# KITH HOLDINGS LIMITED
## (PROVISIONAL LIQUIDATORS APPOINTED)
# 僑威集團有限公司*
## (已委任臨時清盤人)

*(Incorporated in Bermuda with limited liability)*

(Stock code: 1201)

# Annual Report 2013

* *For identification purposes only*

# Contents

# CORPORATE INFORMATION

## EXECUTIVE DIRECTORS

Mr. Zhou Jin
Mr. Tao Fei Hu
Mr. Wang Feng Wu
Ms. Cheng Hung Mui
Mr. Zhang Xiaofeng
Mr. Liu Qingchang
Mr. Wei Ren
Mr. Liu Shihongi

## NON-EXECUTIVE DIRECTORS

Mr. Gou Min
Ms. Connie Xiaohua Zhang

## INDEPENDENT NON-EXECUTIVE DIRECTOR

Mr. Ho Chun Chung, Patrick

## JOINT AND SEVERAL PROVISIONAL LIQUIDATORS

Mr. Lai Kar Yan (Derek)
Mr. Darach E. Haughey
Mr. Yeung Lui Ming (Edmund)
Mr. Ho Kwok Leung, Glen

35th Floor, One Pacific Place,
88 Queensway, Hong Kong

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN BERMUDA

Codan Services Limited
Clarendon House, 2 Church Street
PO Box HM 1022
Hamilton HM DX, Bermuda

## BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Tricor Abacus Limited
Level 22, Hopewell Centre
183 Queen's Road East, Hong Kong

## REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

1007 Tsim Sha Tsui Centre, West Wing
66 Mody Road
Tsim Sha Tsui
Hong Kong

## AUDITOR

ZHONGHUI ANDA CPA Limited
Unit 701, 7/F., Citicorp Centre,
18 Whitfield Road, Causeway Bay,
Hong Kong

## PRINCIPAL BANKERS

China CITIC Bank International Limited
18/F, Devon House, Taikoo Place,
979 King's Road, Quarry Bay,
Hong Kong

The Hongkong and Shanghai Banking Corporation Limited
1 Queen's Road, Central,
Hong Kong

## WEBSITE

www.kithholdings.com

# FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out below:

| | For the twelve months ended 31 December | | | | |
|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 | **2013** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | ***HK$'000*** |
| **RESULTS** | | | | | |
| Profit/(loss) for the year | 84,831 | 90,649 | 87,491 | 96,980 | **(646,976)** |
| Attributable to: | | | | | |
| Equity holders of the Company | 50,783 | 55,775 | 35,070 | 55,365 | **(676,091)** |

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 | **2013** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | ***HK$'000*** |
| **ASSETS AND LIABILITIES** | | | | | |
| Non-current assets | 651,122 | 695,071 | 656,684 | 748,730 | **663,281** |
| Current assets | 837,101 | 954,978 | 1,136,782 | 1,071,137 | **453,540** |
| Current liabilities | (660,081) | (729,970) | (800,039) | (775,629) | **(803,439)** |
| Non-current liabilities | (38,509) | (44,738) | (39,308) | (47,519) | **(42,368)** |
| Net assets | 789,633 | 875,341 | 954,119 | 996,719 | **271,014** |
| Attributable to: | | | | | |
| Equity holders of the Company | 503,037 | 560,930 | 578,024 | 623,876 | **(52,703)** |

# DIRECTORS' REPORT

The board (the "**Board**") of directors (the "**Directors**") of Kith Holdings Limited (Provisional Liquidators Appointed) (the "**Company**") (and together with its subsidiaries, the "**Group**") are pleased to present their report and the audited consolidated financial statements of the Group for the year ended 31 December 2013.

## PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its principal subsidiaries are set out in note 39 to the consolidated financial statements.

## BUSINESS REVIEW

For the year ended 31 December 2013, the Group continued to engage in printing and manufacturing of packaging products in the PRC. In relation to the business segment of distribution of other electronic and other related products of the Company, the banking facilities for this business segment had continued to squeeze from the beginning of year 2013, and was frozen entirely on April 2013. As the trading business of this business segment relied mainly on the bank trading facilities and opening of documentary credits for purchases, consequently the Group was unable to provide purchases by the existing customers since May 2013. This, in turn, caused the business of this segment to come to a halt.

## RESULTS AND APPROPRIATIONS

### Revenue

The turnover of the continuing operation was approximately HK$737.28 million (2012: approximately HK$761.63 million), representing a slight decrease of approximately 3.20%. The decrement was mainly due to various anti-smoking and anti-graft policies launched by the PRC government. This, in turn, affected the sales of tobacco and related products.

The turnover of the distribution of television business-related products and distribution of other electronic and related products decreased from HK$1,266.21 million to HK$244.57 million for the year due to suspension of the distribution of television business-related products and distribution of other electronic and related products since May 2013. The distribution of television business-related products and distribution of other electronic and related products are classified as discontinued business and the related financial information are disclosed in note 13.

### Gross Profit

Gross profit of the Group increased from approximately HK$234.55 million to approximately HK$235.12 million in 2013 due to the effective cost control under the printing and manufacturing of packaging products.

## RESULTS AND APPROPRIATIONS (CONTINUED)

### Impairment loss on various assets

During the year, the management made reassessment on the Group's assets for the continuing operation. The Group made impairment loss on the deposit paid for acquisition of properties under development of approximately HK$27.31 million, trade receivables of approximately HK$5.40 million and inventories of approximately HK$1.47 million for the year ended 31 December 2013.

### Loss on disposal of an associate

The loss on disposal of an associate amounted to approximately HK$44.41 million for the year ended 31 December 2013 (2012: nil). The loss related to disposal of 99.9% interest in Megalogic Technology Holdings Limited, a company with shares listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

## LIQUIDITY, FINANCIAL RESOURCES AND FUNDING

Bank and cash balances as at 31 December 2013 was approximately HK$56.76 million (2012: approximately HK$57.04 million).

## CAPITAL STRUCTURE

During the year, there was no change to the share capital of the Company.

## RESTRUCTURING OF THE GROUP

### Proposed restructuring of the Group

After the Provisional Liquidators' appointment, the Provisional Liquidators formed the view that a restructuring of the Company, possibly with (some of) its subsidiaries, would likely result in better recovery for its creditors as compared to liquidation. The focus of any restructuring of the Group will be the settlement of its liabilities arising from the Distribution Business.

The Provisional Liquidators had therefore negotiated with various interested parties, including Double Key International Limited (the "Investor"), in relation to a restructuring of the Group ("the Restructuring").

On 28 April 2014, an exclusivity agreement was entered into between the Investor, the Company and the Provisional Liquidators of the Company pursuant to which the Company agrees to grant the Investor an exclusivity to negotiate and implement a restructuring of the indebtedness of the Group for a period commencing on the date of the exclusivity agreement and ending on the date falling 3 months after the date of the exclusivity agreement, unless extended by the parties in writing.

On 23 May 2014, the Investor had received valid acceptances in respect of 25,830,204 shares of the Company under the offer set out in the offer document dated 25 April 2014, representing approximately 9.88% of the existing issued share capital of the Company. With the acquisition of 131,000,000 shares (representing approximately 50.1% of the existing issued share capital of the Company) held by Accufit Investments Inc. on 18 December 2013, the Investor owns a total of approximately 59.98% of the ordinary shares of the Company.

## RESTRUCTURING OF THE GROUP (CONTINUED)

### Proposed restructuring of the Group (Continued)

On 16 June 2014, the Company, the Provisional Liquidators and the Investor entered into the restructuring deed to implement the restructuring of the indebtedness of the Group which contemplates, among others, (i) the scheme of arrangement of the Company and the scheme of arrangement of the Company's restructuring subsidiary, Ever Honest Industries Limited (the "Schemes") and (ii) the secured debt purchase (collectively the "Debt Restructuring"). The Investor shall make available an amount up to HK$485,600,000 for the implementation of the Debt Restructuring.

On 18 July 2014, the Court of First Instance of the Hong Kong Court sanctioned, among other things, the entering into the restructuring deed between the Company, the Provisional Liquidators and the Investor.

### Winding-up of non-viable distribution subsidiaries

The Distribution Business came to a halt since May 2013. Kith Electronics Limited ("KEL") and Kith Resources Limited ("KRL"), wholly-owned subsidiaries of the Company, had ceased operation in May 2013 and cannot by reason of its liabilities and continue its business. Accordingly, on 20 August 2014, at the respective shareholder's meeting, a special resolution was duly passed to wind up KEL and KRL respectively by way of a creditors' voluntary liquidation. At the respective creditors' meeting of KEL and KRL duly held on the same date, Messrs. Lai Kar Yan (Derek) and Mr. Darach E. Haughey were appointed as the joint and several liquidators of KEL and KRL.

Following the commencement of the winding-up, the financial results and position of KEL and KRL will be deconsolidated from those of the Group.

### Debt restructuring by way of 2 creditors' scheme of arrangement

On 16 September 2014 and 18 September 2014, the Hong Kong Court and the Bermuda Court respectively directed that a meeting be convened for the creditors of the Company for the purpose of considering and, if thought fit, approving the scheme of arrangement proposed to be made between the Company and its creditors.

On 16 September 2014, the Hong Kong Court directed that a meeting be convened for the creditors of Ever Honest Industries Limited for the purpose of considering and, if thought fit, approving the scheme of arrangement proposed to be made between Ever Honest Industries Limited and its creditors.

At the respective meetings of the creditors of the Company and Ever Honest Industries Limited held on 7 November 2014, the resolutions to approve the Schemes were duly passed pursuant to Section 670, 671, 673 and 674 of the Companies Ordinance (Chapter 622 of the laws of Hong Kong) and Section 99 of the Companies Act 1981 of Bermuda (where applicable).

On 11 December 2014, the scheme of arrangement between the Company and its creditors was sanctioned by the Bermuda Court. The hearing to sanction the Schemes by the Hong Kong Court shall be held on 27 January 2015.

## RESTRUCTURING OF THE GROUP (CONTINUED)

### Debt restructuring by way of 2 creditors' scheme of arrangement (Continued)

Upon the completion of the Debt Restructuring, all the claims against, and liabilities of, the Company and Ever Honest Industries Limited will be assigned to a special purpose vehicle and such special purpose vehicle will be transferred to the Investor upon the completion of the Debt Restructuring.

### Proposed open offer

The Company proposes to raise approximately HK$90,200,000, before expenses, by way of open offer of 130,726,800 shares at the subscription price of HK$0.69 per offer share on the basis of one offer share for every two existing shares held on the date for determining the entitlements to the open offer.

On 11 September 2014, the Company, the Investor and Select Investment Services Limited ("Select Investment") entered into an underwriting agreement where the Investor and Select Investment agreed to underwrite up to a certain number of the underwritten shares in relation to the proposed open offer.

On 30 December 2014, the Company has entered into a deed of termination with the Investor and Select Investment to terminate the underwriting agreement dated 11 September 2014. Pursuant to the deed of termination, the Company, the Investor and Select Investment irrevocably and unconditionally agreed that on and with effect from 30 December 2014, the underwriting agreement shall terminate and cease to have effect. Each party to the deed of termination releases and discharges the other party from all its obligations, duties and liabilities under the underwriting agreement and from all actions, proceedings, claims, demands, damages, costs and expenses arising from such obligations, duties and liabilities.

A new underwriting agreement was duly executed by the Company, the Investor and Guoyuan Securities Brokerage (Hong Kong) Limited ("Guoyuan") on the same day. Other than Select Investment was replaced by Guoyuan, all terms and conditions under the new underwriting agreement remain the same as the underwriting agreement dated 11 September 2014.

### Prospects

The Company's shares are listed on the Stock Exchange and the trading in shares of the Company has been suspended since 18 December 2013. By a letter dated 18 February 2014 issued by the Stock Exchange to the Provisional Liquidators, the Stock Exchange informed the Provisional Liquidators that the Stock Exchange has placed the Company in the first stage of the delisting procedures pursuant to Practice Note 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and that the Company was required to submit a viable resumption proposal by 17 August 2014 to address the following resumption conditions:

- Demonstrate the Company's compliance with Rule 13.24 of the Listing Rules;
- Publish all outstanding inside information, including the writ of summons issued in the Hong Kong Court against the Company for a repossession order of the Company's office; and

## RESTRUCTURING OF THE GROUP (CONTINUED)

### Prospects (Continued)

- Have the winding up petition against the Company being withdrawn or dismissed and the Provisional Liquidators being discharged.

and that the Company has demonstrated that it has a business of substance and the business model is viable and sustainable.

At the request of the listing division of the Stock Exchange, the Provisional Liquidators, on behalf of the Company, submitted a resumption proposal dated 4 August 2014 (the "Proposal").

Following their submission, the Provisional Liquidators and the Company received various queries and verbal comments from the Stock Exchange in relation to the Proposal and the Company's financial forecasts. The Provisional Liquidators and the Company responded to the queries and verbal comments from the Stock Exchange and included various information in support of the Company's application for resumption of trading in the shares of the Company.

By a letter dated 29 October 2014, the Stock Exchange informed the Provisional Liquidators that the Stock Exchange has decided to allow the Company to proceed with the Proposal and the subsequent submissions, subject to satisfying the following conditions by 31 March 2015:

1) Completion of the transactions under the Proposal;

2) Inclusion in an announcement or open offer prospectus:

   (a) a profit forecast for the two years ending 31 December 2015 and the period ending 30 June 2016 together with reports from the auditors and the financial adviser under Rules 14.62(2) and (3)

   (b) a pro forma balance sheet upon completion of the Proposal; and

   (c) a statement from the directors (including the proposed directors) confirming working capital sufficiency for at least 12 months from trading resumption and a comfort letter from the auditors on the directors' statement.

3) Withdrawal or dismissal of the winding up petition and discharge of the provisional liquidators; and

4) Publication of all outstanding financial results with any major audit qualifications properly addressed.

The Company should also comply with the Listing Rules. The Stock Exchange may modify the above resumption conditions if the Company's situation changes.

## EMPLOYMENT

As at 31 December 2013, the Group had approximately 1,000 employees (2012: approximately 1,000), most of whom were working in the Company's subsidiaries in the PRC. During the year under review, the total employees' costs including Directors' remuneration were approximately HK$121,304,000 (2012: HK$122,623,000). Salaries and wages are reviewed on an annual basis based on performance and other relevant factors.

## CHARGES ON GROUP'S ASSETS

Details of the charges on the Group's assets are set out in note 18 to the financial statements.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements during the financial year under review in the property, plant and equipment of the Group is set out in note 18 to the consolidated financial statements.

## SUFFICIENCY OF PUBLIC FLOAT

Up to the date of this annual report, the trading in the shares of the Company remains in suspension, the sufficiency of public float as required by the Listing Rules is not applicable.

## REVIEW BY THE AUDIT COMMITTEE

By the time the financial statements for the year ended 31 December 2013 of the Group were prepared, no audit committee had been established in accordance with Rule 3.21 of the Listing Rules. Since the audit committee has yet to be established, the annual report for the financial year ended 31 December 2013 has not been reviewed by audit committee.

## SHARE CAPITAL

Movement in share capital of the Company is set out in note 31 to the financial statements.

## MATERIAL RELATED PARTY TRANSACTIONS

Details of the related party transactions are set out in note 38 to the consolidated financial statements.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2013.

## CONTINGENT LIABILITIES

The Directors were not aware of any significant contingent liabilities of the Group at the date of statement of financial position.

## COMMITMENTS

Details of the commitments of the Group are set out in the note 36 and 37 to the consolidated financial statements.

## MAJOR CUSTOMERS AND SUPPLIERS

Sales to the five largest customers of the Group accounted for approximately 69% of the Group's total turnover for the year. In particular, sales to the largest customer of the group accounted for approximately 32% of the Group's total turnover for the year.

Purchases from the five largest suppliers of the Group accounted for approximately 29% of the Group's total purchases for the year. In particular, purchases from the Group's largest supplier accounted for approximately 13% of the Group's total purchases for the year.

As far as the directors are aware, neither the directors nor any of their associates nor any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interests in any of the Group's five largest customers or five largest suppliers.

# DIRECTORS' REPORT

## DIRECTORS

The Directors during the year and up to the date of this report were:

***Executive Director***
Mr. Zhou Jin
Mr. Tao Fei Hu (appointed on 6 August 2013)
Mr. Wang Feng Wu
Ms. Cheng Hung Mui (appointed on 27 June 2014)
Mr. Zhang Xiaofeng (appointed on 27 June 2014)
Mr. Liu Qingchang (appointed on 27 June 2014)
Mr. Wei Ren (appointed on 27 June 2014)
Mr. Liu Shihong (appointed on 27 June 2014)
Mr. Hui King Chun, Andrew (removed on 27 June 2014)
Mr. Hui Bin Long (removed on 27 June 2014)
Mr. Yau Chau Min, Paul (resigned on 31 July 2013)

***Non-executive Director***
Mr. Gou Min (appointed on 27 June 2014)
Ms. Connie Xiaohua Zhang (appointed on 27 June 2014)
Mr. Liu Kam Lung (retired on 17 June 2013)

***Independent Non-executive Director***
Mr. Ho Chun Chung, Patrick (appointed on 27 June 2014)
Mr. Lai Canhui (appointed on 27 June 2014 and resigned on 31 July 2014)
Mr. Ho Lok Cheong (resigned on 16 September 2013)
Mr. Ng Chi Yeung, Simon (resigned on 1 July 2014)
Mr. Tam Yuk Sang, Sammy (resigned on 1 July 2014)

As at the date of this Annual Report, the number of Independent Non-executive Directors falls below the minimum number required under Rules 3.10(1) and 3.10A of the Listing Rules.

## DIRECTOR'S SERVICE CONTRACTS

No Director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensations).

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December, 2013, the interests of the directors and their associates in the shares, underlying shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("**SFO**"), or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("**Model Code**") contained in the Listing Rules, were as follows:

| Name of director | Capacity | Number of issued ordinary shares held | Percentage of the issued share capital of the Company |
|---|---|---|---|
| Hui King Chun, Andrew | Held by trust | 30,000,000 *(Note 1)* | 11.47% |

*Note 1:* These shares are registered in the name of Accufit Investments Inc., which is 100% owned by Basab Inc. as trustee of the Basab Unit Trust which is a unit trust owned by Safeguard Trustee Limited as trustee of a discretionary trust, the beneficiaries of which are the family members of Hui King Chun. Hui Ngai Hing Abbie is the sole shareholder and director of Basab Inc.

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the date of this Annual Report, none of the directors of the Company and directors of the Company's subsidiaries, or their respective associates had interests in businesses, other than being a director of the Company and/or its subsidiaries and their respective associates, which compete or are likely to compete either directly or indirectly, with the businesses of the Group as required to be disclosed pursuant to the Listing Rules.

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN THE SHARES

As at 31 December 2013, the following shareholders (other than the Directors or chief executives of the Company whose interests and short positions in the shares, underlying shares and debentures of the Company are disclosed in the section headed "Directors' interests and short positions in the shares" above) had interests in the shares, underlying shares and debentures of the Company which were recorded in the register to be kept by the Company under section 336 of the SFO:

| Name | Capacity | Number of shares | Approximate % of the Company's issued share capital |
|---|---|---|---|
| Cheng Hung Mui | Interest of controlled corporation | 131,000,000 *(Note 2)* | 50.10% |
| Double Key International Limited | Beneficial owner | 131,000,000 *(Note 2)* | 50.10% |
| Basab Inc. | Trustee | 30,000,000 *(Note 3)* | 11.47% |
| Chen Lihua | Person having a security interest in shares | 30,000,000 *(Note 1)* | 11.47% |
| Hui Ngai Hing Abbie | Interest of controlled corporation | 30,000,000 *(Note 3)* | 11.47% |
| Safeguard Trustee Limited | Trustee | 30,000,000 *(Note 3)* | 11.47% |
| Superb Glory Holdings Limited | Person having a security interest in shares | 30,000,000 *(Note 1)* | 11.47% |

*Note 1:* These shares are registered in the name of Accufit Investments Inc., and are subject to a share charge in favour of Superb Glory Holdings Limited. Superb Glory Holdings Limited is 100% owned by Chen Lihua.

*Note 2:* The shares are held by Double Key International Limited in which Cheng Hung Mui owns 100% shareholding interest.

*Note 3:* These shares are registered in the name of Accufit Investments Inc., which is 100% owned by Basab Inc. as trustee of the Basab Unit Trust which is a unit trust owned by Safeguard Trustee Limited as trustee of a discretionary trust, the beneficiaries of which are the family members of Hui King Chun. Hui Ngai Hing Abbie is the sole shareholder and director of Basab Inc.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Other than as disclosed in the section headed "Share Capital" in this report, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable any directors of the Company (including their spouses or children under 18 years of age) to have any right to subscribe for securities of the Company or any of its associated corporations as defined in the SFO or to acquire benefits by means of acquisition of shares in, or debentures of the Company or any other body corporate.

## DIRECTORS' INTERESTS IN CONTRACTS

As at the end of the year or at any time during the year, there was no contract of significance in relation to the Company's business, to which the Company or any of its subsidiaries was a party, subsisted, and in which a Director had, whether directly or indirectly, a material interest.

## RESERVES

Details of the movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity and note 32 to the financial statements.

## SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2013 are set out in note 39 to the financial statements.

## EVENTS AFTER THE REPORTING PERIOD

Details of the events after the reporting period of the Group are set out in note 40 to the consolidated financial statements.

## NON-COMPLIANCE WITH RULES 3.10 AND 3.21 OF THE LISTING RULES

As at the date of this Annual Report, the Company has only one Independent Non-executive Director. The Company has identified suitable candidates for appointment of sufficient number of Independent Non-executive Directors and reconstitution of the audit committee in order to meet the requirements under Rules 3.10(1), 3.10A and 3.21 of the Listing Rules. Such suitable candidates will be nominated before resumption of the trading in shares of the Company.

## CODE ON CORPORATE GOVERNANCE PRACTICES

Since the Provisional Liquidators of the Company have been appointed, the resignation of the company secretary, the changes of directors and no audit committee, nomination committee and remuneration committee are established owing to the current insufficient number of independent non-executive directors, the Company has not complied with the code provisions on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Arrangements will be made to comply with the code provisions on Corporate Governance Practices before the resumption of the trading in shares of the Company.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "**Model Code**"). All existing directors confirmed that they have fully complied with the required standard set out in the Model Code. But the Board makes no representations as to whether the other than Directors had complied with the required standards set out in the Model Code throughout the year ended 31 December 2013.

## AUDITOR

Messrs Graham H.Y. Chan & Co., the auditors of the Company for the year ended 31 December 2012, resigned with effect from 10 July 2014. Messrs ZHONGHUI ANDA CPA Limited was appointed as auditors of the Company on 27 August 2014. The accompanying consolidated financial statements have been audited by ZHONGHUI ANDA CPA Limited, who will retire at the forthcoming annual general meeting and a resolution for their re-appointment as the auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board
**Kith Holdings Limited**
**(Provisional Liquidators appointed)**

**Zhang Xiaofeng**
*Director*
Hong Kong, 9 January 2015

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

## EXECUTIVE DIRECTORS

**Mr. Zhou Jin**

Mr. Zhou Jin, aged 55, was one of the founding members of Yunnan Qiaotong. He is currently the vice chairman of Yunnan Qiaotong, and is responsible for investment management and setting up of new production facilities and branches. Mr. Zhou is a senior economist in the PRC and graduated from the Chinese Academy of Social Sciences with a master degree in Commerce and Economics. Prior to joining the Group in March 1993, he was engaged in academic and research activities with a school and a governmental bureau respectively in Yunnan Province of the PRC.

**Mr. Tao Fei Hu**

Mr. Tao Fei Hu, aged 61, is the general manager of Anhui Qiaofeng, a subsidiary of the Company engaged in the business of printing and manufacturing of packaging products in the PRC. Prior to his appointment with Anhui Qiaofeng in January 2010, he was the deputy general manager and a founding member of Yunnan Qiaotong, a PRC subsidiary of the Company which also engages in the business of printing and manufacturing of packaging products. Mr. Tao has over 38 years of working experience in production and marketing management in the PRC.

**Mr. Wang Feng Wu**

Mr. Wang Feng Wu, aged 59, is the general manager and a founding member of Harbin Gaomei Printing Co., Ltd. and is responsible for its overall management. He is an economist in the PRC and a graduate of the Beijing Institute of Graphic Communication in the PRC. Mr. Wang joined the Group in March 1993. He had over 40 years of experience in production and management in the PRC's printing industry.

**Ms. Cheng Hung Mui**

Ms. Cheng Hung Mui, aged 44, is a Hong Kong resident and an individual investor. Save for her beneficial interest in Double Key and position as director of Double Key, Ms. Cheng did not hold any other position with, or interest in, any other company. Ms. Cheng had served as director of PNF Food Holdings Limited (currently known as Sino Oil and Gas Holdings Ltd., the shares of which are listed on the main board of the Stock Exchange (stock code: 702)).

**Mr. Zhang Xiaofeng**

Mr. Zhang Xiaofeng, aged 43, is a PRC national and currently is a director of Double Key. Save for his interest in a private company, his position as director and interest in a private company and his position as director of Double Key, Mr. Zhang did not hold any other position with, or interest in, any other company. Mr. Zhang has over ten years of experience in securities investment. Mr. Zhang was the legal representative of 新疆玖隆投資有限公司 (translated as Xinjiang Jiu Long Investment Company Limited), a company incorporated in the PRC with limited liability in 2006 and the then business scope covered infrastructure investment, mining, investment and development in forestry, agriculture and animal husbandry, and sales of, amongst others, chemical products, housewares and stationary. Mr. Zhang graduated from the Graduate School of Chinese Academy of Social Sciences (中國社會科學院研究生院) in November 1998.

**Mr. Liu Qingchang**

Mr. Liu Qingchang, aged 46, is a PRC national and obtained a master degree in Economics from the Shenzhen University in 2003. Mr. Liu served senior positions in China GrenTech Corporation Limited (a company once listed in NASDAQ and subsequently delisted) and Shenzhen Powercom Company Limited.

**Mr. Wei Ren**

Mr. Wei Ren, aged 39, is a PRC national and obtained a bachelor degree in International Economics from the Peking University in 1997. Mr. Wei was the chief financial officer of 深圳市容州產業投資有限公司 (translated as Shenzhen Rongzhou Industrial Investment Company) from 2012 to 2013.

**Mr. Liu Shihong**

Mr. Liu Shihong, aged 42, is a PRC national. Mr. Liu Shihong graduated from the Nanjing University of Science and Technology in 1995 and served as the chief marketing officer in China Public Procurement Ltd. (the shares of which are listed on the main board of the Stock Exchange (stock code: 1094)) from 2009 to 2011.

## NON-EXECUTIVE DIRECTORS

**Mr. Gou Min**

Mr. Guo Min, aged 43, is a PRC national and obtained a bachelor degree in Law from the Southwest University of Political Science and Law in 1995. Mr. Guo is currently the legal adviser of 成都吉創電子有限公司 (translated as Chengdu Ji Chuang Electronics Company Limited).

**Ms. Connie Xiaohua Zhang**

Ms. Connie Xiaohua Zhang, aged 40, is a national of United States of America. Ms. Zhang obtained a master degree in Business Administration from the Harvard University in 2002 and graduated from the Beijing University for undergraduate studies in International Economics in 1997. Ms. Zhang is the founder and president of Riley Creek Advisors, LLC, a private consulting company which helps green technology companies to market and sell their technologies and products to the PRC.

## INDEPENDENT NON-EXECUTIVE DIRECTOR

**Mr. Ho Chun Chung, Patrick**

Mr. Ho Chun Chung, Patrick, aged 50, is a Hong Kong resident. Mr. Ho is a certified public accountant and an associate member of the Hong Kong Society of Accountants and the Chartered Association of Certified Accountants. Mr. Ho obtained from the City University of Hong Kong a master degree in Finance in 1996 and a postgraduate diploma in banking and finance in 1992. Mr. Ho served as the financial controller for Gold Peak Industries (Holdings) Ltd. (the shares of which are listed on the main board of the Stock Exchange (stock code: 40)) in 1999 and Chen Hsong Holdings Limited (the shares of which are listed on the main board of the Stock Exchange (stock code: 57)) from 2002 to 2005.

## SENIOR MANAGEMENT

**Mr. Zhang Jing**
Mr. Zhang Jing, aged 55, has been employed by Yunnan Qiaotong since its inception and is currently the general manager. He is responsible for the overall management of Yunnan Qiaotong. Mr. Zhang graduated from the People's University of China with a master degree in Business Administration.

**Mr. Wen Jie**
Mr. Wen Jie, aged 52, has been employed by Yunnan Qiaotong since its inception and is currently its deputy general manager. He is responsible for the product design and technique development of Yunnan Qiaotong. Mr. Wen holds a bachelor degree of Science from the University of Yunnan in the PRC.

**Mr. Jiang Fei**
Mr. Jiang Fei, aged 53, has been employed by Yunnan Qiaotong since its inception and is currently its deputy general manager. He is responsible for the management of production and workmanship of Yunnan Qiaotong. Mr. Jiang is an engineer in the PRC and holds a bachelor degree from the Kumming Industrial University of China.

**Mr. Zhang Nan Zheng**
Mr. Zhang Nan Zheng, aged 52, has been employed by Yunnan Qiaotong since its inception and is currently its deputy general manager. He is responsible for the administration and management of procurement of Yunnan Qiaotong. Mr. Zhang has had over 15 years of procurement experience in the printing industry.

**Mr. Chen Tong Kun**
Mr. Chen Tong Kun, aged 50, was employed by Yunnan Qiaotong and has been transferred to Anhui Qiaofeng since its inception as the deputy general manager for production management of the operation. Mr. Chen is a graduate of the Beijing Institute of Graphic Communication in the PRC. He has had over 21 years of working experience in production technique management in the PRC's printing industry.

**Mr. Huang Li San**
Mr. Huang Li San, aged 48, has been employed by Anhui Qiaofeng since its inception, and is currently its deputy general manager and is responsible for the sales and marketing activities. Mr. Huang is an art designer and has had over 26 years of experience in the PRC's printing industry.

**Mr. Li Li Bin**
Mr. Li Li Bin, aged 50, has been employed by Anhui Qiaofeng since its inception and is currently its deputy general manager and is responsible for management of production facilities. Mr. Li has had over 24 years of experience in the PRC's printing industry.

## CONFIRMATION OF INDEPENDENCE

Pursuant to Rule 3.13 of the Listing Rules, the Independent Non-executive Director has confirmed with the Company in writing his independence from the Company in accordance with the relevant guidelines. The Company therefore considers that the Independent Non-executive Director to be independent.

**On behalf of the Board**
**Kith Holdings Limited**
**(Provisional Liquidators Appointed)**

**Zhang Xiaofeng**
*Director*
Hong Kong, 9 January 2015

中汇
ZHONGHUI

**TO THE SHAREHOLDERS OF KITH HOLDINGS LIMITED**
(PROVISIONAL LIQUIDATORS APPOINTED)
*(Incorporated in Bermuda with limited liability)*

We were engaged to audit the consolidated financial statements of Kith Holdings Limited (provisional liquidators appointed) (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 24 to 92, which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company (the "Directors") are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with the Companies Act of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Except for the inability to obtain sufficient appropriate audit evidence as explained below, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. Because of the matters as described in the basis for disclaimer of opinion paragraphs, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

## BASIS FOR DISCLAIMER OF OPINION

### 1. Opening inventories

We were initially appointed as auditor subsequent to the end of the reporting period of 31 December 2013. In consequence we were unable to attend the physical count of the Group's inventories as at 31 December 2013 and 2012. Due to the insufficiency of certain aged manual stock quantity movement record for two subsidiaries of the Company, there were no other satisfactory alternative audit procedures that we could adopt to satisfy ourselves as to the existence, quantities and conditions of those related inventories of approximately HK$4,680,000 for those two subsidiaries included in the Group's consolidated statement of financial position as at 31 December 2012.

### 2. Limited accounting books and records of discontinued operations

The consolidated financial statements have been prepared based on the accounting books and records maintained by the Group. However, due to the cessation of the Group's distribution of television business-related products and distribution of other electronic and related products during the year and the changes of management and directors subsequent to the end of the reporting period, the new Directors were unable to locate the complete set of accounting books and records in respect of certain of the Company's wholly-owned subsidiaries in relation to the Group's discontinued operations (collectively "these Subsidiaries") for the year ended 31 December 2013 and 2012.

Due to the insufficiency of supporting documentation and explanations, we were unable to carry out audit procedures to satisfy ourselves as to whether the following income and expenses for the year ended 31 December 2013 and 2012 and the assets and liabilities as at that dates, and the related disclosure notes in relation to these Subsidiaries, as included in the consolidated financial statements of the Group, have been accurately recorded and properly accounted for in the consolidated financial statements:

| | **Year ended 31 December** | |
|---|---|---|
| | **2013** | 2012 |
| | ***HK$'000*** | *HK$'000* |
| **Income and expenses** | | |
| Revenue | **244,565** | 1,266,214 |
| Cost of goods sold | **(239,471)** | (1,216,904) |
| Gross profit | **5,094** | 49,310 |
| Other income | **2,184** | 10,844 |
| Distribution and selling costs | **(3,046)** | (3,678) |
| Administrative expenses | **(16,183)** | (21,249) |
| Impairment loss on trade receivables | **(592,449)** | (17,255) |
| Finance costs | **(10,230)** | (14,989) |
| Gain recognised on deemed disposal of interest in a subsidiary | **–** | 37,169 |
| (Loss)/profit before tax | **(614,630)** | 40,152 |
| Income tax | **(12)** | (2,933) |
| | **(614,642)** | 37,219 |

| | As at 31 December | |
|---|---|---|
| | **2013** | 2012 |
| | ***HK$'000*** | *HK$'000* |
| **Assets and liabilities** | | |
| Deferred tax assets | **–** | 130 |
| Inventories | **–** | 8,928 |
| Trade and other receivables, deposits and prepayments | **7** | 560,358 |
| Cash balances | **323** | 323 |
| Trade and other payables | **(83,022)** | (61,800) |
| Tax payables | **(1,575)** | (1,577) |
| | **(84,267)** | 506,362 |

We were also unable to obtain sufficient reliable evidence to satisfy ourselves as to whether the Group have any significant contingent liabilities and commitments as at 31 December 2013 and 2012 in respect of these Subsidiaries that need to be adjusted for or disclosed in the consolidated financial statements.

Any adjustments that are found necessary in relation to matters as described in points 1 and 2 above might have a significant consequential effect on the Group's results and cash flows for the two years ended 31 December 2013 and 2012 and the financial positions of the Group as at 31 December 2013 and 2012, and the related disclosures thereof in the consolidated financial statements.

## MATERIAL UNCERTAINTY RELATING TO THE GOING CONCERN BASIS

In forming our opinion, we have considered the adequacy of the disclosures made in note 2 to the consolidated financial statements which explains that the Investor has decided to pursue a restructuring of the Company.

The consolidated financial statements have been prepared on a going concern basis on the assumption that the proposed restructuring of the Company will be successfully completed and that, following the restructuring, the Group will continue to meet in full its financial obligations as they fall due in the foreseeable future. The consolidated financial statements do not include any adjustments that would result from a failure to complete the restructuring. We consider that the disclosures are adequate. However, in view of the extent of the material uncertainty relating to the completion of the restructuring, we disclaim our opinion in respect of the material uncertainty relating to the going concern basis.

## DISCLAIMER OPINION

Because of the significance of the matters as described in the basis for disclaimer of opinion paragraphs, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the consolidated financial statements. In all other respects, in our opinion, the consolidated financial statements have been properly prepared in accordance with the disclosure requirement of Hong Kong Companies Ordinance.

**ZHONGHUI ANDA CPA Limited**
*Certified Public Accountants*
**Pang Hon Chung**
Practising Certificate Number P05988
Hong Kong, 9 January 2015

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*FOR THE YEAR ENDED 31 DECEMBER 2013*

| | Notes | 2013 HK$'000 | 2012 HK$'000 (Restated) |
|---|---|---|---|
| **Continuing operation** | | | |
| Revenue | 8 | **737,281** | 761,625 |
| Cost of sales | | **(502,166)** | (527,074) |
| Gross profit | | **235,115** | 234,551 |
| Other income | 9 | **13,506** | 6,489 |
| Distribution and selling expenses | | **(3,528)** | (4,740) |
| Administrative expenses | | **(154,969)** | (125,559) |
| **Profit from operation** | | **90,124** | 110,741 |
| Impairment loss on various assets | 14 | **(34,184)** | (3,301) |
| Fair value loss on held-for-trading investments | | **(351)** | (383) |
| Fair value gain on other financial assets | | **–** | 2,387 |
| Impairment loss on available-for-sale investments | | **(2,635)** | (440) |
| Share of loss of an associate | | **(364)** | (6,714) |
| Loss on disposal of an associate | 20 | **(44,413)** | – |
| **Profit from operation** | | **8,177** | 102,290 |
| Finance costs | 11 | **(20,524)** | (10,337) |
| **(Loss)/profit before tax** | | **(12,347)** | 91,953 |
| Income tax | 12 | **(19,987)** | (32,192) |
| (Loss)/profit for the year from continuing operation | | **(32,334)** | 59,761 |
| **Discontinued operations** | | | |
| (Loss)/profit for the year from discontinued operations | 13 | **(614,642)** | 37,219 |
| **(Loss)/profit for the year** | 14 | **(646,976)** | 96,980 |
| **Other comprehensive (loss)/income:** | | | |
| *Items that may be reclassified to profit or loss:* | | | |
| Exchange differences on translating foreign operations | | **19,439** | 8,512 |
| Fair value changes on available-for-sale investments | | **(1,718)** | 1,718 |
| | | **17,721** | 10,230 |
| *Items that will not be reclassified to profit or loss:* | | | |
| Deficit arising on revaluation of property, plant and equipment | | **(19,742)** | – |
| Deferred tax effect arising on revaluation of property, plant and equipment | | **4,146** | – |

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*FOR THE YEAR ENDED 31 DECEMBER 2013*

| | Notes | 2013<br>HK$'000 | 2012<br>HK$'000<br>(Restated) |
|---|---|---|---|
| **Total other comprehensive income for the year, net of tax** | | **2,125** | 10,230 |
| **Total comprehensive (loss)/income for the year** | | **(644,851)** | 107,210 |
| **(Loss)/profit for the year attributable to:** | | | |
| Owners of the Company | | | |
| From continuing operation | | **(61,449)** | 18,146 |
| From discontinued operations | | **(614,642)** | 37,219 |
| (Loss)/profit attributable to owners of the Company | | **(676,091)** | 55,365 |
| Non-controlling interests | | | |
| From continuing operation | | **29,115** | 41,615 |
| | | **(646,976)** | 96,980 |
| **Total comprehensive (loss)/income for the year attributable to:** | | | |
| Owners of the Company | | **(676,809)** | 62,112 |
| Non-controlling interests | | **31,958** | 45,098 |
| | | **(644,851)** | 107,210 |
| **(Loss)/earnings per share** | *17* | | |
| *Basic and diluted (cents per share)* | | | |
| From continuing operation | | **(23.50)** | 6.94 |
| From discontinued operations | | **(235.09)** | 14.24 |
| From continuing and discontinued operations | | **(258.59)** | 21.18 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*AT 31 DECEMBER 2013*

| | *Notes* | **2013** **HK$'000** | 2012 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | *18* | **601,066** | 590,230 |
| Prepaid land lease payments | *19* | **42,236** | 17,431 |
| Interest in an associate | *20* | **–** | 55,701 |
| Deposit paid for acquisition of properties under development | | **–** | 25,636 |
| Deposits paid for acquisition of property, plant and equipment | | **1,539** | 37,141 |
| Available-for-sale investments | *21* | **18,440** | 22,461 |
| Deferred tax assets | | **–** | 130 |
| | | **663,281** | 748,730 |
| **Current assets** | | | |
| Inventories | *22* | **136,498** | 162,780 |
| Trade and other receivables, deposits and prepayments | *23* | **258,417** | 797,085 |
| Current tax assets | | **–** | 277 |
| Prepaid land lease payments | *19* | **613** | 613 |
| Short-term loans receivable | *24* | **811** | 51,533 |
| Held-for-trading investments | *25* | **443** | 796 |
| Pledged bank deposit | | **–** | 1,009 |
| Bank and cash balances | *26* | **56,758** | 57,044 |
| | | **453,540** | 1,071,137 |
| **Current liabilities** | | | |
| Trade and other payables | *27* | **239,219** | 199,006 |
| Tax payables | | **4,836** | 13,153 |
| Dividend payable to non-controlling shareholders | | **42,076** | 15,058 |
| Borrowings | *28* | **517,292** | 548,037 |
| Obligations under finance leases | *29* | **16** | 375 |
| | | **803,439** | 775,629 |
| **Net current (liabilities)/assets** | | **(349,899)** | 295,508 |
| **Total assets less current liabilities** | | **313,382** | 1,044,238 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*AT 31 DECEMBER 2013*

| | Notes | 2013 HK$'000 | 2012 HK$'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Obligations under finance leases | 29 | – | 16 |
| Deferred tax liabilities | 30 | **42,368** | 47,503 |
| | | **42,368** | 47,519 |
| **NET ASSETS** | | **271,014** | 996,719 |
| **Capital and reserves** | | | |
| Share capital | 31 | **26,145** | 26,145 |
| Reserves | 32(a) | **(78,848)** | 597,731 |
| Equity attributable to owners of the Company | | **(52,703)** | 623,876 |
| Non-controlling interests | | **323,717** | 372,843 |
| **TOTAL EQUITY** | | **271,014** | 996,719 |

The consolidated financial statements on pages 24 to 92 were approved and authorised for issue by the board of directors on 9 January 2015 and are signed on its behalf by:

Approved by:

**Zhang Xiaoteng**
*Director*

**Ho Chun Chung, Patrick**
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*FOR THE YEAR ENDED 31 DECEMBER 2013*

| | Attributable to owners of the Company | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 | Capital redemption reserve HK$'000 | Share premium HK$'000 | Asset revaluation reserve HK$'000 | Enterprise expansion fund HK$'000 | Reserve fund HK$'000 | Other reserve HK$'000 | Capital reserve HK$'000 | Foreign currency translation reserve HK$'000 | Investment revaluation reserve HK$'000 | Retained profits/ (Accumulated losses) HK$'000 | Total HK$'000 | Non-controlling interests HK$'000 | Total HK$'000 |
| At 1 January 2012 | 26,145 | 624 | 74,215 | 54,304 | 61,579 | 19,853 | 19,552 | (200) | 105,167 | – | 216,785 | 578,024 | 376,095 | 954,119 |
| Total comprehensive income for the year | – | – | – | – | – | – | – | – | 5,029 | 1,718 | 55,365 | 62,112 | 45,098 | 107,210 |
| Deemed disposal of interest in a subsidiary | – | – | – | (110) | – | – | – | – | – | – | 132 | 22 | (20,760) | (20,738) |
| Revaluation surplus released upon disposal of property, plant and equipment | – | – | – | (891) | – | – | – | – | – | – | 891 | – | – | – |
| Effect on change in tax rate | – | – | – | (467) | – | – | – | – | – | – | – | (467) | (392) | (859) |
| Reversal of deferred tax liability upon release of revaluation surplus | – | – | – | 134 | – | – | – | – | – | – | – | 134 | 91 | 225 |
| Dividends paid to non-controlling interest of subsidiaries | – | – | – | – | – | – | – | – | – | – | – | – | (27,289) | (27,289) |
| Dividends paid to the Company's shareholders | – | – | – | – | – | – | – | – | – | – | (15,949) | (15,949) | – | (15,949) |
| Transfer to reserve fund | – | – | – | – | – | 7,332 | – | – | – | – | (7,332) | – | – | – |
| Transfer to enterprise expansion reserve | – | – | – | – | 8,282 | – | – | – | – | – | (8,282) | – | – | – |
| Capitalisation of statutory reserve of a subsidiary | – | – | – | – | (46,083) | – | 59,591 | – | – | – | (13,508) | – | – | – |
| At 31 December 2012 | 26,145 | 624 | 74,215 | 52,970 | 23,778 | 27,185 | 79,143 | (200) | 110,196 | 1,718 | 228,102 | 623,876 | 372,843 | 996,719 |
| At 1 January 2013 | 26,145 | 624 | 74,215 | 52,970 | 23,778 | 27,185 | 79,143 | (200) | 110,196 | 1,718 | 228,102 | 623,876 | 372,843 | 996,719 |
| Total comprehensive loss for the year | – | – | – | (9,927) | – | – | – | – | 10,927 | (1,718) | (676,091) | (676,809) | 31,958 | (644,851) |
| Revaluation surplus released upon disposal of property, plant and equipment | – | – | – | (1,534) | – | – | – | – | – | – | 1,534 | – | – | – |
| Reversal of deferred tax liability upon release of revaluation surplus | – | – | – | 230 | – | – | – | – | – | – | – | 230 | 154 | 384 |
| Dividends paid to non-controlling interest of subsidiaries | – | – | – | – | – | – | – | – | – | – | – | – | (81,238) | (81,238) |
| Transfer to enterprise expansion reserve | – | – | – | – | 23,923 | – | – | – | – | – | (23,923) | – | – | – |
| Transfer to reserve fund | – | – | – | – | – | 2,831 | – | – | – | – | (2,831) | – | – | – |
| At 31 December 2013 | 26,145 | 624 | 74,215 | 41,739 | 47,701 | 30,016 | 79,143 | (200) | 121,123 | – | (473,209) | (52,703) | 323,717 | 271,014 |

# CONSOLIDATED STATEMENT OF CASH FLOWS

*FOR THE YEAR ENDED 31 DECEMBER 2013*

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Cash flows from operating activities** | | |
| (Loss)/profit before tax | | |
| From continuing operation | **(12,347)** | 91,953 |
| From discontinued operations | **(614,630)** | 40,152 |
| Adjustments for: | | |
| Finance costs | **30,754** | 25,326 |
| Interest income | **(423)** | (1,756) |
| Depreciation | **55,106** | 53,762 |
| Amortisation | **1,011** | 613 |
| Impairments loss on various assets | **626,633** | 20,556 |
| Impairment loss on available-for-sale investments | **2,635** | 440 |
| Fair value gain on other financial assets | **–** | (2,387) |
| Loss on disposal of property, plant and equipment | **–** | 3,490 |
| Loss on disposal of an associate | **44,413** | – |
| Share of loss of an associate | **364** | 6,714 |
| Gain on deemed disposal of interest in a subsidiary | **–** | (37,169) |
| Operating cash flows before working capital changes | **133,516** | 201,694 |
| Change in inventories | **27,021** | (20,184) |
| Change in trade and other receivables, deposits and prepayments | **(65,761)** | (54,960) |
| Change in loan receivables | **51,843** | 17,047 |
| Change in held-for-trading investments | **353** | 4,077 |
| Change in trade and other payables | **19,646** | (14,875) |
| Cash generated from operations | **166,618** | 132,799 |
| Interest received | **536** | 3,793 |
| Tax paid | **(29,864)** | (29,121) |
| **Net cash generated from operating activities** | **137,290** | 107,471 |
| **Cash flows from investing activities** | | |
| Purchase of property, plant and equipment | **(35,550)** | (28,234) |
| Deposits paid for acquisition of property, plant and equipment | **–** | (34,453) |
| Proceeds from other financial assets | **–** | 2,387 |
| Proceeds from disposal of property, plant and equipment | **723** | 856 |
| Proceeds from disposal of an associate | **10,924** | – |
| Cash outflow resulting from deemed disposal of interest in a subsidiary | **–** | (7,635) |
| Changes in pledged bank deposit | **1,009** | (1,009) |
| **Net cash used in investing activities** | **(22,894)** | (68,088) |

# CONSOLIDATED STATEMENT OF CASH FLOWS

*FOR THE YEAR ENDED 31 DECEMBER 2013*

| | 2013 | 2012 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| **Cash flows from financing activities** | | |
| New long-term bank loans raised | **–** | 21,600 |
| New other loans raised | **94,000** | 100,000 |
| Direct costs paid for new other loans raised | **(1,234)** | (1,950) |
| Net decrease in trust receipt loans | **(43,333)** | (33,564) |
| Net decrease in factoring loans | **(5,409)** | (5,355) |
| Net increase in short-term bank loans | **–** | 11,937 |
| Repayment of long-term bank loans | **(85,310)** | (99,128) |
| Repayment of other loans | **(10,234)** | (15,536) |
| Repayment of obligation under finance lease | **(359)** | (947) |
| Dividends paid to the Company's shareholders | **–** | (15,949) |
| Interest on bank and other loans paid | **(16,187)** | (18,817) |
| Interest on finance lease paid | **(29)** | (101) |
| Dividends paid to non-controlling shareholders of subsidiaries | **(54,220)** | (20,666) |
| **Net cash used in financing activities** | **(122,315)** | (78,476) |
| **Net decrease in cash and cash equivalents** | **(7,919)** | (39,093) |
| Cash and cash equivalents at beginning of year | **53,170** | 89,057 |
| Effect of changes in foreign exchange rate | **2,424** | 3,206 |
| **Cash and cash equivalents at end of year** | **47,675** | 53,170 |
| **Analysis of cash and cash equivalents** | | |
| Bank and cash balances | **56,758** | 57,044 |
| Bank overdrafts | **(9,083)** | (3,874) |
| | **47,675** | 53,170 |

## 1. GENERAL INFORMATION

Kith Holdings Limited (Provisional Liquidators Appointed) (the "Company") was incorporated in Bermuda as an exempted company with limited liability. The address of its registered office and principal place of business are Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and 35/F, One Pacific Place, 88 Queensway, Hong Kong respectively. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the trading in shares of the Company has been suspended since 18 December 2013.

The Company is an investment holding company. During the year, the Company and its subsidiaries (collectively "the Group") were principally engaged in (i) printing and manufacturing of packaging products (the "Packaging Printing Business") and (ii) distribution of television business-related products and distribution of other electronic and related products (the "Distribution Business"). The principal activities of the Company's subsidiaries are set out in note 39 to the consolidated financial statements.

## 2. BASIS OF PREPARATION

**Winding-up petition and appointment of Provisional Liquidators**

China CITIC Bank International Limited (formerly known as CITIC Bank International Limited) served on the Company (i) a petition at the High Court of Hong Kong (the "Hong Kong Court") for an order, amongst other things, to wind up the Company (the "Hong Kong Petition") on 14 January 2014; and (ii) a petition at the Supreme Court of Bermuda (the "Bermuda Court") for an order, amongst other things, to wind up (the "Bermuda Petition") and to appoint a provisional liquidator against the Company on 15 January 2014.

On 27 January 2014, Messrs Lai Kar Yan (Derek), Darach E. Haughey and Ho Kwok Leung, Glen have been appointed jointly and severally as provisional liquidators of the Company pursuant to an order made by the Bermuda Court (the "JPLs"). The hearing of the Bermuda Petition has been adjourned to 8 August 2014 (Bermuda time) and further adjourned to 20 February 2015 (Bermuda time).

On 5 March 2014, Messrs. Lai Kar Yan (Derek), Darach E. Haughey, Ho Kwok Leung, Glen and Yeung Lui Ming (Edmund) have been appointed jointly and severally as provisional liquidators of the Company pursuant to an order made by the Hong Kong Court (the "HKPLs") (the JPLs and HKPLs shall be collectively referred as the "Provisional Liquidators"). On 19 March 2014, the Hong Kong Court ordered, among other things, that the hearing of the Hong Kong Petition be adjourned to 20 August 2014. The Hong Kong Petition was subsequently adjourned to 4 March 2015.

## 2. BASIS OF PREPARATION (CONTINUED)

**Suspension of trading in the shares of the Company**

The Company's shares are listed on the Stock Exchange and the trading in shares of the Company has been suspended since 18 December 2013. By a letter dated 18 February 2014 issued by the Stock Exchange to the Provisional Liquidators, the Stock Exchange informed the Provisional Liquidators that the Stock Exchange has placed the Company in the first stage of the delisting procedures pursuant to Practice Note 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and that the Company was required to submit a viable resumption proposal by 17 August 2014 to address the following resumption conditions:

- Demonstrate the Company's compliance with Rule 13.24 of the Listing Rules;
- Publish all outstanding inside information, including the writ of summons issued in the Hong Kong Court against the Company for a repossession order of the Company's office; and
- Have the winding up petition against the Company being withdrawn or dismissed and the Provisional Liquidators being discharged.

and that the Company has demonstrated that it has a business of substance and the business model is viable and sustainable.

At the request of the listing division of the Stock Exchange, the Provisional Liquidators, on behalf of the Company, submitted a resumption proposal dated 4 August 2014 (the "Proposal").

Following their submission, the Provisional Liquidators and the Company received various queries and verbal comments from the Stock Exchange in relation to the Proposal and the Company's financial forecasts. The Provisional Liquidators and the Company responded to the queries and verbal comments from the Stock Exchange and included various information in support of the Company's application for resumption of trading in the shares of the Company.

By a letter dated 29 October 2014, the Stock Exchange informed the Provisional Liquidators that the Stock Exchange has decided to allow the Company to proceed with the Proposal and the subsequent submissions, subject to satisfying the following conditions by 31 March 2015:

1) Completion of the transactions under the Proposal;

## 2. BASIS OF PREPARATION (CONTINUED)

**Suspension of trading in the shares of the Company (Continued)**

2) Inclusion in an announcement or open offer prospectus:

   (a) a profit forecast for the two years ending 31 December 2015 and the period ending 30 June 2016 together with reports from the auditors and the financial adviser under Rules 14.62(2) and (3)

   (b) a pro forma balance sheet upon completion of the Proposal; and

   (c) a statement from the directors (including the proposed directors) confirming working capital sufficiency for at least 12 months from trading resumption and a comfort letter from the auditors on the directors' statement.

3) Withdrawal or dismissal of the winding up petition and discharge of the provisional liquidators; and

4) Publication of all outstanding financial results with any major audit qualifications properly addressed.

The Company should also comply with the Listing Rules. The Stock Exchange may modify the above resumption conditions if the Company's situation changes.

**Proposed restructuring of the Group**

After the Provisional Liquidators' appointment, the Provisional Liquidators formed the view that a restructuring of the Company, possibly with (some of) its subsidiaries, would likely result in better recovery for its creditors as compared to liquidation. The focus of any restructuring of the Group will be the settlement of its liabilities arising from the Distribution Business.

The Provisional Liquidators had therefore negotiated with various interested parties, including Double Key International Limited (the "Investor"), in relation to a restructuring of the Group ("the Restructuring").

On 28 April 2014, an exclusivity agreement was entered into between the Investor, the Company and the Provisional Liquidators of the Company pursuant to which the Company agrees to grant the Investor an exclusivity to negotiate and implement a restructuring of the indebtedness of the Group for a period commencing on the date of the exclusivity agreement and ending on the date falling 3 months after the date of the exclusivity agreement, unless extended by the parties in writing.

## 2. BASIS OF PREPARATION (CONTINUED)

**Proposed restructuring of the Group (Continued)**

On 23 May 2014, the Investor had received valid acceptances in respect of 25,830,204 shares of the Company under the offer set out in the offer document dated 25 April 2014, representing approximately 9.88% of the existing issued share capital of the Company. With the acquisition of 131,000,000 shares (representing approximately 50.1% of the existing issued share capital of the Company) held by Accufit Investments Inc. on 18 December 2013, the Investor owns a total of approximately 59.98% of the ordinary shares of the Company.

On 16 June 2014, the Company, the Provisional Liquidators and the Investor entered into the restructuring deed to implement the restructuring of the indebtedness of the Group which contemplates, among others, (i) the scheme of arrangement of the Company and the scheme of arrangement of the Company's restructuring subsidiary, Ever Honest Industries Limited (the "Schemes") and (ii) the secured debt purchase (collectively the "Debt Restructuring"). The Investor shall make available an amount up to HK$485,600,000 for the implementation of the Debt Restructuring.

On 18 July 2014, the Court of First Instance of the Hong Kong Court sanctioned, among other things, the entering into the restructuring deed between the Company, the Provisional Liquidators and the Investor.

**Winding-up of non-viable distribution subsidiaries**

The Distribution Business came to a halt since May 2013. Both Kith Electronics Limited ("KEL") and Kith Resources Limited ("KRL"), wholly-owned subsidiaries of the Company, had ceased operation in May 2013 and cannot continue its business by reason of its liabilities. Accordingly, on 20 August 2014, at the respective shareholder's meeting, a special resolution was duly passed to wind up KEL and KRL respectively by way of a creditors' voluntary liquidation. At the respective creditors' meeting of KEL and KRL duly held on the same date, Messrs. Lai Kar Yan (Derek) and Mr. Darach E. Haughey were appointed as the joint and several liquidators of KEL and KRL.

Following the commencement of the winding-up, the financial results of KEL and KRL will be deconsolidated from those of the Group.

**Debt restructuring by way of 2 creditors' scheme of arrangement**

On 16 September 2014 and 18 September 2014, the Hong Kong Court and the Bermuda Court respectively directed that a meeting be convened for the creditors of the Company for the purpose of considering and, if thought fit, approving the scheme of arrangement proposed to be made between the Company and its creditors.

## 2. BASIS OF PREPARATION (CONTINUED)

**Debt restructuring by way of 2 creditors' scheme of arrangement (Continued)**

On 16 September 2014, the Hong Kong Court directed that a meeting be convened for the creditors of Ever Honest Industries Limited for the purpose of considering and, if thought fit, approving the scheme of arrangement proposed to be made between Ever Honest Industries Limited and its creditors.

At the respective meetings of the creditors of the Company and Ever Honest Industries Limited held on 7 November 2014, the resolutions to approve the Schemes were duly passed pursuant to Section 670, 671, 673 and 674 of the Companies Ordinance (Chapter 622 of the laws of Hong Kong) and Section 99 of the Companies Act 1981 of Bermuda (where applicable).

On 11 December 2014, the scheme of arrangement between the Company and its creditors was sanctioned by the Bermuda Court. The hearing to sanction the Schemes by the Hong Kong Court shall be held on 27 January 2015.

Upon the completion of the Debt Restructuring, all the claims against, and liabilities of, the Company and Ever Honest Industries Limited will be assigned to a special purpose vehicle and such special purpose vehicle will be transferred to the Investor upon the completion of the Debt Restructuring.

**Proposed open offer**

The Company proposes to raise approximately HK$90,200,000, before expenses, by way of open offer of 130,726,800 shares at the subscription price of HK$0.69 per offer share on the basis of one offer share for every two existing shares held on the date for determining the entitlements to the open offer.

On 11 September 2014, the Company, the Investor and Select Investment Services Limited ("Select Investment") entered into an underwriting agreement where the Investor and Select Investment agreed to underwrite up to a certain number of the underwritten shares in relation to the proposed open offer.

On 30 December 2014, the Company has entered into a deed of termination with the Investor and Select Investment to terminate the underwriting agreement dated 11 September 2014. Pursuant to the deed of termination, the Company, the Investor and Select Investment irrevocably and unconditionally agreed that on and with effect from 30 December 2014, the underwriting agreement shall terminate and cease to have effect. Each party to the deed of termination releases and discharges the other party from all its obligations, duties and liabilities under the underwriting agreement and from all actions, proceedings, claims, demands, damages, costs and expenses arising from such obligations, duties and liabilities.

## 2. BASIS OF PREPARATION (CONTINUED)

**Proposed open offer (Continued)**

A new underwriting agreement was duly executed by the Company, the Investor and Guoyuan Securities Brokerage (Hong Kong) Limited ("Guoyuan") on the same day. Other than Select Investment was replaced by Guoyuan, all terms and conditions under the new underwriting agreement remain the same as the underwriting agreement dated 11 September 2014.

**Going concern**

The Group incurred a loss attributable to owners of the Company of approximately HK$676,091,000 for the year ended 31 December 2013 and as at 31 December 2013, the Group had net current liabilities of approximately HK$349,899,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

The consolidated financial statements have been prepared on a going concern basis on the assumption that the Debt Restructuring and the proposed open offer of the Company will be successfully completed, and that, following the completion of the Debt Restructuring and the proposed open offer, the Group will continue to meet in full its financial obligations as they fall due in the foreseeable future.

Should the Group be unable to achieve a successful restructuring and the open offer and to continue its business as a going concern, adjustments would have to be made to the consolidated financial statements to adjust the value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

## 3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are relevant to its operations and effective for its accounting year beginning on 1 January 2013. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current period and prior years.

The Group has not applied the new and revised HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of those new and revised HKFRSs but is not yet in a position to state whether these new and revised HKFRSs would have a material impact on its results of operations and financial position.

## 4. SIGNIFICANT ACCOUNTING POLICIES

**Statement of compliance**

These financial statements have been prepared in accordance with HKFRSs, accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Listing Rules and by the Hong Kong Companies Ordinance.

These financial statements have been prepared under the historical cost convention, except for property, plant and equipment and certain financial instruments, which are measured at revalued amounts or fair values, as explained in the accounting policies set out below.

The preparation of financial statements in conformity with HKFRSs requires the use of key assumptions and estimates. It also requires management to exercise its judgments in the process of applying the accounting policies. The areas involving critical judgments and areas where assumptions and estimates are significant to these financial statements are disclosed in note 5 to the financial statements.

The significant accounting policies applied in the preparation of these financial statements are set out below.

**Consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties, to determine whether it has control. A potential voting right is considered only if the holder has the practical ability to exercise that right.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill relating to that subsidiary and any related accumulated foreign currency translation reserve.

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Consolidation (Continued)

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated statement of profit or loss and other comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of the Company.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the Company and to the non-controlling shareholders even if this results in the non-controlling interests having a deficit balance.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

### Associates

Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of an entity but is not control or joint control over those policies. The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other entities, are considered when assessing whether the Group has significant influence. In assessing whether a potential voting right contributes to significant influence, the holder's intention and financial ability to exercise or convert that right is not considered.

Investment in an associate is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the associate in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of acquisition over the Group's share of the net fair value of the associate's identifiable assets and liabilities is recorded as goodwill. The goodwill is included in the carrying amount of the investment and is tested for impairment together with the investment at the end of each reporting period when there is objective evidence that the investment is impaired. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss.

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Associates (Continued)**

The Group's share of an associate's post-acquisition profits or losses is recognised in consolidated profit or loss, and its share of the post-acquisition movements in reserves is recognised in the consolidated reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

The gain or loss on the disposal of an associate that results in a loss of significant influence represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that associate and (ii) the Group's share of the net assets of that associate plus any remaining goodwill relating to that associate and any related accumulated foreign currency translation reserve. If an investment in an associate becomes an investment in a joint venture, the Group continues to apply the equity method and does not remeasure the retained interest.

Unrealised profits on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

**Discontinued operations**

A discontinued operation is a component of the Group, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale in accordance with HKFRS 5, if earlier. It also occurs when the operation is abandoned.

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Discontinued operations (Continued)**

When an operation is classified as discontinued, a single amount is presented in the statement of profit or loss and other comprehensive income, which comprises:

– The post-tax profit or loss of the discontinued operation; and

– The post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group constituting the discontinued operation.

**Foreign currency translation**

***(a) Functional and presentation currency***

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's the functional currency and presentation currency.

***(b) Transactions and balances in each entity's financial statements***

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Foreign currency translation (Continued)**

***(c) Translation on consolidation***

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

– Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

– Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and

– All resulting exchange differences are recognised in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are recognised in consolidated profit or loss as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

**Property, plant and equipment**

Buildings comprise mainly factories and offices. Buildings and machinery are carried at fair values, based on periodic valuations by external independent valuers, less subsequent depreciation and impairment losses. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Property, plant and equipment (Continued)**

Revaluation increases of buildings and machinery are recognised in profit or loss to the extent that the increases reverse revaluation decreases of the same asset previously recognised in profit or loss. All other revaluation increases are credited to the asset revaluation reserve as other comprehensive income. Revaluation decreases that offset previous revaluation increases of the same asset remaining in the asset revaluation reserve are charged against the asset revaluation reserve as other comprehensive income. All other decreases are recognised in profit or loss. On the subsequent sale or retirement of a revalued property, plant and equipment, the attributable revaluation increases remaining in the asset revaluation reserve is transferred directly to retained profits.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their revalued amounts less their residual values over the estimated useful lives on a straight-line basis. The principal annual rates are as follows:

| | |
|---|---|
| Buildings | Over the shorter of the term of the lease or 25 years |
| Plant and Machinery | 4%-33% |
| Office equipment | 20% |
| Motor vehicles | 20% |

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

Construction in progress represents buildings under construction and plant and machinery pending installation, and is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

**Operating leases**

Leases that do not substantially transfer all the risks and rewards of ownership of assets to the Group are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. At the commencement of the lease term, a finance lease is capitalised at the lower of the fair value of the leased asset and the present value of the minimum lease payments, each determined at the inception of the lease.

The corresponding liability to the lessor is included in the statement of financial position as finance lease payable. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Assets under finance leases are depreciated the same as owned assets.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

### Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Investments

Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs except in the case of financial assets at fair value through profit or loss.

Investments are classified as either financial assets at fair value through profit or loss or available-for-sale financial assets.

***(i) Financial assets at fair value through profit or loss***

Financial assets at fair value through profit or loss are either investments classified as held for trading or designated as at fair value through profit or loss upon initial recognition. These investments are subsequently measured at fair value. Gains or losses arising from changes in fair value of these investments are recognised in profit or loss.

***(ii) Available-for-sale financial assets***

Available-for-sale financial assets are non-derivative financial assets not classified as trade and other receivables, held-to-maturity investments or financial assets at fair value through profit or loss. Available-for-sale financial assets are subsequently measured at fair value. Gains or losses arising from changes in fair value of these investments are recognised in other comprehensive income, until the investments are disposed of or there is objective evidence that the investments are impaired, at which time the cumulative gains or losses previously recognised in other comprehensive income are recognised in profit or loss. Interest calculated using the effective interest method is recognised in profit or loss.

Impairment losses recognised in profit or loss for equity investments classified as available-for-sale financial assets are not subsequently reversed through profit or loss. Impairment losses recognised in profit or loss for debt instruments classified as available-for-sale financial assets are subsequently reversed and recognised in profit or loss if an increase in the fair value of the instruments can be objectively related to an event occurring after the recognition of the impairment loss.

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the receivables' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in profit or loss.

Impairment losses are reversed in subsequent periods and recognised in profit or loss when an increase in the receivables' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

### Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

### Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

### Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

**4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Trade and other payables**

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

**Equity instruments**

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

**Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

(a) Revenues from the trading and sales of manufactured goods are recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers; and

(b) Interest income is recognised on a time-proportion basis using the effective interest method.

(c) Dividend income is recognised when the shareholders' rights to receive payment are established.

**Employee benefits**

***(a) Employee leave entitlements***

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the at the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

***(b) Pension obligations***

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged in profit or loss represents contributions payable by the Group to the funds.

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Employee benefits (Continued)**

*(c) Termination benefits*

Termination benefits are recognised at the earlier of the dates when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs and involves the payment of termination benefits.

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

**Taxation**

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Taxation (Continued)**

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

**Related parties**

A related party is a person or entity that is related to the Group.

(a) A person or a close member of that person's family is related to the Group if that person:

  (i) has control or joint control over the Group;

  (ii) has significant influence over the Group; or

  (iii) is a member of the key management personnel of the Company or of a parent of the Company.

(b) An entity is related to the Group (reporting entity) if any of the following conditions applies:

  (i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

  (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

  (iii) Both entities are joint ventures of the same third party.

  (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Related parties (Continued)**

(b) (Continued)

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

**Segment reporting**

Operating segments and the amounts of each segment item reported in the financial statements are identified from the financial information provided regularly to the Group's most senior executive management for the purpose of allocating resources and assessing the performance of the Group's various lines of business.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of productions processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

**Impairment of assets**

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets other than inventories and receivables, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Impairment of assets (Continued)**

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

**Provisions and contingent liabilities**

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

**Events after the reporting period**

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the financial statements when material.

## 5. CRITICAL JUDGEMENTS AND KEY ESTIMATES

**Critical judgements in applying accounting policies**

In the process of applying the accounting policies, the management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements (apart from those involving estimations, which are dealt with below).

## 5. CRITICAL JUDGEMENTS AND KEY ESTIMATES (CONTINUED)

**Critical judgements in applying accounting policies (Continued)**

***Going concern basis***

The consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the successful implementation of the Restructuring of the Group and continuance of its business. Details are explained in note 2 to the consolidated financial statements.

**Key sources of estimation uncertainty**

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

***(a) Property, plant and equipment and depreciation***

The Group determines the estimated useful lives, residual values and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. The Group will revise the depreciation charge where useful lives and residual values are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

***(b) Impairment loss for bad and doubtful debts***

The Group makes impairment loss for bad and doubtful debts based on assessments of the recoverability of the trade and other receivables, including the current creditworthiness and the past collection history of each debtor. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the trade and other receivables and doubtful debt expenses in the year in which such estimate has been changed.

***(c) Net realisable value of inventories***

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expense. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to severe industry cycles. The Group will reassess the estimates by the end of each reporting period.

## 6. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

### *(a) Foreign currency risk*

The Group has certain exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in the functional currencies of the Group entities Hong Kong dollars ("HK$") and Renminbi ("RMB"). The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

At the end of the reporting period, if RMB had strengthened or weakened by 5% (2012: 5%) against Hong Kong dollar, with all other variables held constant, the Group's loss (2012: profit) after tax for the year would have been approximately HK$10,000 (2012: HK$30,000) higher/lower, mainly as a result of foreign exchange gains or losses on translation.

### *(b) Credit risk*

The Group's maximum exposure to credit risk in the event that counterparties fail to perform their obligations at the end of the reporting period in relation to each class of recognised financial assets is the carrying amounts of those assets as stated in the consolidated statement of financial position. The Group's credit risk is primarily attributable to its trade and other receivables. In order to minimise credit risk, the management review the recoverable amount of each individual receivable regularly to ensure that adequate impairment losses are recognised for irrecoverable receivable. In this regard, the management consider that the Group's credit risk is significantly reduced.

At the end of the reporting period, the Group had certain concentration of credit risk as approximately 16% (2012: 14%) and 54% (2012: 42%) of the Group's trade receivables were due from the Group's largest customer and the five largest customers, respectively.

## 6. FINANCIAL RISK MANAGEMENT (CONTINUED)

### *(c) Liquidity risk*

Liquidity risk is the risk that the Group is unable to meet its current obligations when they fall due.

The Group's had a net current liabilities at the end of the reporting period. The management have given careful consideration on the measures currently undertaken in respect of the Group's liquidity position. The management believe that the Group will be able to meet in full its financial obligations as they fall due upon the completion of the restructuring as further explained in note 2 to the consolidated financial statements.

The following table details the remaining contractual maturities of the Group's financial liabilities at the end of the reporting period, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of reporting period and the earliest date the Group can be required to pay).

| | **Carrying amounts** | | **Total contractual undiscounted cash flow** | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Trade and other payables | **239,219** | 168,340 | **239,219** | 168,340 |
| Dividend payable to non-controlling shareholders | **42,076** | 15,058 | **42,076** | 15,058 |
| Bank overdraft | **9,083** | 3,874 | **9,083** | 3,874 |
| Trust receipt loans | **310,795** | 242,378 | **310,795** | 242,378 |
| Short-term bank loans | **119,950** | 150,416 | **119,950** | 150,416 |
| Long-term bank loans | **–** | 56,446 | **–** | 56,446 |
| Factoring loans | **–** | 5,760 | **–** | 5,760 |
| Other loans | **77,464** | 89,163 | **77,464** | 91,880 |
| Obligation under finance leases* | **16** | 391 | **16** | 419 |
| | **798,603** | 731,826 | **798,603** | 734,571 |

* In 2012, the amount of contractual undiscounted cash flow of obligation under finance leases included an amount of approximately HK$16,000 which was falling after one year.

## 6. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (d) *Interest rate risk*

The Group's exposure to interest-rate risk arises from its bank deposits and bank borrowings. These deposits and borrowings bear interests at variable rates varied with the then prevailing market condition.

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 100 (2012: 100) basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 (2012: 100) basis point higher/lower and all other variables were held constant, the Group's loss/profit after tax would increase/decrease by approximately HK$3,731,000 (2012: HK$2,401,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate borrowings.

### (e) *Fair values*

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

### (f) *Financial instruments by category*

The carrying amounts of each of the category of the Group's financial instruments at the end of the reporting period are as follows:

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Financial assets** | | |
| Held-for-trading investments | **443** | 796 |
| Available-for-sale investments | **18,440** | 22,461 |
| Loans and receivables (including cash and cash equivalents) | **315,819** | 887,662 |
| **Financial liabilities** | | |
| Financial liabilities at amortised cost | **798,622** | 731,435 |

## 7. FAIR VALUE MEASUREMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 inputs: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable inputs for the asset or liability.

The Group's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

(a) Disclosures of level in fair value hierarchy:

| Description | **2013 Total fair value measurements using: Level 1** *HK$'000* |
|---|---|
| **Recurring fair value measurements:** | |
| Held-for-trading investments at fair value through profit or loss | |
| Listed securities in Hong Kong | 443 |
| Available-for-sale investments | |
| Unlisted investment in an investment savings plan | 12,761 |
| **Total recurring fair value measurements** | 13,204 |

## 8. REVENUE

The Group's revenue arising from printing and manufacturing of packaging products, distribution of television business-related products, distribution of other electronic and related products for the year. An analysis of the Group's revenue for the year is as follows:

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Printing and manufacturing of packaging products | **737,281** | 761,625 |
| Distribution of other electronic and related products | **198,460** | 1,180,690 |
| Distribution of television business-related products | **46,105** | 85,524 |
| | **981,846** | 2,027,839 |
| Representing: | | |
| Continuing operation | **737,281** | 761,625 |
| Discontinued operations *(note 13)* | **244,565** | 1,266,214 |
| | **981,846** | 2,027,839 |

## 9. OTHER INCOME

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Net exchange gains | **349** | – |
| Interest income | **423** | 1,757 |
| Government grants | **131** | – |
| Dividend income | **1,253** | – |
| Interest income on short-term loan receivable | **1,462** | 1,181 |
| Proceeds from disposal of scrap materials | **7,870** | 2,130 |
| Others | **4,202** | 12,265 |
| | **15,690** | 17,333 |
| Representing: | | |
| Continuing operation | **13,506** | 6,489 |
| Discontinued operations (*note 13*) | **2,184** | 10,844 |
| | **15,690** | 17,333 |

## 10. SEGMENT INFORMATION

The Group's reportable segments are strategic business units that offer different products. They are managed separately because each business requires different technology and marketing strategies. During the year ended 31 December 2013, the Group's revenue are derived from the segment of printing and manufacturing of packaging products, distribution of television business-related products, distribution of other electronic and related products.

The accounting policies of the operating segments are the same as those described in note 4 to the financial statements. Segment profits or losses do not include investment and other income, finance costs, and income tax expenses and other unallocated corporate income and expenses. Segment assets do not include interest in an associate, available-for-sale investments, held-for-trading investments, current and deferred tax assets, deposits paid for acquisition of properties under development and other unallocated corporate assets. Segment liabilities do not include borrowings, obligation under finance lease, current and deferred tax liabilities, and unallocated corporate liabilities. Segment non-current assets do not include financial instruments, deferred tax assets, post-employment benefit assets and rights arising under insurance contracts.

The Group accounts for intersegment sales and transfers as if the sales or transfers were to third parties, i.e. at current market prices.

## 10. SEGMENT INFORMATION (CONTINUED)

Information about reportable segment profit or loss, assets and liabilities:

| | Continuing operation | Discontinued operations | | |
|---|---|---|---|---|
| | Printing and manufacturing of packaging products | Distribution of television business-related products | Distribution of other electronic and related products | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Year ended 31 December 2013:** | | | | |
| Revenue from external customers | **737,281** | **46,105** | **198,460** | **981,846** |
| Segment profit/(loss) | **67,168** | **(602,034)** | **(12,608)** | **(547,474)** |
| Depreciation | **52,977** | **–** | **–** | **52,977** |
| Amortisation | **1,011** | **–** | **–** | **1,011** |
| Other material non-cash items: | | | | |
| Impairment on deposit paid for acquisition of properties under development | **27,313** | **–** | **–** | **27,313** |
| Impairment on trade receivables | **5,399** | **592,449** | **–** | **597,848** |
| Impairment on inventories | **1,472** | **–** | **–** | **1,472** |
| Additions to segment non-current assets | **48,034** | **–** | **–** | **48,034** |
| **At 31 December 2013:** | | | | |
| Segment assets | **1,093,427** | **7** | **–** | **1,093,434** |
| Segment liabilities | **186,399** | **43,799** | **38,939** | **269,137** |
| **Year ended 31 December 2012:** | | | | |
| Revenue from external customers | 761,625 | 85,524 | 1,180,690 | 2,027,839 |
| Segment profit | 136,773 | 7,666 | 20,958 | 165,397 |
| Depreciation | 52,174 | 459 | – | 52,633 |
| Amortisation | 613 | – | – | 613 |
| Other material non-cash items: | | | | |
| Impairment on property, plant and equipment | 2,357 | – | – | 2,357 |
| Impairment on trade receivables | 44 | 2,955 | 14,300 | 17,299 |
| Impairment on other receivables, deposits and prepayments | 900 | – | – | 900 |
| Additions to segment non-current assets | 29,988 | 33 | – | 30,021 |
| **At 31 December 2012:** | | | | |
| Segment assets | 1,129,248 | 27,060 | 545,695 | 1,702,003 |
| Segment liabilities | 147,833 | 30,435 | 31,365 | 209,633 |

## 10. SEGMENT INFORMATION (CONTINUED)

Reconciliations of revenue, profit or loss from continuing operation:

| | 2013 | 2012 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| **Revenue:** | | |
| Total turnover of continuing operation | **737,281** | 761,625 |
| **Profit or loss:** | | |
| Total profit of continuing operation | **67,168** | 136,773 |
| Corporate and unallocated profit or loss | **(58,991)** | (34,483) |
| Consolidated total profit from continuing operation | **8,177** | 102,290 |

| | 2013 | 2012 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Reconciliations of reportable segments' assets and liabilities: | | |
| **Assets:** | | |
| Total assets of reportable segments | **1,093,434** | 1,702,003 |
| Corporate and unallocated assets: | | |
| Interest in an associate | **–** | 55,701 |
| Available-for-sale investments | **18,440** | 22,461 |
| Deferred tax assets | **–** | 130 |
| Current tax assets | **–** | 277 |
| Held-for-trading investments | **443** | 796 |
| Deposits paid for acquisition of properties under development | **–** | 25,636 |
| Others | **4,504** | 12,863 |
| Consolidated total assets | **1,116,821** | 1,819,867 |
| **Liabilities:** | | |
| Total liabilities of reportable segments | **269,137** | 209,633 |
| Corporate and unallocated liabilities: | | |
| Borrowings | **517,292** | 548,037 |
| Tax payables | **4,836** | 13,153 |
| Deferred tax liabilities | **42,368** | 47,503 |
| Obligations under finance leases | **16** | 391 |
| Others | **12,158** | 4,431 |
| Consolidated total liabilities | **845,807** | 823,148 |

## 10. SEGMENT INFORMATION (CONTINUED)

Geographical information:

| | 2013 | 2012 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| **Revenue:** | | |
| People's Republic of China (the "PRC") | **737,281** | 761,625 |

Information about revenue from the Group's two (2012: two) customers individually contributing over 10% of total revenue of the Group as follows:

| | | 2013 | 2012 |
|---|---|---|---|
| | *Notes* | *HK$'000* | *HK$'000* |
| Customer A | *1* | **235,364** | 240,015 |
| Customer B | *2* | **–** | 217,689 |
| Customer C | *1* | **103,247** | – |

*Notes:*

1 Attributable to the printing and manufacturing of packaging products.
2 Attributable to the distribution of other electronic and related products.

In presenting the geographical information, revenue is based on the locations of the customers. At the end of the reporting period, the non-current assets of the Group were located as follows:

| | 2013 | 2012 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| **Non-current assets:** | | |
| Hong Kong | **1,529** | 3,574 |
| PRC | **643,312** | 665,954 |
| United States | **–** | 910 |
| | **644,841** | 670,438 |

## 11. FINANCE COSTS

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Interest expenses on borrowings that are wholly repayable within five years: | | |
| – Interest on bank loans | **18,792** | 18,576 |
| – Interest on other loans | **11,935** | 6,649 |
| – Finance leases charges | **27** | 101 |
| | **30,754** | 25,326 |
| Representing: | | |
| Continuing operation | **20,524** | 10,337 |
| Discontinued operations *(note 13)* | **10,230** | 14,989 |
| | **30,754** | 25,326 |

## 12. INCOME TAX

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Current tax – Hong Kong Profits Tax | | |
| – Provision for the year | **12** | 3,534 |
| – Over-provision in prior years | **–** | (36) |
| | **12** | 3,498 |
| Current tax – PRC Enterprise Income Tax | | |
| – Provision for the year | **20,462** | 24,339 |
| – Over-provision in prior years | **–** | (663) |
| | **20,462** | 23,676 |
| Deferred tax *(note 30)* | **(475)** | 7,951 |
| | **19,999** | 35,125 |
| Representing: | | |
| Continuing operation | **19,987** | 32,192 |
| Discontinued operations *(note 13)* | **12** | 2,933 |
| | **19,999** | 35,125 |

## 12. INCOME TAX (CONTINUED)

Hong Kong Profits Tax has been provided at a rate of 16.5% on the estimated assessable profit for the year ended 31 December 2013 (2012: 16.5%).

According to the EIT Law, the profits of the PRC subsidiaries of the Company derived since 1 January 2008 is 25%. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

In accordance with Guo Shui Zhi Shui Han 1994 No.151 Yunnan Qiaotong Package Printing Company Limited ("Yunnan Qiaotong"), a PRC subsidiary of the Company is recognized as a high-tech enterprise and is qualified for the conditions of incentives in which the enterprise income tax is regularly reduced by 50%, Yunnan Qiaotong is subject to income tax at statutory tax rate of 25% with reduction by 50%.

The reconciliation between the income tax and the (loss)/profit before tax are as follows:

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| (Loss)/profit before tax from continuing operation | **(12,347)** | 91,953 |
| Notional tax on (loss)/profit before tax calculated at the PRC statutory rate | **(3,087)** | 22,988 |
| Tax effect of non-taxable income | **(4,326)** | (15,398) |
| Tax effect of non-deductible expenses | **26,989** | 31,098 |
| Tax effect of utilisation of tax losses not previously recognised | **(1,564)** | 2,383 |
| Tax effect of tax exemptions | **803** | (11,571) |
| Tax effect of change in tax rate | **–** | 5,946 |
| Effect of different tax rates in other tax jurisdictions | **1,157** | (2,564) |
| Overprovision in respect of prior years | **–** | (699) |
| Deferred tax charge on dividend withholding tax | **15** | 9 |
| Income tax for the year (relating to continuing operation) | **19,987** | 32,192 |

## 13. DISCONTINUED OPERATIONS

During the year, the Group had ceased its Distribution business. As part of the restructuring of the Group as further detailed in note 2 to the consolidated financial statements, the Group has decided to discontinue its Distribution Business in order to reserve more resources to focus on the Group's core profitable Packaging Printing Business.

The results of the discontinued operations for the year, which have been included in consolidated profit or loss, are as follows:

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Revenue | **244,565** | 1,266,214 |
| Cost of goods sold | **(239,471)** | (1,216,904) |
| Gross profit | **5,094** | 49,310 |
| Other income | **2,184** | 10,844 |
| Distribution and selling costs | **(3,046)** | (3,678) |
| Administrative expenses | **(16,183)** | (21,249) |
| (Loss)/profit from operations | **(11,951)** | 35,227 |
| Impairments loss on trade receivables | **(592,449)** | (17,255) |
| Gain recognised on deemed disposal of interest in a subsidiary* | **–** | 37,169 |
| (Loss)/profit before tax | **(604,400)** | 55,141 |
| Finance costs | **(10,230)** | (14,989) |
| (Loss)/profit before tax | **(614,630)** | 40,152 |
| Income tax | **(12)** | (2,933) |
| (Loss)/profit for the year from the discontinued operations | **(614,642)** | 37,219 |

## 13. DISCONTINUED OPERATION (CONTINUED)

The net cash (outflows)/inflows incurred by the operation in distribution of television business, other electronic and related products are as follows:

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Operating activities | **(11,969)** | 10,696 |
| Investing activities | **–** | (7,604) |
| Financing activities | **(3,544)** | 5,955 |
| Net cash (outflows)/inflows | **(15,513)** | 9,047 |

* During the last year, upon the completion of the spin-off the Group's former subsidiary, Megalogic Technology Holdings Limited ("Megalogic Holdings") on 19 January 2012 (note 34), the effective interest held by the Group in Megalogic Holdings was diluted from 52.01% to 39.01% and resulted in losing control of Megalogic Holdings, Megalogic Holdings was deconsolidated from the date of the completion of the spin-off and was account for as an associate since then. During the year, the Group's interest in this associate has been substantially disposed of (note 20).

## 14. (LOSS)/PROFIT FOR THE YEAR

The Group's (loss)/profit for the year is stated after charging the following:

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Continuing operation:** | | |
| Auditor's remuneration | **1,400** | 1,570 |
| Cost of inventories sold | **502,166** | 527,074 |
| Depreciation | **55,106** | 53,303 |
| Amortisation | **1,011** | 613 |
| Minimum lease payments under operating leases in respect of | | |
| Office premises | **517** | 876 |
| Impairments on various assets: | | |
| Property, plant and equipment | **–** | 2,357 |
| Deposit paid for acquisition of properties under development | **27,313** | – |
| Trade receivables | **5,399** | 44 |
| Other receivables, deposits and prepayments | **–** | 900 |
| Inventories | **1,472** | – |
| | **34,184** | 3,301 |
| Impairment loss on available-for-sale investments | **2,635** | 440 |
| Staff costs (including directors' remuneration – *note 15*): | | |
| Salaries, bonus and allowances | **121,304** | 122,623 |

## 14. (LOSS)/PROFIT FOR THE YEAR (CONTINUED)

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Discontinued operations:** | | |
| Auditor's remuneration | **30** | 310 |
| Cost of inventories sold | **239,471** | 1,216,904 |
| Depreciation | **–** | 459 |
| Impairment loss on trade receivables | **592,449** | 17,255 |
| Staff costs (including directors' remuneration – *note 15*): | | |
| Salaries, bonus and allowances | **2,317** | 9,101 |

## 15. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUAL EMOLUMENTS

The emoluments of each Director were as follows:

| | *Notes* | **Fees** *HK$'000* | **Salaries and other benefits** *HK$'000* | **Retirement benefits scheme contributions** *HK$'000* | **Total** *HK$'000* |
|---|---|---|---|---|---|
| **Executive Directors** | | | | | |
| Mr. Hui King Chun, Andrew | *1* | **–** | **1,046** | **15** | **1,061** |
| Mr. Yau Chau Min, Paul | *2* | **–** | **967** | **9** | **976** |
| Mr. Hui Bin Long | *1* | **200** | **–** | **–** | **200** |
| Mr. Zhou Jin | | **200** | **293** | **–** | **493** |
| Mr. Wang Feng Wu | | **120** | **–** | **–** | **120** |
| Mr. Tao Fei Hu | *3* | **63** | **112** | **–** | **175** |
| **Non-executive Director** | | | | | |
| Mr. Liu Kam Lung | *4* | **56** | **–** | **–** | **56** |
| **Independent Non-executive Directors** | | | | | |
| Mr. Ng Chi Yeung, Simon | *5* | **200** | **–** | **–** | **200** |
| Mr. Tam Yuk Sang, Sammy | *5* | **300** | **–** | **–** | **300** |
| Mr. Ho Lok Cheong | *6* | **142** | **–** | **–** | **142** |
| Total for the year ended 31 December 2013 | | **1,281** | **2,418** | **24** | **3,723** |

## 15. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUAL EMOLUMENTS (CONTINUED)

| | | **Fees** | **Salaries and other benefits** | **Retirement benefits scheme contributions** | **Total** |
|---|---|---|---|---|---|
| | *Notes* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Executive Directors** | | | | | |
| Mr. Hui King Chun, Andrew | *1* | – | 1,067 | 14 | 1,081 |
| Mr. Yau Chau Min, Paul | *2* | – | 1,073 | 14 | 1,087 |
| Mr. Hui Bin Long | *1* | 200 | – | – | 200 |
| Mr. Zhou Jin | | 200 | 280 | – | 480 |
| Mr. Wang Feng Wu | | 120 | 133 | – | 253 |
| **Non-executive Director** | | | | | |
| Mr. Liu Kam Lung | *4* | 120 | – | – | 120 |
| **Independent Non-executive Directors** | | | | | |
| Mr. Ng Chi Yeung, Simon | *5* | 200 | – | – | 200 |
| Mr. Tam Yuk Sang, Sammy | *5* | 300 | – | – | 300 |
| Mr. Ho Lok Cheong | *6* | 200 | – | – | 200 |
| Total for the year ended 31 December 2012 | | 1,340 | 2,553 | 28 | 3,921 |

*Notes:*

1 Removed as a director on 27 June 2014
2 Resigned as a director on 31 July 2013
3 Appointed as a director on 6 August 2013
4 Resigned as a director on 17 June 2013
5 Resigned as a director on 1 July 2014
6 Resigned as a director on 16 September 2013

## 15. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUAL EMOLUMENTS (CONTINUED)

The five highest paid employees during the year included two (2012: two) directors, details of whose remuneration are set out in information above. Details of the remuneration of the remaining three (2012: three) non-directors, highest paid employees for the year are as follows:

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Salaries and other benefits | **2,099** | 2,881 |
| Discretionary and performance related incentive payments | **–** | 62 |
| Retirement benefits scheme contributions | **45** | 14 |
| Compensation for loss of office | **–** | 192 |
| | **2,144** | 3,149 |

The number of non-directors, highest paid employees whose remuneration fell within the following bands is as follows:

| | **Number of employees** | |
|---|---|---|
| | **2013** | 2012 |
| Emolument band: | | |
| HK$nil – HK$1,000,000 | **3** | 2 |
| HK$1,000,001 – HK$1,500,000 | **–** | 1 |

During the year, no emoluments were paid by the Group to any of the Directors as an inducement to join or upon joining the Group or as compensation for loss of office.

## 16. DIVIDENDS

The Directors do not recommend the payment of any dividend for the year ended 31 December 2013 (2012: interim dividend HK1.8 cents per share).

## 17. (LOSS)/EARNINGS PER SHARE

### (a) From continuing and discontinued operations

***Basic (loss)/earnings per share***

The calculation of basic (loss)/earnings per share attributable to owners of the Company is based on the loss for the year of approximately HK$676,091,000 (2012: profit of approximately HK$55,365,000) attributable to owners of the Company and the weighted average number of 261,453,600 (2012: 261,453,600) ordinary shares in issue during the year.

***Diluted earnings per share***

No diluted loss per share is presented, as the Company did not have any outstanding dilutive potential ordinary shares during both years.

### (b) From continuing operation

***Basic (loss)/earnings per share***

The calculation of basic (loss)/earnings per share from continuing operation attributable to owners of the Company is based on the loss for the year of approximately RMB61,449,000 (2012: profit of approximately HK$18,146,000) attributable to owners of the Company and the denominator used is the same as that detailed above for basic (loss)/earnings per share.

***Diluted earnings per share***

No diluted loss per share is presented, as the Company did not have any outstanding dilutive potential ordinary shares during both years.

### (c) From discontinued operations

***Basic (loss)/earnings per share***

The calculation of basic (loss)/earnings per share from discontinued operations attributable to owners of the Company is based on the loss for the year of approximately HK$614,642,000 (2012: profit of approximately HK$37,219,000) attributable to owners of the Company and the denominator used is the same as that detailed above for basic (loss)/earnings per share.

***Diluted earnings per share***

No diluted loss per share is presented, as the Company did not have any outstanding dilutive potential ordinary shares during both years.

## 18. PROPERTY, PLANT AND EQUIPMENT

| | Buildings | Plant and machinery | Motor vehicles | Office equipment | Construction in progress | Total |
|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Valuation** | | | | | | |
| At 1 January 2012 | 179,750 | 460,678 | 11,964 | 13,411 | 1,322 | 667,125 |
| Currency realignment | 1,756 | 4,670 | 102 | 114 | – | 6,642 |
| Additions | 1,375 | 23,979 | 4,183 | 538 | – | 30,075 |
| Transfer | – | 1,322 | – | – | (1,322) | – |
| Disposals | – | (4,682) | (465) | (648) | – | (5,795) |
| At 31 December 2012 and 1 January 2013 | 182,881 | 485,967 | 15,784 | 13,415 | – | 698,047 |
| Currency realignment | 4,506 | 10,722 | 373 | 291 | – | 15,892 |
| Additions | – | 71,477 | – | 1,214 | – | 72,691 |
| Disposals | – | (18,500) | – | (640) | – | (19,140) |
| Adjustment arising on revaluation | (51,022) | (99,934) | (12,147) | (3,321) | – | (166,424) |
| At 31 December 2013 | 136,365 | 449,732 | 4,010 | 10,959 | – | 601,066 |
| **Accumulated depreciation and impairment** | | | | | | |
| At 1 January 2012 | 7,721 | 38,929 | 2,166 | 3,287 | – | 52,103 |
| Currency realignment | 171 | 807 | 23 | 43 | – | 1,044 |
| Charge for the year | 9,189 | 39,887 | 2,427 | 2,259 | – | 53,762 |
| Impairment | – | 2,357 | – | – | – | 2,357 |
| Disposals | – | (753) | (216) | (480) | – | (1,449) |
| At 31 December 2012 and 1 January 2013 | 17,081 | 81,227 | 4,400 | 5,109 | – | 107,817 |
| Currency realignment | 393 | 1,525 | 101 | 157 | – | 2,176 |
| Charge for the year | 9,256 | 41,056 | 2,325 | 2,469 | – | 55,106 |
| Disposals | – | (17,805) | – | (612) | – | (18,417) |
| Eliminated on revaluation | (26,730) | (106,003) | (6,826) | (7,123) | – | (146,682) |
| At 31 December 2013 | – | – | – | – | – | – |
| **Carrying amounts** | | | | | | |
| At 31 December 2013 | 136,365 | 449,732 | 4,010 | 10,959 | – | 601,066 |
| At 31 December 2012 | 165,800 | 404,740 | 11,384 | 8,306 | – | 590,230 |

## 18. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Had the Group's property, plant and equipment, other than construction in progress, been carried at cost less accumulated depreciation, the carrying values of property, plant and equipment would have been stated as follows:

| | **2013** | | | 2012 | | |
|---|---|---|---|---|---|---|
| | **Cost** | **Accumulated depreciation** | **Carrying values** | Cost | Accumulated depreciation | Carrying values |
| | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | *HK$'000* | *HK$'000* | *HK$'000* |
| Buildings | **142,585** | **39,423** | **103,162** | 141,610 | 33,321 | 108,289 |
| Plant and machinery | **594,614** | **208,321** | **386,293** | 542,580 | 193,558 | 349,022 |
| Motor vehicles | **19,897** | **19,549** | **348** | 19,800 | 18,348 | 1,452 |
| Office equipment | **34,762** | **33,809** | **953** | 33,461 | 33,461 | – |
| | **791,858** | **301,102** | **490,756** | 737,451 | 278,688 | 458,763 |

At 31 December 2013, the carrying amount of machinery and equipment held by the Group under finance leases amounted to HK$1,750,000 (2012: HK$2,084,000).

At 31 December 2013, the Group has pledged property, plant and equipment in the PRC with a carrying amount of approximately HK$60,250,000 (2012: HK$58,141,000) to secure for general banking facilities granted to the Group.

## 19. PREPAID LAND LEASE PAYMENTS

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| The Group's prepaid land lease payments comprise: | | |
| Leasehold land in the PRC under | | |
| Medium-term lease | **41,952** | 17,024 |
| Short lease | **897** | 1,020 |
| | **42,849** | 18,044 |
| Analysed for reporting purposes as: | | |
| Current liabilities | **613** | 613 |
| Non-current liabilities | **42,236** | 17,431 |
| | **42,849** | 18,044 |

The Group has pledged prepaid land lease payments having a carrying amount of approximately HK$10,000,000 (2012: HK$11,343,000) to secure for general banking facilities granted to the Group.

## 20. INTEREST IN AN ASSOCIATE

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Share of net assets | **–** | 55,701 |

(a) On 16 April, 2013, the Group disposed 99.9% of its interest in Megalogic Holdings and it ceased to be an associate of the Group since that date. The remaining 0.01% interest in Megalogic Holdings has been then accounted for as held-for-trading investments in the consolidated statement of financial position.

(b) The loss on disposal of the Group's interests in the associate on 16 April 2013 is as follows:

| | *HK$'000* |
|---|---|
| Net consideration received from disposal | 10,924 |
| Carrying amount of the interest in an associate disposed | (55,337) |
| Loss on disposal of an associate | (44,413) |

## 21. AVAILABLE-FOR-SALE INVESTMENT

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Unlisted investments | | |
| – Investment savings plan *(note a)* | **12,761** | 14,858 |
| – Investments outside Hong Kong *(note b)* | **5,679** | 7,603 |
| | **18,440** | 22,461 |

*Notes*

(a) The unlisted investment savings plan represents an investment in a savings plan whose returns are linked to a portfolio of marketable international funds. The savings plan was issued by a group of insurance companies listed in the Stock Exchange and has a term of 29 years with an initial contribution period of 34 months. The Group has made full contribution for the initial contribution period and intends to hold the plan until maturity. They are measured at their estimated fair value based on the market value of the underlying marketable international funds at the end of the reporting period.

(b) The unlisted investments outside Hong Kong represent an investment in a local bank and an education unit in the PRC. The investments are measured at cost less accumulated impairment at the end of the reporting period as the directors of the Company are of the opinion that their fair values cannot be measured reliably. In the opinion of the directors, impairment loss of approximately HK$1,925,000 on education unit is required for the year ended 31 December 2013 (2012: HK$Nil).

## 22. INVENTORIES

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Raw materials | **104,875** | 107,337 |
| Work in progress | **2,734** | 13,525 |
| Finished goods | **28,889** | 41,918 |
| | **136,498** | 162,780 |

At the end of the reporting period, the carrying amount of inventories pledged as security for banking facilities granted to the Group amounted to HK$18,234,000 (2012: HK$20,368,000).

## 23. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade receivables | **834,523** | 801,361 |
| Less: impairment losses | **(623,497)** | (25,649) |
| | **211,026** | 775,712 |
| Bills receivables | **32,612** | – |
| Prepayment, deposits and other receivables | **14,779** | 21,373 |
| | **258,417** | 797,085 |

**Trade receivables**

The Group allows an average credit period of 30 to 120 days to its trade customers. The following is an aging analysis of trade receivables, net of allowance for doubtful debts, presented based on the invoice date at the end of the reporting period.

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 0 to 60 days | **197,323** | 578,407 |
| 61 to 90 days | **12,157** | 52,572 |
| Over 90 days | **1,546** | 144,733 |
| | **211,026** | 775,712 |

## 23. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (CONTINUED)

**Bills receivables**

The following is an aging analysis of bills receivables:

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 0 to 60 days | **31,344** | – |
| 61 to 90 days | **1,268** | – |
| | **32,612** | – |

**Impairment of trade receivables**

The movement in impairment losses of trade receivable are as follows:

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| At beginning of the year | **25,649** | 11,332 |
| Impairment losses recognised | **597,848** | 17,299 |
| Amounts written off | **–** | (2,982) |
| At the end of the year | **623,497** | 25,649 |

Included in the above provision for impairment of trade receivables are the provisions for individually impaired trade receivables of approximately HK$623,497,000 (2012: HK$25,649,000), which are due to long outstanding/or default of payment. The Group does not hold any collateral over these balances. Impaired amounts were directly written off against trade receivable when there was no expectation of recovering any amount.

## 23. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (CONTINUED)

**Trade receivables that are not impaired**

The aging analysis of trade debtors that are neither individually nor collectively considered to be impaired are as follows:

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Neither past due nor impaired | **207,617** | 697,702 |
| Less than 60 days past due | **1,863** | 18,414 |
| 61 – 90 days past due | **–** | 6,218 |
| Over 90 days past due | **1,546** | 53,378 |
| | **211,026** | 775,712 |

Trade receivables that were not past due relate to a wide range of customers who has no recent history of default. The Group does not hold any collateral over these balances.

Trade receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

At the end of reporting period, none (2012: approximately HK$8,654,000) of trade receivables were pledged to banks for banking facilities granted to the Group.

## 24. SHORT-TERM LOANS RECEIVABLE

At the end of the reporting period, all loans receivable (2012: HK$22,924,000) which are non-interest bearing. No collateral agreement has been entered into in respect of Group's short-term loans receivable. All the short-term loans receivable are due for repayment within one year or on demand from the end of reporting period. No Group's short loans receivable were past due at end of reporting period for which the Group had not provided for impairment loss.

## 25. HELD-FOR-TRADING INVESTMENTS

| | 2013 | 2012 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Equity securities, at fair value | | |
| Listed in Hong Kong | **443** | 712 |
| Listed outside Hong Kong | **–** | 84 |
| | **443** | 796 |

## 26. BANK AND CASH BALANCES

At the end of reporting period, the bank and cash balances of the Group denominated in Renminbi ("RMB") amounted to HK$55,145,000 (2012: HK$53,765,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations.

Bank balances carry average interest rate of 0.01% (2012: 0.01%) per annum.

## 27. TRADE AND OTHER PAYABLES

| | 2013 | 2012 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Trade payables | **165,175** | 138,573 |
| Accruals and other payables | **74,044** | 60,433 |
| | **239,219** | 199,006 |

An aging analysis of the trade payables at the end of the reporting period, based on invoice dates, is as follows:

| | 2013 | 2012 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| 0 to 60 days | **87,130** | 82,370 |
| 61 to 90 days | **2,747** | 7,397 |
| Over 90 days | **75,298** | 48,806 |
| | **165,175** | 138,573 |

## 28. BORROWINGS

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Bank overdrafts | **9,083** | 3,874 |
| Bank loans | **119,950** | 206,862 |
| Factoring loans | **–** | 5,760 |
| Trust receipt loans | **310,795** | 242,378 |
| Other loans | **77,464** | 89,163 |
| | **517,292** | 548,037 |
| Analysed as: | | |
| Secured | **87,097** | 117,999 |
| Unsecured | **430,195** | 430,038 |
| | **517,292** | 548,037 |

The borrowings are repayable as follows (*note*):

| | | |
|---|---|---|
| On demand or within one year | **517,292** | 509,361 |
| In the second year | **–** | 28,089 |
| In the third to fifth years, inclusive | **–** | 10,587 |
| | **517,292** | 548,037 |

*Note*: the amounts due were based on scheduled repayment dates set out in the loan agreements and ignore the effect of any repayment on demand clause.

All of the banking facilities are subject to the fulfilment of covenants relating to certain of the Group's statement of financial position ratios, as are commonly found in lending arrangements with financial institutions. In circumstances that the Group commits any default in settlement or commits any breaches of the covenants, notwithstanding any of the expiry dates has not been due, the respective bank has full discretion to exercise its overriding right of repayment on demand to call for cash cover on demand for prospective and contingent liabilities.

## 28. BORROWINGS (CONTINUED)

The effective interest rates per annum at the end of the reporting period were as follows:

| | **2013** | 2012 |
|---|---|---|
| Bank overdrafts | **4.2% ~ 14.8%** | 0.8% |
| Short-term Bank loans: | | |
| variable-rate | **5.1% ~ 8.3%** | 4.7% ~ 7.1% |
| fixed-rate | **3.5% ~ 6.2%** | 2.6% ~ 6.0% |
| Long-term Bank loans: | | |
| variable-rate | **3.2% ~ 7.4%** | 2.5% ~ 7.2% |
| Factoring loans | **2.1%** | 2.1% |
| Trust receipt loans | **2.1% ~ 10.8%** | 2.1% ~ 11.3% |
| Other loans | **12.0% ~ 53.3%** | 12.0% ~ 53.3% |

Bank loans of approximately HK$13,000,000 (2012: HK$14,466,000) were guaranteed by the Government of the Hong Kong Special Administrative Region under the Special Loan Guarantee Scheme.

No factoring loan (2012: HK$5,760,000) was secured by fixed charge over trade receivables (2012: with an amount of approximately HK$8,654,000).

Other loan of approximately HK$29,000,000 (2012: HK$29,228,000) was secured by the share charge of Oncapital Limited, a company controlled by an ex-director of the Company, Mr. Hui King Chun ("Mr. Hui") and by personal guarantee executed by Mr. Hui. Mr. Hui has been removed as a director subsequent to end of the reporting period on 27 June 2014.

Other loan of approximately HK$9,000,000 (2012: HK$9,935,000) was secured by a property held by a company controlled by Mr. Hui.

## 29. OBLIGATIONS UNDER FINANCE LEASES

| | **Minimum lease payments** | | **Present value of Minimum lease payments** | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Within one year | **17** | 403 | **16** | 375 |
| In the second to fifth years, inclusive | **–** | 16 | **–** | 16 |
| | **17** | 419 | **16** | 391 |
| Less: Future finance charges | **(1)** | (28) | **–** | – |
| Present value of lease obligations | **16** | 391 | **16** | 391 |
| Carrying amount analysed for reporting purpose as: | | | | |
| Current liabilities | | | **16** | 375 |
| Non-current liabilities | | | **–** | 16 |
| | | | **16** | 391 |

It is the Group's policy to lease certain of its motor vehicles under finance leases. The original average lease term was 42 months (2012: 42 months). At 31 December 2013, the effective borrowing rate was ranging from 5.6% to 6.5% (2012: 5.6% to 6.5%). Interest rates are fixed at the contract dates was ranging from 2.3% to 2.8% per annum (2012: 2.3% to 2.8% per annum). All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. At the end of each lease term, the Group has the option to purchase the motor vehicles at nominal prices.

The Group's finance lease payables are secured by the lessor's title to the leased assets included in property, plant and equipment (note 18).

## 30. DEFERRED TAX

The following are the major deferred tax liabilities and assets recognised by the Group.

| | Revaluation of property, plant and equipment | Depreciation allowances in excess of related of PRC depreciation | Undistributed earnings subsidiaries | Others | Total |
|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| At 1 January 2012 | 16,314 | 20,175 | 2,560 | (261) | 38,788 |
| – Charge to the consolidated statement of profit or loss for the year | – | 1,027 | 9 | 969 | 2,005 |
| – Credit to equity for the year | (225) | – | – | – | (225) |
| Attributable to a change in tax rate: | | | | | |
| – Charge to the consolidated statement of profit on loss | – | 5,946 | – | – | 5,946 |
| – Charge to equity for the year | 859 | – | – | – | 859 |
| At 31 December 2012 and 1 January 2013 | 16,948 | 27,148 | 2,569 | 708 | 47,373 |
| – Charge to the consolidated statement of profit or loss for the year | – | (490) | 15 | – | (475) |
| – Credit to other comprehensive income for the year | (4,146) | – | – | – | (4,146) |
| – Credit to equity for the year | (384) | – | – | – | (384) |
| At 31 December 2013 | 12,418 | 26,658 | 2,584 | 708 | 42,368 |

The following is the analysis of the deferred tax balances (after offset) for consolidated statement of financial position presentation purposes:

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Deferred tax liabilities | **42,368** | 47,503 |
| Deferred tax assets | **–** | (130) |
| | **42,368** | 47,373 |

## 30. DEFERRED TAX (CONTINUED)

At the end of the reporting period, subject to the agreements with the tax authority, the Group has unused tax losses of approximately HK$79,347,000 (2012: HK$76,925,000) for subsidiaries incorporated in Hong Kong available for offset against future profits of approximately HK$79,347,000 (2012: HK$76,925,000) and such tax losses may be carried forward indefinitely. No deferred tax asset has been recognised for these tax losses due to the unpredictability of future profit streams of those subsidiaries.

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1st January, 2008 onwards. Deferred tax has been provided for in the consolidated financial statements in respect of the undistributed earnings of the Group's PRC subsidiaries to the extent that such earnings are estimated to be distributed in the foreseeable future. At the end of the reporting period, the aggregate amount of the undistributed earnings of the Group's PRC subsidiaries which the corresponding deferred taxation has not been provided for in the consolidated financial statements amounted to approximately HK$4,506,000 (2012: HK$2,302,000), as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

## 31. SHARE CAPITAL

| | *Number of shares* | *HK$'000* |
|---|---|---|
| Authorised: | | |
| Ordinary shares of HK$0.10 each | | |
| At 1 January 2012, 31 December 2012 and 2013 | 1,000,000,000 | 100,000 |
| Issued and fully paid: | | |
| Ordinary shares of HK$0.10 each | | |
| At 1 January 2012, 31 December 2012 and 2013 | 261,453,600 | 26,145 |

## 31. SHARE CAPITAL (CONTINUED)

### Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes the borrowings and obligation under finance lease disclosed in notes 28 and 29 respectively, net of pledged bank deposit, bank balances and cash, equity attributable to owners of the Company and non-controlling interest, comprising issued share capital, reserves and retained profits.

The Group's management reviews the capital structure on a semi-annual basis. As part of this review, the management considers the cost of capital and the risks associated with each class of capital, and takes appropriate actions to adjust the Group's capital structure.

The gearing ratios at the end of the reporting periods were as follows:

| | Group | |
|---|---|---|
| | **2013** | 2012 |
| | ***HK$'000*** | *HK$'000* |
| **Total liabilities** | | |
| Borrowing and obligation under finance lease | **517,308** | 548,428 |
| Less: Pledged bank deposits and cash and cash equivalents | **(56,758)** | (58,053) |
| Net debt | **(460,550)** | 490,375 |
| Total equity | **271,014** | 996,719 |
| Net debt-to-capital ratio | **169.9%**[#] | 49.2% |

[#] The Directors have given careful consideration on the measures currently undertaken in respect of the Group's liquidity position. The Directors believe that the Group will be able to meet in full its financial obligations as they fall due upon the completion of the Debt Restructuring and the proposed open offer, as further explained in note 2 to consolidated financial statements.

## 32. RESERVES

**(a)** The amounts of the Group's reserves and movements therein are presented in the consolidated statement of profit or loss and other comprehensive income and consolidated statement of changes in equity.

**(b) Reserves of the Company**

| | Share premium | Capital redemption reserve | Contributed surplus | Retained profits/ (Accumulated losses) | Total |
|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| At 1 January 2012 | 74,215 | 624 | 29,509 | 9,537 | 113,885 |
| Profit for the year | – | – | – | 11,207 | 11,207 |
| Dividend paid | – | – | – | (15,949) | (15,949) |
| At 31 December 2012 | 74,215 | 624 | 29,509 | 4,795 | 109,143 |
| At 1 January 2013 | 74,215 | 624 | 29,509 | 4,795 | 109,143 |
| Loss for the year | – | – | – | (434,729) | (434,729) |
| At 31 December 2013 | 74,215 | 624 | 29,509 | (429,934) | (325,586) |

**(c) Nature and purpose of reserves of the Group**

***(i) Share premium***

Share premium represents premium arising from the issue of shares at a price in excess of their par value per share and is not distributable but may be applied in paying up unissued shares of the Company to be issued to the shareholders of the Company as fully paid bonus shares or in providing for the premiums payable on repurchase of shares.

***(ii) Capital redemption reserve***

Capital redemption reserve arose from the reduction of the nominal value of the issued share capital of the Company upon the cancellation of the repurchased shares.

***(iii) Capital reserve***

Capital reserve represents the difference between the nominal value of the shares of the acquired subsidiaries and the nominal value of the Company's shares issued for the acquisition at the time of the group reorganisation in 1998.

## 32. RESERVES (CONTINUED)

### (c) Nature and purpose of reserves of the Group (Continued)

#### *(iv) Contributed surplus*

The contributed surplus of the Company represents the difference between the consolidated shareholders' funds of Kith Limited at the date on which it was acquired by the Company, and the nominal amount of the Company's shares issued for the acquisition at the time of the group reorganisation in 1998.

Under the Companies Act of Bermuda, the contributed surplus account of the Company is available for distribution. However the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

– it is, or would after the payment be, unable to pay its liabilities as they become due; or

– the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

#### *(v) Foreign currency translation reserve*

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 4 to the financial statements.

#### *(vi) Investment revaluation reserve*

The investment revaluation reserve comprises the cumulative net change in the fair value of available-for-sale financial assets held at the end of the reporting period and is dealt with in accordance with the accounting policy in note 4 to the financial statements.

#### *(vii) Asset revaluation reserve*

Assets revaluation reserve has been set up and are dealt with in accordance with the accounting policies adopted for property, plant and equipment in note 4 to the financial statements.

## 33. SUMMARISED FINANCIAL POSITION OF THE COMPANY

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Non-current assets** | | |
| Investments in subsidiaries | **44,089** | 44,089 |
| **Current assets** | | |
| Amounts due from subsidiaries | **330,756** | 315,242 |
| Other receivables, deposits and prepayments | **382** | 773 |
| Bank balances and cash | **454** | 336 |
| | **331,592** | 316,351 |
| **Current liabilities** | | |
| Accruals and other payables | **17,037** | 2,167 |
| Amounts due to subsidiaries | **182,651** | 143,757 |
| Borrowings | **68,078** | 79,228 |
| Financial guarantee liabilities | **407,356** | – |
| | **675,122** | 225,152 |
| **Net current (liabilities)/assets** | **(343,530)** | 91,199 |
| NET (LIABILITIES)/ASSETS | **(299,441)** | 135,288 |
| **Capital and reserves** | | |
| Share capital | **26,145** | 26,145 |
| Reserves | **(325,586)** | 109,143 |
| TOTAL EQUITY | **(299,441)** | 135,288 |

## 34. DEEMED DISPOSAL OF A SUBSIDIARY

During the last year, as described in note 13, on 19 January 2012, the spin-off of Megalogic Holdings was completed and Megalogic Holdings was successfully listed on the Growth Enterprises Market of the Stock Exchange. The net assets of Megalogic Holdings at the date of deemed disposal were as follows:

| | **19 January 2012** |
|---|---|
| | *HK$'000* |
| Analysis of assets and liabilities over which control was lost: | |
| Assets of disposal group classified as held for sale disposed of | 49,299 |
| Liabilities directly associated with a disposal group classified as held for sale disposed of | (3,293) |
| Net assets disposed of | (46,006) |
| Gain on deemed disposal of a subsidiary: | |
| Fair value of interest retained in interest in an associate upon lost of control of a subsidiary | 62,415 |
| Net assets disposed of | (46,006) |
| Non-controlling interests | 20,760 |
| Gain recognised on deemed disposal of a subsidiary | 37,169 |

## 35. CONTINGENT LIABILITIES

At the end of the reporting period, the Group and the Company did not have any significant contingent liabilities (2012: Nil).

## 36. LEASE COMMITMENTS

At the end of the reporting period, the total future minimum lease payments under non-cancellable operating leases in respect of certain office premises and machinery are analysed as follows:

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within one year | **840** | 2,541 |
| In the second to fifth year inclusive | **140** | 2,024 |
| | **980** | 4,565 |

## 37. CAPITAL COMMITMENTS

The Group's capital commitments at the end of the reporting period are as follows:

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Property, plant and equipment | | |
| Contracted but not provided for | **2,125** | 2,314 |

## 38. RELATED PARTY TRANSACTIONS

**(a)** In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material related party transactions.

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Rental expenses paid to a related company | **517** | 876 |

An ex-director, Mr. Hui, has significant influence over the related company.

**(b)** At the end of the reporting period, the Group had an outstanding loan balance of approximately HK$9,000,000 (2012: HK$9,935,000), borrowed from an independent third party, which was guaranteed by Mr. Hui and a property held by a company which is controlled by Mr. Hui.

**(c)** At the end of the reporting period, the Company had an outstanding loan balance of approximately HK$29,000,000 (2012: HK$29,228,000), borrowed from an independent third party, which was secured by share charge of the issued shares of Oncapital Limited, a company controlled by Mr. Hui, and personal guarantee executed by Mr. Hui.

**(d)** **Key management personnel remuneration**

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors, the senior management and all of the highest paid employees as disclosed in note 15, is as follows:

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Short-term employee benefits | **3,798** | 4,738 |
| Post-employment benefits | **33** | 40 |
| | **3,831** | 4,778 |

## 39. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

The table below lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the financial position of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

Particulars of the Company's principal subsidiaries at the end of the reporting period are as follows:

| Name | Place of incorporation/ registration | Issued and paid-up capital | Percentage of the Company's indirect ownership interest | Principal activities |
|---|---|---|---|---|
| 勁富投資有限公司<br>Gainful Investments Limited | Hong Kong | HK$4 | 100% | Investment holding |
| 寶駿有限公司<br>Good Cheers Limited | Hong Kong | HK$4 | 100% | Investment holding |
| 哈爾濱高美印刷有限公司*<br>Harbin Gaomei Printing Company Limited*# | The PRC | US$2,500,000 | 80% | Printing and manufacturing of packaging products |
| Kith Consumer Product Inc. | USA | US$30,000 | 100% | Distribution of television business-related products |
| 僑威信貸有限公司<br>Kith Credit Limited | Hong Kong | HK$4 | 100% | Provision of financial services |
| 僑威電子有限公司<br>Kith Electronics Limited | Hong Kong | HK$4 | 100% | Distribution of electronic products |
| Kith Limited | BVI | US$4 | 100% | Investment holding |
| 僑威資源有限公司<br>Kith Resources Limited | Hong Kong | HK$4 | 100% | Provision of financial services to group companies |
| 雲南僑通包裝印刷有限公司*<br>Yunnan Qiatong Package Printing Co. Ltd.*# | The PRC | US$38,000,000 | 60% | Printing and manufacturing of packaging products |
| 安徽僑豐包裝印刷有限公司*<br>Anhui Qiaofeng Package Printing Co. Ltd.*# | The PRC | US$9,380,000 | 54.8% | Printing and manufacturing of packaging products |
| 昭通新僑彩印有限責任公司**<br>Zhaotong Xinqiao Printing Co. Ltd.**# | The PRC | RMB6,200,000 | 60% | Printing and manufacturing of packaging products |

* These companies are sino-foregin equity joint ventures established in the PRC.

** The company is a limited liability company established in the PRC.

\# The English name is for identification purpose only

## 39. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (CONTINUED)

The Company directly holds the interest in Kith Limited. All other interests above are indirectly held by the Company.

None of the subsidiaries had any debt securities subsisting at the end of the reporting period or at any time during the reporting period.

The following table shows information of subsidiaries that have non-controlling interests ("NCI") material to the Group. The summarised financial information represents amounts before inter-company eliminations.

| Name | 雲南僑通包裝印刷有限公司^ | | 安徽僑豐包裝印刷有限公司 | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Principal place of business and country of incorporation | **PRC** | | **PRC** | |
| % of ownership interests and voting rights held by NCI | **40%** | 40% | **45.2%** | 45.2% |
| **At 31 December:** | | | | |
| Non-current assets | **458,313** | 496,202 | **165,515** | 173,172 |
| Current assets | **375,120** | 422,173 | **64,426** | 56,192 |
| Current liabilities | **(211,648)** | (154,543) | **(41,177)** | (51,405) |
| Net assets | **624,786** | 763,382 | **188,124** | 177,959 |
| Accumulated NCI | **248,714** | 305,533 | **85,032** | 80,437 |
| **Year ended 31 December:** | | | | |
| Revenue | **600,443** | 616,558 | **129,752** | 132,415 |
| Profit | **56,979** | 71,706 | **12,540** | 10,154 |
| Total comprehensive income | **59,233** | 79,010 | **13,301** | 12,164 |
| Profit allocated to NCI | **22,792** | 28,682 | **5,668** | 4,590 |
| Dividends paid to NCI | **80,511** | 26,944 | **727** | 556 |
| Net cash generated from operating activities | **101,554** | 141,767 | **5,546** | 8,776 |
| Net cash used in investing activities | **(14,572)** | (23,453) | **(7,335)** | (8,544) |
| Net cash generated from/(used in) financing activities | **(101,674)** | (134,556) | **3,400** | (6,432) |
| Net increase in cash and cash equivalents | **(14,692)** | (16,242) | **1,611** | (6,200) |

^ included its subsidiaries

**40. LITIGATIONS**

Save as disclosed below, the Directors are not aware of any litigation or claims of material importance pending or threatened by or against the members of the Group at the end of the reporting period:

(a) On 16th November, 2009, the Group decided to dispose the entire equity interest (being 60% of the total paid-up capital) (the "Equity Interest") held by Yunnan Qiaotong, an indirect non wholly-owned subsidiary of the Company, in 昆明市穗江彩印包裝有限責任公司("穗江彩印") which is engaged in printing and manufacturing of packaging products, to the non-controlling shareholder (the "Buyer") of 穗江彩印 at a consideration of approximately HK$5.1 million, which was approved by the owner's meeting held on 16th November, 2009. The Buyer did not execute his verbal commitment to purchase the Equity Interest. On 2nd September, 2010, Yunnan Qiaotong launched a legal proceeding against the Buyer to recover the investment cost, the amount owed by 穗江彩印 to Yunnan Qiaotong and related compensation amount. A court judgement was issued on 11th May, 2011, in which all the legal claims of Yunnan Qiaotong filed an appeal requesting for the court to revoke the judgement of the first trial and claiming against the Buyer for compensation of the economic losses suffered by Yunnan Qiaotong together with the legal costs. On 25th April, 2012, a judgement was laid down by the court dismissing the appeal of Yunnan Qiaotong.

In view of the outcome of the aforesaid legal appeal and management's assessment of the recoverable amounts of assets of 穗江彩印 to be minimal, all the assets of 穗江彩印 had been fully impaired and an impairment loss of approximately HK$8.7 million was recognised in the consolidated income statement during the year ended 31st December, 2010.

(b) On 24 December 2013, the Company received from Multi Rainbow Limited a writ of summons issued in the Hong Kong Court against the Company for repayment of the money in the sum of HK$29 million being the principal amount due under certain loan agreements, accrued interest, costs and further or other relief. The debt formed part of the borrowings and aggregate overdue amounts and referred to in the interim report of the Company for the six months ended 30 June 2013. The Company does not intend to contest this debt.

## 40. LITIGATIONS (CONTINUED)

(c) The Company received from Ultimate Dream Enterprises Limited ("Ultimate Dream") a writ of summons dated 22 January 2014 issued in the Hong Kong Court against the Company for an order for vacant possession of the Premises, mesne profits, damages, interest, costs and further or other relief. The Premises is the Company's head office in Hong Kong.

In view of the said writ of summons, the Provisional Liquidators had been negotiating with Ultimate Dream on the lease of Premises. After months of negotiation, on 28 May 2014, consent had been reached between the Provisional Liquidators (on behalf the Company) and Ultimate Dream. Accordingly, consent summons for discontinuing this action (among others) had been executed on the same day. Subsequently, on 4 June 2014, the Hong Kong Court ordered that, among others, the actions taken by Ultimate Dream be discontinued.

(d) On 19 March 2014, Ever Honest, received from China Rise Finance Company Limited a writ of summons issued in the Hong Kong Court against Ever Honest and Mr. Hui, for repayment of the money in the sum of approximately HK$33.3 million and HK$42.0 million respectively with interest, costs and further or other relief. On 30 April 2014, Ever Honest had filed its defence to the Hong Kong Court.

(e) On 27 March 2014, KRL, received from the Commissioner of Inland Revenue a writ of summons issued in the Hong Kong Court against KRL for approximately HK$0.62 million being tax due with interest, cost and further or other relief.

At the end of the reporting period, adequate provisions have been made against liabilities of the Group's potential obligations under above claims. Having considered the nature of the litigations, and the recognition of liabilities relating thereto, the Directors consider that the outstanding litigations would not have material impacts to the Group and its related business.

## 41. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, there are certain updates on the Group's proposed restructuring in progress, and further details of which are stated in note 2 to the consolidated financial statements.

## 42. COMPARATIVE FIGURES

The comparative statement of profit or loss has been re-presented as if the operation discontinued during the current year had been discontinued at the beginning of the comparative period (note 13)

## 43. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 9 January 2015.