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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)

FIRST QUARTERLY RESULTS ANNOUNCEMENT FOR THE THREE MONTHS ENDED 31 MARCH 2018

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

GEM has been positioned as a market designed to accommodate small and mid-sized 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.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange 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 GEM of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

HIGHLIGHTS

- The Group recorded revenue of approximately HK$68.7 million for the three months ended 31 March 2018 (three months ended 31 March 2017: approximately HK$104.9 million).
- Loss attributable to equity holders of the Company for the three months ended 31 March 2018 amounted to approximately HK$9.7 million (three months ended 31 March 2017: approximately HK$3.5 million).
- The Board does not declare an interim dividend for the three months ended 31 March 2018 (three months ended 31 March 2017: Nil).

FINANCIAL RESULTS

The board of directors (the "Board") of Perfect Optronics Limited (the "Company") hereby announces the unaudited consolidated financial results of the Company and its subsidiaries (the "Group") for the three months ended 31 March 2018 together with the comparative unaudited figures for the corresponding period in 2017 as follows:

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months ended 31 March 2018

		Three months ended 31 March	
		2018	2017
	Note	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)
Revenue	3	**68,722**	104,883
Cost of sales		**(68,164)**	(96,542)
Gross profit		**558**	8,341
Other gains/(losses), net		**54**	(47)
Distribution and selling expenses		**(2,827)**	(3,367)
General and administrative expenses		**(6,495)**	(7,505)
Research and development expenses		**(984)**	(384)
Operating loss		**(9,694)**	(2,962)
Finance income		**6**	26
Finance costs		**(3)**	(371)
Finance income/(costs), net		**3**	(345)
Loss before income tax		**(9,691)**	(3,307)
Income tax expense	4	**19**	(154)
Loss for the period		**(9,672)**	(3,461)
Other comprehensive income:			
Items that may be reclassified subsequently to income statement			
Change in value of available-for-sale financial assets	5	**—**	22,495
Currency translation differences		**306**	182
Total comprehensive (loss)/income for the period		**(9,366)**	19,216
Loss for the period attributable to:			
Equity holders of the Company		**(9,672)**	(3,461)
Total comprehensive (loss)/income for the period attributable to:			
Equity holders of the Company		**(9,366)**	19,216
Basic and diluted loss per share	7	**HK(0.65) cent**	HK(0.23) cent

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 31 March 2018

	Attributable to equity holders of the Company							
	Share capital *HK$'000* (Unaudited)	**Share premium** *HK$'000* (Unaudited)	**Other reserves**[1] *HK$'000* (Unaudited)	**Merger reserve** *HK$'000* (Unaudited)	**Revaluation reserve**[2] *HK$'000* (Unaudited)	**Exchange reserve** *HK$'000* (Unaudited)	**Retained earnings** *HK$'000* (Unaudited)	**Total equity** *HK$'000* (Unaudited)
Balance at 1 January 2018	**14,837**	**465,738**	**67,349**	**(415,675)**	**30,386**	**(157)**	**97,558**	**260,036**
Adjustment on initial application of HKFRS 9 — Note 2	—	—	—	—	**(30,314)**	—	**30,314**	—
Adjusted opening balance at 1 January 2018	**14,837**	**465,738**	**67,349**	**(415,675)**	**72**	**(157)**	**127,872**	**260,036**
Comprehensive loss								
Loss for the period	—	—	—	—	—	—	**(9,672)**	**(9,672)**
Other comprehensive income								
Currency translation differences	—	—	—	—	—	**306**	—	**306**
Total comprehensive loss	—	—	—	—	—	**306**	**(9,672)**	**(9,366)**
Balance at 31 March 2018	**14,837**	**465,738**	**67,349**	**(415,675)**	**72**	**149**	**118,200**	**250,670**
Balance at 1 January 2017	14,837	465,738	67,349	(415,675)	7,716	(730)	210,724	349,959
Comprehensive loss								
Loss for the period	—	—	—	—	—	—	(3,461)	(3,461)
Other comprehensive income								
Change in value of available-for-sale financial assets	—	—	—	—	22,495	—	—	22,495
Currency translation differences	—	—	—	—	—	182	—	182
Total other comprehensive income	—	—	—	—	22,495	182	—	22,677
Total comprehensive income	—	—	—	—	22,495	182	(3,461)	19,216
Balance at 31 March 2017	14,837	465,738	67,349	(415,675)	30,211	(548)	207,263	369,175

1 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 the loan waived by the controlling shareholder upon completion of a common control combination.

2 Revaluation reserve represents fair value reserve for financial assets classified as fair value through other comprehensive income (for 2018) or fair value reserve for available-for-sale financial assets (for 2017).

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 Company is an investment holding company and its subsidiaries (collectively, the "Group") are principally engaged in the trading and processing of display panels, development and sales of optics products and trading of related electronic components.

The unaudited consolidated financial results of the Group for the three months ended 31 March 2018 (the "Consolidated Financial Results") have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants 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 financial asset classified as fair value through other comprehensive income ("FVOCI") and financial asset classified as fair value through profit or loss ("FVTPL") 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 2017, except as described below.

The Group has adopted and applied, for the first time, the following new standards that have been issued and effective for the accounting periods beginning on 1 January 2018:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-Based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to Hong Kong Accounting Standard ("HKAS") 28	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

The Group had to change its accounting policies as a result of adopting HKFRS 9 Financial Instruments. The Group has applied the new rules with effect from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 have not been restated. The impacts of the adoption of HKFRS 9 are disclosed below.

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

Classification and measurement

On 1 January 2018 (the date of initial application of HKFRS 9), the Group's management classified its financial instruments into the appropriate HKFRS 9 categories. There is no significant impact on the classification and measurement of the available-for-sale ("AFS") financial assets elected to be FVOCI. However, gains or losses realised on the sale of financial assets at FVOCI will no longer be transferred to profit or loss on sale, but instead reclassified below the line from the FVOCI reserve to retained earnings. With respect to the Group's financial assets reclassified as FVTPL, any fair value change is recognised in profit or loss as it arises.

The main effects resulting from this reclassification are as follows:

Financial assets — 1 January 2018	*Note*	**FVTPL** ***HK$'000*** **(Unaudited)**	**FVOCI** ***HK$'000*** **(Unaudited)**	**AFS** ***HK$'000*** **(Unaudited)**
Opening balance 1 January 2018 — HKAS 39		—	—	56,947
Reclassify investments from AFS to FVTPL	(i)	54,269	—	(54,269)
Reclassify non-trading equities from AFS to FVOCI	(ii)	—	2,678	(2,678)
Opening balance 1 January 2018 — HKFRS 9		54,269	2,678	—

The impact of these changes on the Group's equity is as follows:

	Note	**Effect on AFS reserve** ***HK$'000*** **(Unaudited)**	**Effect on FVOCI reserve** ***HK$'000*** **(Unaudited)**	**Effect on retained earnings** ***HK$'000*** **(Unaudited)**
Opening balance 1 January 2018 — HKAS 39		30,386	—	—
Reclassify investments from AFS to FVTPL	(i)	(30,314)	—	30,314
Reclassify non-trading equities from AFS to FVOCI	(ii)	(72)	72	—
Opening balance 1 January 2018 — HKFRS 9		—	72	30,314

Notes:

(i) Reclassification from AFS to FVTPL

The Group's investment in preferred shares was reclassified from AFS to financial asset at FVTPL (HK$54,269,000 as at 1 January 2018). They do not meet the criteria to be classified either as at FVOCI or at amortised cost. These preferred shares with a fair value of HK$54,269,000 were reclassified from AFS financial assets to financial assets at FVTPL and related fair value gain of HK$30,314,000 was reclassified from the AFS reserve to the retained earnings on 1 January 2018.

(ii) Equity investment previously classified as AFS

The Group elected to present in other comprehensive income changes in the fair value of all its remaining equity investment previously classified as AFS, because such investment is held as long-term strategic investment that is not expected to be sold in the short to medium term. As a result, asset with a fair value of HK$2,678,000 was reclassified from AFS financial asset to financial asset at FVOCI and fair value gain of HK$72,000 was reclassified from the AFS reserve to the FVOCI reserve on 1 January 2018.

Impairment of financial assets

The new impairment model requires the recognition of impairment provisions based on expected credit losses ("ECL") rather than only incurred credit losses as is the case under HKAS 39. The Group's trade receivables are financial assets that are subject to HKFRS 9's new expected credit loss model. While cash and cash equivalents are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

The Group applies the HKFRS 9 simplified approach to measuring ECL which uses a lifetime expected loss allowance for all trade receivables. Since the Group's historical credit loss experience for its trade receivable was minimal, the restatement of the loss allowance for trade receivables on transition to HKFRS 9 as a result of applying the expected credit risk model was immaterial.

The adoption of other new standards, amendments to standards and interpretations did not have significant impact on the Group's accounting policies.

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 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 2017.

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	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Thin film transistor liquid crystal display ("TFT-LCD") panels and modules	**62,334**	92,874
Driver integrated circuits	**1,395**	5,763
Optics products	**1,303**	3,748
Polarisers	**652**	763
Others	**3,038**	1,735
	68,722	104,883

4. INCOME TAX EXPENSE

The amount of income tax (credited)/charged to the income statement represents:

	Three months ended 31 March	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Current income tax	**—**	171
Deferred income tax	**(19)**	(17)
	(19)	154

No Hong Kong profits tax has been provided as the Group has no estimated assessable profit during the period arising in or derived from Hong Kong (three months ended 31 March 2017: provided at the rate of 16.5% on the estimated assessable profit). Taxation on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates.

5. CHANGE IN VALUE OF AVAILABLE-FOR-SALE FINANCIAL ASSETS

Change in value of available-for-sale financial assets during the three months ended 31 March 2017 represented the change in fair value of the Group's investment in certain preferred shares in Mobvoi Inc. ("Mobvoi"), a private company principally engaged in the business of developing and providing voice search systems on mobile, smart wearable and other devices. There was no addition and disposal of such a private equity investment since the Group acquired it in January 2015. Mobvoi further issued its new preferred shares to a new investor in late March 2017 and the Group's shareholding in Mobvoi was diluted to approximately 1.53% (on a fully diluted and as converted basis).

As detailed in note 2 above, on 1 January 2018 (the date of initial application of HKFRS 9), the Group's investment in preferred shares in Mobvoi was reclassified from AFS financial asset to financial asset at FVTPL (HK$54,269,000 as at 1 January 2018) and any fair value change is recognised in profit or loss as it arises. The fair value of the Group's investment in preferred shares in Mobvoi as at 31 March 2018 amounted to approximately HK$54,283,000 (31 December 2017: HK$54,269,000), which is based on comparable transaction method and equity value allocation with option-pricing method performed by an independent valuer. The fair value is within level 3 of the fair value hierarchy. Fair value gain of approximately HK$14,000 was recognised in the consolidated income statement and included in "other gains/(losses), net" of the unaudited consolidated income statement for the three months ended 31 March 2018.

For the Group's remaining equity investment amounted to approximately HK$2,678,000 previously classified as AFS financial asset and reclassified to financial asset at FVOCI on 1 January 2018, there was no change in its fair value during the three months ended 31 March 2018 and thus, no gains or losses was recognised in other comprehensive income during the three months ended 31 March 2018.

6. INTERIM DIVIDEND

The Board does not declare an interim dividend for the three months ended 31 March 2018 (three months ended 31 March 2017: Nil).

7. LOSS PER SHARE

Basic loss per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

	Three months ended 31 March	
	2018	2017
	(Unaudited)	(Unaudited)
Loss attributable to equity holders of the Company *(HK$'000)*	**(9,672)**	(3,461)
Weighted average number of ordinary shares in issue *(thousands)*	**1,483,687**	1,483,687
Basic and diluted loss per share *(HK cent per share)*	**HK(0.65) cent**	HK(0.23) cent

No adjustment has been made to the basic loss per share amount for the three months ended 31 March 2018 and 2017 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 for electronics. 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.

Having stepped into 2018, the business environment for the Group's mobile phone display panels remained sluggish, which continuously affected the Group's performance. During the three months ended 31 March 2018 (the "Period"), the Group recorded a decrease in revenue and an increase in loss as compared with the three months ended 31 March 2017. During the Period, the Group's revenue amounted to approximately HK$68,722,000, which decreased by approximately 34% as compared to corresponding period in 2017 of approximately HK$104,883,000. Loss attributable to equity holders of the Company for the Period amounted to approximately HK$9,672,000, representing an increase in loss of approximately HK$6,211,000 as compared with the three months ended 31 March 2017 of approximately HK$3,461,000.

According to a report published by China Academy of Information and Communications Technology, China's domestic mobile phone shipments for the three months ended 31 March 2018 reached 87.4 million units and the number of new model release reached 206, down 26.1% and 8.4% year-over-year respectively. On one hand, the downtrend indicated that the market demand for mobile phones has become mature and the consumers' purchase and change frequency of mobile phones slowed down. On the other hand, the period of flourishing mobile phone brands in mainland China had passed and the market share has concentrated in several major brands. The decrease in scattered non-mainstream or second-tier mobile phone manufacturers in the market has seriously affected the revenue of the Group's display panel business, since the Group is engaged in such supply chain. Meanwhile, facing the decrease in market demand, the Company understood that inventories were piled up in the display panel market in the first quarter of 2018, which led to the continuing decrease in selling prices of display panels during the Period.

During the Period, the Group recorded a revenue of approximately HK$67,419,000 from its display products segment, down by approximately 33% as compared to approximately HK$101,135,000 in the corresponding period of 2017. Sales of TFT-LCD panels and modules amounted to approximately HK$62,334,000 during the Period, which showed a drop of approximately 33% as compared with the corresponding period in 2017 of approximately HK$92,874,000. Driver integrated circuits and polarisers recorded revenues of approximately HK$1,395,000 (three months ended 31 March 2017: HK$5,763,000) and HK$652,000 (three months ended 31 March 2017: HK$763,000), respectively.

In order to mitigate the severe impacts of the decrease in revenue from sales of mobile phone display panels and the difficult situation in the small-size display panel market, the Group continued to expand product diversity and enrich its product mix. During the Period, the Group enhanced its sales of medium-to-large size display products, such as display modules for computer notebooks, monitors and television. Both the revenue amount and the sales proportion from these products increased, which contributed to the Group's revenue to a large extent during the Period as compared with the corresponding period in 2017. However, the gross profit margins for the Group's sale of these products were relatively low, which was a factor leading to the decrease in overall gross profit margin of the Group during the Period as compared with that of the three months ended 31 March 2017.

During the Period, the Group's optics products segment recorded a revenue of approximately HK$1,303,000, representing an approximately 65% decrease as compared to the corresponding period in 2017 of approximately HK$3,748,000. Due to the fact that content development in the virtual reality ("VR") market is still not mature and price competition of similar products in the market, the Group faced challenges on the sales of its self-developed VR entertainment headsets and automotive head-up display devices. Nevertheless, the Group also traded optics products components during the Period and continued to develop technology and improve products performance, while waiting for the appropriate opportunities.

As to the Group's investment in Mobvoi, Mobvoi has not raised a new round of funding and as detailed in note 5 above, there was no material change in fair value of the Group's investment in Mobvoi during the Period. During the Period, Mobvoi continued to promote its self-developed Android wear watches and portable smart speakers with virtual assistant built-in.

Looking forward, the display products market is expected to become more challenging in 2018. Display products segment is expected to remain as the Group's core business and the Group will take flexible strategies to widen its revenue base and enrich its product portfolio of various display products. The Group will dedicate to enhance its product diversity, widen customer base and introduce new suppliers from different territories. Meanwhile, the Group will keep on improving its optics products and updating its technology for maximizing its opportunities when the augmented reality and VR markets manifest more robust growth. The Group will also maintain a flexible business strategy to explore new business opportunities for the development of the Group.

Financial Review

Revenue

For the three months ended 31 March 2018, total revenue of the Group amounted to approximately HK$68,722,000, decreased by approximately 34% as compared with the corresponding period in 2017 of approximately HK$104,883,000. Both sales revenue of display products, including TFT-LCD panels and modules, driver integrated circuits and polarisers, and optics products were decreased.

Gross profit

Gross profit amount for the three months ended 31 March 2018 decreased by approximately HK$7,783,000 to approximately HK$558,000, which was attributable to the decrease in the Group's revenue and gross profit margin as compared with the corresponding period in 2017. The decrease in gross profit margin was mainly attributable to decrease in selling prices of the Group's products and change in sales mix of the Group.

Other gains/losses, net

Net other gains of approximately HK$54,000 during the three months ended 31 March 2018 included the fair value changes in the Group's financial asset at FVTPL (investment in preferred shares in Mobvoi) of approximately HK$14,000. While the fair value changes of the Group's investment in Mobvoi during the three months ended 31 March 2017 was recognised in other comprehensive income. Please refer to further details in note 2 above.

Expenses

The Group's distribution and selling expenses for the three months ended 31 March 2018 amounted to approximately HK$2,827,000, representing an approximately 16% decrease as compared with the corresponding period in 2017 of approximately HK$3,367,000. The decrease was mainly attributable to the decrease in sales activities during the Period.

The Group's general and administrative expenses for the three months ended 31 March 2018 amounted to approximately HK$6,495,000, representing an approximately 13% decrease as compared with the corresponding period in 2017 of approximately HK$7,505,000. The decrease was mainly attributable to the decrease in staff costs and bank charges during the Period.

Research and development expenses amounted to approximately HK$984,000 for the three months ended 31 March 2018, increased by approximately HK$600,000 as compared with the corresponding period in 2017 of approximately HK$384,000. The increase was mainly due to the increase in staff costs and development fees incurred for products development.

Loss for the period attributable to equity holders of the Company

Loss attributable to equity holders of the Company for the three months ended 31 March 2018 amounted to approximately HK$9,672,000 (three months ended 31 March 2017: HK$3,461,000) which was mainly attributable to the decrease in revenue and gross profit margin of the Group's products 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 2018, interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) held by the Directors and chief executives of the Company which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) or have been entered in the register maintained by the Company pursuant to section 352 of the SFO, or otherwise have been notified to the Company and the Stock Exchange pursuant to the standard of dealings by directors set out in Rules 5.46 to 5.67 of the GEM Listing Rules were as follows:

Long positions in shares of the Company:

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

Note: These 923,427,151 shares are held by Winful Enterprises Limited ("Winful Enterprises"), which in turn is wholly and 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 2018, 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 2018, 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 2018, 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 2018 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 2018, 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 2018.

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 of the Company dated 24 January 2014.

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 2018.

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 2018, 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 May 2018

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.