The balance mainly comprised the gain on disposal of subsidiaries of approximately HK\$26,481,000, gain on Profit Guarantee of approximately HK\$21,238,000, net with exchange losses incurred during the Year. Please refer to the paragraph below headed "PROFIT GUARANTEE IN RELATION TO THE ACQUISITION OF THE ENTIRE EQUITY INTEREST IN PERFECT SHINY TECHNOLOGY LIMITED" for details of the gain on Profit Guarantee.

Distribution and selling expenses

The Group's distribution and selling expenses slightly increased by approximately 2% from approximately HK\$16,354,000 in 2015 to approximately HK\$16,636,000 in 2016, mainly due to the increase in rental and promotion expenses incurred for the Group's optics products, which offset the decrease in staff costs attributable to the decrease in average headcount.

General and administrative expenses

The Group's general and administrative expenses for the Year amounted to approximately HK\$37,729,000, representing an approximately 2% increase as compared with 2015 of approximately HK\$37,123,000. The increase in general and administrative expenses was mainly due to the increase in professional fees incurred during the Year, including the expenses related to the application for transfer of listing of the Company's shares from GEM to Main Board of the Stock Exchange.

Research and development expenses

The Group's research and development ("R&D") expenses amounted to approximately HK\$6,559,000 in 2016, representing an approximately 29% decrease as compared with 2015 of approximately HK\$9,256,000. The decrease was mainly due to the fact that Shinyoptics, which engages in R&D of optical engines, was disposed of and the optics products developed by the Group were approaching their completion stage during the Year such that less R&D costs were incurred.

Finance costs, net

Net finance costs of the Group during the Year amounted to approximately HK\$1,348,000 (2015: HK\$322,000), representing an increase of approximately 319% as compared with 2015. Such increase was due to the decrease in interest income attributable to the decrease in Renminbi fixed deposits; and the increase in factoring charges.

Income tax expense

Income tax expense of the Group during the Year primarily represents income tax incurred in Hong Kong. The increase in income tax expense was mainly due to the increase in assessable profits for Hong Kong profits tax during the Year. The non-taxable gain on disposal of subsidiaries and gain on Profit Guarantee recorded during the Year lowered the Group's effective tax rate to 9.4% (2015: 20.6%).

Profit attributable to equity holders of the Company

Profit attributable to equity holders of the Company for the Year amounted to approximately HK\$90,729,000, representing an increase of approximately 227% as compared with 2015 of approximately HK\$27,732,000. Excluding the non-recurring items of gain on disposal of subsidiaries and gain on Profit Guarantee, profit attributable to equity holders of the Company amounted to approximately HK\$43,010,000, representing an increase of approximately 55% as compared with 2015, which was mainly attributable to the improvement in gross profit margin of display panels and increase in profit contribution from optics products segment during the Year.

PROFIT GUARANTEE IN RELATION TO THE ACQUISITION OF THE ENTIRE EQUITY INTEREST IN PERFECT SHINY TECHNOLOGY LIMITED

As disclosed in the circular of the Company dated 6 March 2015, Rightone, a wholly-owned subsidiary of the Company, entered into the Agreement on 22 January 2015 to acquire the entire equity interest in Perfect Shiny from Mr. Cheng, a director and a controlling shareholder of the Company. Pursuant to the Agreement, Mr. Cheng warranted and guaranteed to Rightone that the sum of the consolidated profit attributable to equity holders of Perfect Shiny for the two financial years ending 31 December 2016 shall be not less than HK\$34,000,000. 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 in the 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 certain number of the Consideration Shares. However, the maximum liability of Mr. Cheng in respect of the non-fulfillment of the Profit Guarantee shall not exceed HK\$323,000,000.

Based on the audited consolidated financial statements of Perfect Shiny for the financial years ended 31 December 2015 and 2016, the total sum of the audited consolidated profit attributable to equity holders of Perfect Shiny for the two financial years ended 31 December 2016 was approximately HK\$31,767,000, which falls short of amount of the Profit Guarantee by approximately HK\$2,233,000. Accordingly, Mr. Cheng is obliged to compensate an amount of approximately HK\$21,238,000 to the Group. Pursuant to the Agreement, part of the compensation amount, being HK\$10,000,000, is set off against the outstanding amount payable to Mr. Cheng by Rightone under a promissory note issued by Rightone. The remaining compensation amount of approximately HK\$11,238,000 receivable from Mr. Cheng is expected to be settled in cash on or before 31 March 2017.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's funds are principally 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 unrestricted bank deposits, bank balances and cash in aggregate of approximately HK\$174,126,000 as at 31 December 2016 (2015: HK\$145,708,000).

The Group has no bank borrowings as at 31 December 2016. The Group's bank borrowings as at 31 December 2015 comprised bank loans of approximately HK\$31,200,000.

GEARING RATIO

As at 31 December 2016, the Group's gearing ratio was 0% (2015: 11.2%), which is calculated based on the Group's total interest-bearing debt of approximately HK\$nil (2015: HK\$31,200,000) and the Group's total equity of approximately HK\$349,959,000 (2015: HK\$279,729,000).

CONTINGENT LIABILITIES

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

CHARGE OF ASSETS

As at 31 December 2016, the Group had pledged its bank deposits of approximately HK\$24,702,000 (2015: HK\$20,316,000) to certain banks in Hong Kong to secure the banking facilities granted to the Group.

CAPITAL COMMITMENTS

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

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year ended 31 December 2016, the Company did not redeem any of its shares, and neither did the Company nor any of its subsidiaries purchase or sell any of the Company's shares.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to achieving high standards of corporate governance with a view to safeguarding the interests of its shareholders. To accomplish this, save as set out below, the Company has adopted the principles and the code provisions of the Corporate Governance Code (the "CG Code") contained in Appendix 15 of the GEM Listing Rules.

Throughout the year ended 31 December 2016, the Company has complied with all the code provisions of the CG Code, except the deviation as disclosed under the section headed “Chairman and Chief Executive Officer” below.

Chairman and Chief Executive Officer

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 and 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 on 20 January 2014 with written terms of reference in compliance with Rule 5.28 of the GEM Listing Rules and code provision C.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 audited annual results of the Group for the year ended 31 December 2016 have been reviewed by the audit committee.

ANNUAL GENERAL MEETING

It is proposed that the forthcoming annual general meeting of the Company (the “AGM”) will be held on Monday, 8 May 2017. A notice convening the AGM will be published and despatched to the shareholders of the Company in the manner required by the GEM Listing Rules in due course.

FINAL DIVIDEND

The Directors proposed to recommend a final dividend of HK1.0 cent per ordinary share for the year ended 31 December 2016. Subject to the approval of the shareholders of the Company at the forthcoming AGM, the proposed final dividend will be paid on or about Wednesday, 7 June 2017 to shareholders of the Company whose names appear on the register of members of the Company on Wednesday, 17 May 2017. Based on 1,483,687,151 ordinary shares of the Company in issue as of the date of this announcement, the total dividend will amount to approximately HK\$14,837,000.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Friday, 28 April 2017 to Monday, 8 May 2017, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the AGM, all transfers of shares documents, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Thursday, 27 April 2017.

For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Monday, 15 May 2017 to Wednesday, 17 May 2017, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all transfers of shares documents, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on Friday, 12 May 2017.

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

Hong Kong, 20 March 2017

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>.