# 年報
# ANNUAL REPORT 2016

ALCO HOLDINGS LIMITED

股份代號：328　Stock Code: 328

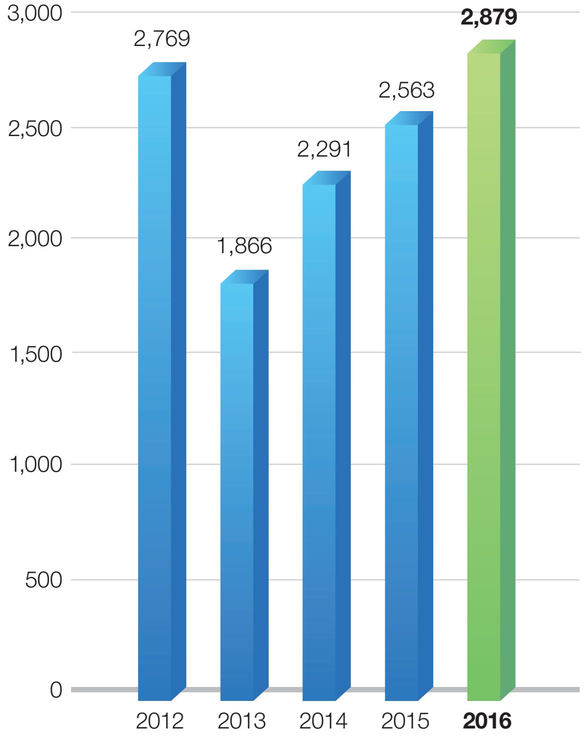
# Contents

# Corporate Information

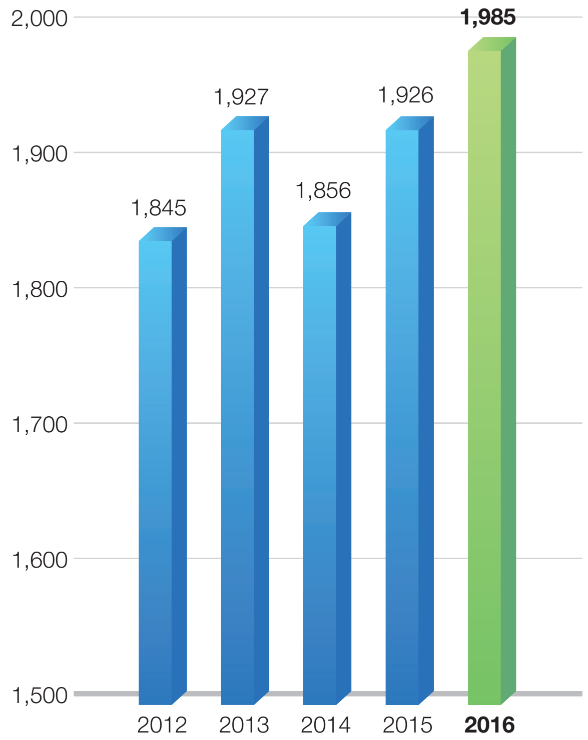
| | |
|---|---|
| **Directors** | Mr LEUNG Kai Ching, Kimen *(Chairman)*<br>Mr LEUNG Wai Sing, Wilson<br>Mr KUOK Kun Man<br>Mr LEUNG, Jimmy<br>Mr LIU Lup Man<br>Mr LI Wah Ming, *S.B.S., J.P.**<br>Mr LEE Tak Chi*<br>Mr CHEUNG, Johnson*<br><br>* *Independent non-executive directors* |
| **Company Secretary** | Mr KUOK Kun Man |
| **Principal Bankers** | Hang Seng Bank Limited<br>The Hongkong and Shanghai Banking Corporation Limited<br>Bank of China (Hong Kong) Limited<br>Industrial and Commercial Bank of China (Asia) Limited<br>The Bank of Tokyo-Mitsubishi UFJ Limited |
| **Auditor** | PricewaterhouseCoopers |
| **Legal Advisers** | Kwok Yih & Chan, Solicitors |
| **Legal Advisers on Bermuda Law** | Conyers, Dill & Pearman |
| **Registered Office** | Clarendon House<br>2 Church Street<br>Hamilton HM11<br>Bermuda |
| **Head Office and Principal Place of Business** | 11th Floor, Zung Fu Industrial Building<br>1067 King's Road<br>Quarry Bay<br>Hong Kong |
| **Principal Registrars** | Codan Services Limited<br>Clarendon House<br>2 Church Street<br>Hamilton HM11<br>Bermuda |
| **Registrars in Hong Kong** | Tricor Abacus Limited<br>Level 22, Hopewell Centre<br>183 Queen's Road East<br>Hong Kong |
| **Website** | http://www.alco.com.hk |
| **Stock Code** | 328 |

# Financial Highlights

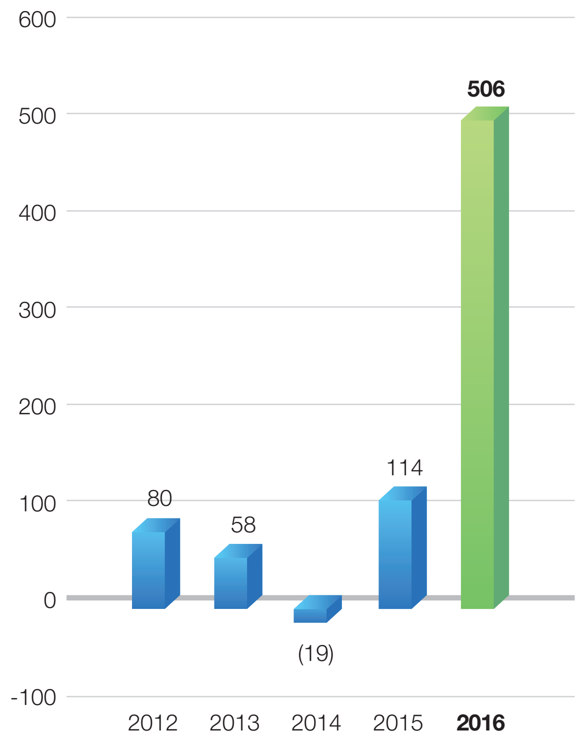
## REVENUE
(HK$ MILLION)



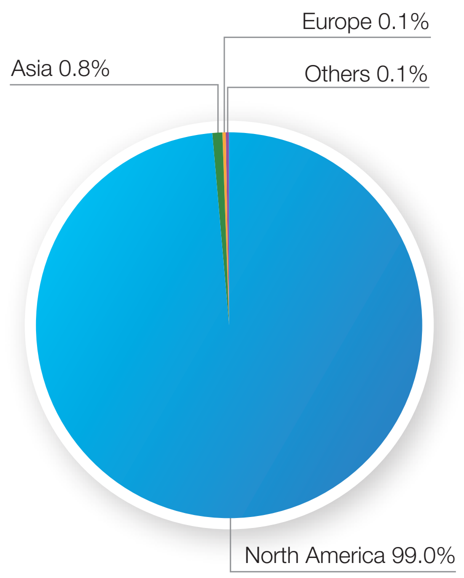

## EQUITY
(HK$ MILLION)




## PROFIT/(LOSS) ATTRIBUTABLE TO EQUITY HOLDERS
(HK$ MILLION)




## REVENUE BY GEOGRAPHICAL SEGMENT IN 2016



# Chairman's Statement

## GROUP RESULTS AND DIVIDENDS

During the latest financial period, the Group continued to perform encouragingly, with turnover rising by 12% year-on-year to HK$2.9 billion (2015: HK$2.6 billion). Correspondingly, profit attributable to shareholders rose to HK$506 million (2015: HK$114 million), which included a gain of HK$221 million on the disposal of properties.

In view of the strong cash position and in line with the Board of Directors' commitment to observing a stable dividend payout policy, the directors have resolved to declare a final dividend of HK30 cents (2015: HK10 cents) per share. This, combined with the interim dividend of HK6 cents per share already paid (2015: HK3 cents) and a special dividend of HK60 cents per share declared, represents a total dividend of HK96 cents per share for the financial year (2015: HK13 cents).

The final dividend will be paid on 12th September 2016 to the Group's shareholders upon approval at the upcoming Annual General Meeting.

# Chairman's Statement

## REVIEW OF OPERATIONS

During the year under review, the profit generated from the operation saw a great improvement. The Group registered a revenue growth of more than 12 percent following the successful launch of a series of tablets in the markets. Through the stringent quality assurance programs, products' return rate has been further reduced.

To maintain our competitiveness in the market, we have implemented a series of measures to reduce the manufacturing costs while improving the production efficiency. This focused in the areas of product engineering, material cost control, man power review, new production line arrangement and factory overhead control. Despite the wage inflation in China at the beginning of the year, we were able to monitor the wages by reducing the headcount from 2,300 to 1,700. The introduction of new production lines and the massive investment in automation not only assured the quality requirement but also improving the production efficiency, and the ultimate benefit was reflected in the saving of manufacturing overheads.

The gradual economic recovery in the United States has helped to improve consumption sentiment. Capitalizing on this development, ALCO has launched a series of tablets and personal computing products catering to first time users. This year, ALCO has further extended the product line-up from screen sizes of 7-inch, 10-inch and up to 12-inch in Android and Windows operating systems. At the moment, the company has good commanding market share of entry level personal computing products and tablets in North America.

Aside from the solid performance of our personal computing products and infotainment products, the Group's existing line of AV products has remained an important foundation and source of stable revenue. Comprising sound bar systems, amplifiers, Bluetooth wireless speakers, DVD players, Blu-ray players and home theatre systems, among others, they continue to satisfy the needs of a wide range of customers.

Ensuring that both existing products and products developed in the future are, and will be, produced in an efficient manner is our Houjie Town production facility. Now an integral part of our makeup, the facility enables us to produce sophisticated, high-value products that are the epitome of quality and reliability. And reflecting our ongoing commitment to product quality and reliability, the Group has invested HK$24 million in 3D Automated Optical Inspection equipment, 3D Automated X-Ray Inspection equipment and other reliability testing equipment during the year. Furthermore, we have also further invested HK$27 million in brand new and state-of-the-art SMT (Surface Mount Technology) assembly lines that are both more efficient and precise than their old counterparts. We are also making headway in restructuring and simplifying production processes so that we can raise efficiency, increase quality, and reduce costs still further.

Besides optimising production, we are also mindful of the importance of optimising returns for our investors. Taking into account the property market conditions, the Group has disposed three of its properties in Hong Kong during the year and resulted in a gain of HK$221 million. The Group has also signed a sale and lease back agreement for one of the three properties sold as its head office for a term of three years. The rent for the first and second years is HK$1 per annum respectively. On the third year, the rent is capped at HK$250,000 per month exclusive of rates, government rent and management fee.

# Chairman's Statement

## PROSPECTS

The US economy is expected to continue expanding, though remaining at a modest pace in the coming year. While there are economic and political concerns on the horizon, the demand for good-value/high-quality electronic products is constant.

In the coming year, we will look to build on the sales momentum achieved by our tablet series which have proved to be important growth drivers. To appeal to an even wider breadth of customers, we will be introducing still larger sized tablets and personal computing products – currently in the product development pipeline are sizes ranging from 14-inch, to 17-inch, and even up to 19-inch. Besides greater choices in size, more productivity accessories will be offered as well, expanding from detachable keyboards to the possible inclusion of an active stylus and wireless mouse to provide more features options in the portfolio of these products.

With regards to our AV products, they will continue to be among our primary revenue streams. The current offering, which includes the Group's sound bar systems, has remained evergreen through ongoing updates that correspond with market trends. Such efforts will duly continue, as will step to optimise the production of these products so that they provide fair returns to the Group well into the future.

Given our strong product development capability and solid financial position, we will also continue to explore new business opportunities that open up fresh revenue streams.

Furthermore, mindful of the increasing sophistication of our products, brand association will play a growing role in attracting consumers. While we already have a renowned brand under license for tackling the US market, a dedicated brand for better penetrating Europe and Asia among other markets is needed. Consequently, the 'Venturer' brand will be used for such a purpose. Venturer has already been on the market for several decades, and its transformation into a more premium brand will be in line with the products that it represents: technologically advanced, well designed and high-quality tablets, audio systems and personal computing products.

# Chairman's Statement

As we further develop the Group's products and business interests in the coming year, we will leverage the management's depth of experience to ensure that such efforts result in optimum returns. We are fully committed to sustaining the growth of the Group by both building on past achievements and seizing future opportunities that play to our strengths, and in so doing deliver favourable returns to all of our shareholders.

## APPRECIATION

On behalf of the Board of Directors, I would like to take this opportunity to express my gratitude to the entire management team and the entire Alco workforce for their commitment and diligence over the past year. Furthermore, I wish to offer my appreciation to all of our customers, business partners and shareholders for their unequivocal support.

**LEUNG Kai Ching, Kimen**
*Chairman*

Hong Kong, 22nd June 2016

# Biographical Details of Directors and Senior Management

## Executive Directors

Mr LEUNG Kai Ching, Kimen, aged 83, is the founder and Chairman of the Group. He has more than 49 years of experience and is one of the pioneers in the electronics industry in Hong Kong. He has in-depth knowledge in the electronics field and is responsible for formulating the Group's overall strategy and development.

Mr LEUNG Wai Sing, Wilson, aged 56, is a son of the Chairman of the Group and joined the Group in 1985. He is the Chief Executive Officer of the Group and takes full charge of the Group's overall strategy and operations. He holds a master of science degree in electrical engineering from Queen's University, Canada.

Mr KUOK Kun Man, aged 62, joined the Group in 1990 and is the Company Secretary and Director of the Group. He holds a master degree in business administration and has more than 39 years of experience in finance and accounting with multinational organisations.

Mr LEUNG, Jimmy, aged 47, is a son of the Chairman of the Group. He joined the Group in 1993 and was appointed as executive director in 2013. He has more than 23 years of experience in the field of audio electronic products and oversees the Group's purchasing function.

Mr LIU Lup Man, aged 44, joined the Group in 2005 and was appointed as executive director in 2013. He holds a bachelor degree from the University of Toronto, Canada, and is a Fellow Member of the HKICPA and the ACCA. He has over 21 years of experience in auditing and accounting.

## Independent Non-executive Directors

Mr LI Wah Ming, *S.B.S., J.P.*, aged 61, joined the Group in 1992 and is the director of a consultancy company. He holds a bachelor degree in arts from the University of Waterloo, Canada and a master degree in social work from the University of Toronto, Canada.

Mr LEE Tak Chi, aged 61, joined the Group in 2011 and is the Professor of School of Design, The Hong Kong Polytechnic University, he also serves as Board of Director of Automotive Parts and Accessory Systems R&D Centre Limited.

Mr CHEUNG, Johnson, aged 50, joined the group in 2016 and holds a Bachelor of Science Degree (Hons) in Biology and a Master of Arts Degree in Economics from the University of British Columbia. He has more than 24 years of experience in the equity market and presently is the Head of Research at CMBC International Holdings Limited.

# Biographical Details of Directors and Senior Management

**Senior Management**

Mr LEUNG Wai Lap, David, aged 55, is a son of the Chairman of the Group. He joined the Group in 2005 and is the senior sales manager of the Group. He oversees the sales and marketing for the Group's products and service in North America.

Mr YIP Wing Shing, David, *B.B.S., M.H., J.P.*, aged 58, joined the Group in 1973. He is the Group's general manager and oversees the whole operation of the Dongguan factory. He has over 32 years of experience in the field of consumer electronic products.

Mr YICK Ka Lei, Danny, aged 49, joined the Group in 2015. He is the Managing Director of Alco International Limited and is responsible for business development for branded business in overseas market. He holds BSc Honours degree in Electrical & Electronics Engineering from University of Manchester and MBA from University of Warwick, and has over 19 years of experience in the field of consumer electronics. Before joining the Group, Mr Yick held senior management positions with Philips, TCL Multimedia Limited and other major corporations.

# Corporate Governance Report

## CORPORATE GOVERNANCE PRACTICES

The Company has complied with all the applicable code provisions set out in the Corporate Governance Code and Corporate Governance Report (the "Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") for the 12 months ended 31st March 2016, except with deviation from code provision A.5.1.

Following the resignation of an independent non-executive director on 17th March 2016, the nomination committee did not comprise a majority of independent non-executive directors, which deviated from the code provision A.5.1. After the year end, on 6th April 2016, a new independent non-executive director was appointed. The deviation was rectified accordingly.

## THE BOARD

The Board is responsible for the formulation of the Group's business and strategic decisions and monitoring the performances of the management team.

The Board currently comprises five executive directors, namely Mr LEUNG Kai Ching, Kimen, Mr LEUNG Wai Sing, Wilson, Mr KUOK Kun Man, Mr LEUNG, Jimmy and Mr LIU Lup Man and three independent non-executive directors, namely Mr LI Wah Ming, Mr LEE Tak Chi and Mr CHEUNG, Johnson (appointed on 6th April 2016).

Five Board meetings were held during the year ended 31st March 2016. The attendance of each director is set out as follows:

| Members of the Board | Attended/Eligible to attend |
|---|---|
| *Executive Directors* | |
| Mr LEUNG Kai Ching, Kimen | 4/5 |
| Mr LEUNG Wai Sing, Wilson | 4/5 |
| Mr KUOK Kun Man | 5/5 |
| Mr LEUNG, Jimmy | 4/5 |
| Mr LIU Lup Man | 5/5 |
| *Independent Non-executive Directors* | |
| Mr LI Wah Ming | 5/5 |
| Mr LAU Wang Yip, Derrick (resigned on 17th March 2016) | 5/5 |
| Mr LEE Tak Chi | 5/5 |

The Company has received an annual confirmation of independence from each of the independent non-executive directors in accordance with rule 3.13 of the Listing Rules. The Board has assessed their independence and concluded that all independent non-executive directors are independent.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr LEUNG Kai Ching, Kimen is the chairman and Mr LEUNG Wai Sing, Wilson is the chief executive officer.

## RE-ELECTION OF DIRECTORS

Mr LI Wah Ming and Mr CHEUNG, Johnson will retire at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

## 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 to the Listing Rules (the "Model Code") as its own code of conduct regarding securities transactions by the directors of the Company. Having made specific enquiry of the directors, all the directors confirmed that they had complied with the required standards as set out in the Model Code and its code of conduct regarding directors' securities transactions with the Company for the 12 months ended 31st March 2016.

## REMUNERATION COMMITTEE

The Company has established a remuneration committee with written terms of reference in accordance with the Code provisions.

The remuneration committee currently comprises Mr CHEUNG, Johnson (appointed on 6th April 2016) (chairman of the remuneration committee), Mr LI Wah Ming and Mr LEE Tak Chi, all of whom are independent non-executive directors.

The primary duties of the remuneration committee are to make recommendation on the policy and structure for the remuneration of the directors and senior management, and to consider and approve remuneration of the directors and senior management by reference to corporate goals and objectives. The existing remuneration package contains a combination of basic salary, discretionary performance bonus and fringe benefits. For the year, the remuneration committee was of the opinion that the remuneration packages were fair and commensurate with the market.

One remuneration committee meeting was held during the year ended 31st March 2016 and the attendance of each committee member is set out as follows:

| Members of the Remuneration Committee | Attended/Eligible to attend |
|---|---|
| Mr LAU Wang Yip, Derrick (resigned on 17th March 2016) | 1/1 |
| Mr LI Wah Ming | 1/1 |
| Mr LEE Tak Chi | 1/1 |

# Corporate Governance Report

## AUDIT COMMITTEE

The audit committee currently comprises Mr CHEUNG, Johnson (appointed on 6th April 2016) (chairman of the audit committee), Mr LI Wah Ming and Mr LEE Tak Chi, all of whom are independent non-executive directors.

The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including the review of the financial statements of the Group for the year ended 31st March 2016.

Two audit committee meetings were held during the year ended 31st March 2016 and the attendance of each committee member is set out as follows:

| Members of the Audit Committee | Attended/Eligible to attend |
|---|---|
| Mr LAU Wang Yip, Derrick (resigned on 17th March 2016) | 2/2 |
| Mr LI Wah Ming | 2/2 |
| Mr LEE Tak Chi | 2/2 |

## NOMINATION COMMITTEE

The Company established a nomination committee with written terms of reference in accordance with the Code provisions.

The nomination committee currently comprises Mr LEUNG Kai Ching, Kimen (chairman of the nomination committee), Mr LEUNG Wai Sing, Wilson, Mr LI Wah Ming, Mr LEE Tak Chi and Mr CHEUNG, Johnson (appointed on 6th April 2016).

The primary duties of the nomination committee are to review the structure, size and composition of the Board, and to identify individuals suitably qualified to become board members and select or make recommendations to the Board on the selection of individuals nominated for directorship. Besides, the nomination committee has adopted a board diversity policy in which the diversity of board members can be achieved through consideration of a number of factors, including but not limited to gender, age, cultural and educational background, skills, knowledge and professional experience. The above aspects will be taken into account when the selection of board members is necessary.

One nomination committee meeting was held during the year ended 31st March 2016 and the attendance of each committee member is set out as follows:

| Members of the Nomination Committee | Attended/Eligible to attend |
|---|---|
| Mr LEUNG Kai Ching, Kimen | 0/1 |
| Mr LEUNG Wai Sing, Wilson | 1/1 |
| Mr LI Wah Ming | 1/1 |
| Mr LAU Wang Yip, Derrick (resigned on 17th March 2016) | 1/1 |
| Mr LEE Tak Chi | 1/1 |

## DIRECTORS' AND AUDITOR'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors acknowledge their responsibility for the preparation of the financial statements of the Group. In preparing the financial statements, the Hong Kong Financial Reporting Standards have been adopted, appropriate accounting policies have been used and applied consistently, and reasonable and prudent judgements and estimates have been made. The Board is not aware of any material uncertainties relating to events or conditions which may cast significant doubt over the Group's ability to continue as a going concern. Accordingly, the Board has continued to adopt the going concern basis in preparing the financial statements.

The auditor's responsibilities are set out in the Independent Auditor's Report.

## AUDITOR'S REMUNERATION

For the year ended 31st March 2016, the remuneration paid to the Company's auditor, PricewaterhouseCoopers, is set out as follows:

| **Services rendered** | **Fees paid/payable** |
|---|---|
| | HK$'000 |
| Audit-related services | 2,100 |
| Non audit-related services | |
| Tax compliance services | 146 |
| Services performed in relation to the issue of circular for the disposal of the properties | 230 |

## DIRECTOR'S TRAINING

During the year under review, all directors have participated in professional training relevant to business developments and regulatory updates. All directors have provided the Company with their records of training which they received during the financial year.

## INTERNAL CONTROL

The Board is responsible for the internal control system of the Group. The Board requires management to establish and maintain sound and effective internal controls, which cover all material controls, including financial, operational and compliance and risk management functions. The Board and the audit committee are of the view that the resources, qualifications and experience of staff of the Group's internal audit and accounting functions are adequate.

# Corporate Governance Report

## COMMUNICATION WITH SHAREHOLDERS

In order to allow shareholders and potential investors to make enquiries and provide comments in an informed manner, the Company has established a Shareholders' Communication Policy which sets out the ways shareholders and potential investors may communicate with the Company.

Shareholders and potential investors may send written enquiries to the Company Secretary of the Company by email to investor.enquiry@alco.com.hk, by fax to (852) 2597 8700 or by mail to 11/F, Zung Fu Industrial Building, 1067 King's Road, Quarry Bay, Hong Kong.

## SHAREHOLDERS TO CONVENE A SPECIAL GENERAL MEETING

Under the Company's Bye-laws, shareholders holding not less than one-tenth of the paid-up capital of the Company can, by deposit a written requisition signed by the shareholders concerned to the Board or the Company Secretary to the principal place of business of the Company at 11/F, Zung Fu Industrial Building, 1067 King's Road, Quarry Bay, Hong Kong, require a special general meeting to be called by the Board for the transaction of any business specified in such requisition.

## CONCLUSION

The Board believes that good corporate governance can safeguard the effective allocation of resources and protect shareholders' interest. The management will try to maintain, strengthen and improve the standard and quality of the Group's corporate governance.

# Report of the Directors

The directors submit their report together with the audited financial statements for the year ended 31st March 2016.

## PRINCIPAL ACTIVITIES AND SEGMENT ANALYSIS

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in Note 18 to the consolidated financial statements.

Analysis of the Group's performance for the year by product and geographical area is set out in Note 5 to the consolidated financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on pages 27.

The directors have declared an interim dividend of HK6 cents per ordinary share, totalling HK$34,762,000.

The directors have declared a special dividend of HK60 cents per ordinary share, totalling HK$347,621,000.

The directors recommended the payment of a final dividend of HK30 cents per ordinary share, totalling HK$173,810,000.

## BUSINESS REVIEW

A review of the business of the Group during the year as required by Schedule 5 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) is included in the Report of the Directors and covered by different sections in this annual report. Those sections form part of this Report of the Directors.

## ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to managing and, where possible, minimizing environmental impacts attributable to its operation. The Group actively controls and endeavors to reduce emissions and waste, and uses energy and resources in an efficient manner. It also uses environmental-friendly production parts in its manufacturing operation. In addition, the Group's management team constantly reviews the effectiveness of the environmental protection measures and makes improvement where necessary.

# Report of the Directors

## RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group recognizes the importance of good relationships with its employees, customers and suppliers to meet long-term business goals.

Employees are considered valuable assets of the Group and are reasonably remunerated according to performance, qualification and market trend. Remuneration packages, including medical insurance and education subsidies, will be reviewed regularly.

The Group has been building long-term relationships with customers and suppliers. A good relationship with suppliers helps develop practices of punctual delivery of raw materials with good condition. With reliable production parts, we are able to produce products with high quality and reliability for our customers. These all in turn benefit the Company and its shareholders as a whole.

## IMPORTANT EVENTS AFTER YEAR END

As far as the Company is aware, no important events affecting the Company that have occurred since the end of the financial year.

## COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the year, as far as the Company is aware, there was no material breach of or non-compliance with relevant laws and regulations that have a significant impact on the business and operation of the Group.

## LIQUIDITY AND FINANCIAL RESOURCES

The Group's total equity and total equity per share as at 31st March 2016 were HK$1,985 million (2015: HK$1,926 million) and HK$3.43 (2015: HK$3.32) respectively.

The Group maintains a strong financial position. To provide additional working capital to meet seasonal orders, during the year we arranged a three-year loan facility with several major banks for a total standby amount of US$80 million. As at 31st March 2016, we had cash and deposits of HK$1,592 million. After deducting bank loans of HK$233 million, we had net cash of HK$1,359 million. The Group has adequate liquidity for future working capital requirements.

As at 31st March 2016, our inventory was HK$316 million (2015: HK$404 million). We take a cautious approach to monitor the inventory level especially during this environment with uncertainty.

Trade receivables balance as at 31st March 2016 was HK$662 million (2015: HK$533 million). As it is our policy to deal with creditworthy customers and to adopt a prudent credit policy, credit risk is kept at minimal.

Trade payables balance as at 31st March 2016 was HK$290 million (2015: HK$460 million).

## LIQUIDITY AND FINANCIAL RESOURCES (CONTINUED)

Capital expenditure on fixed assets during the year was HK$70 million (2015: HK$34 million). As at 31st March 2016, we had capital commitments contracted but not provided for in respect of moulds, plant and machinery and renovation amounting to HK$11,878,000 (2015: HK$16,018,000).

Due to peg-rate system, we have limited exposure to trade-related foreign exchange risk as substantially all of our sales, purchases and borrowings are denominated in United States dollars and Hong Kong dollars. Adhering to the policy of not engaging in currency speculation, there was no gain or loss from speculative activities during the reporting financial year.

To naturally hedge against the potential cost impact caused by RMB, the Group has diversified its cash portfolio by investing in RMB denominated deposits. As at 31st March 2016, the amount totalled RMB126 million.

## EMPLOYEES

As at 31st March 2016, the Group had approximately 1,700 (2015: 2,300) employees in Hong Kong and the PRC. Remuneration packages are generally structured by reference to market terms and individual qualifications. Salaries and wages are normally reviewed on an annual basis based on performance appraisals and other relevant factors. We also provide other benefits including medical insurance, provident fund and education subsidies to all eligible staff.

## MAJOR SUPPLIERS AND CUSTOMERS

The purchases and sales attributable to the Group's major suppliers and customers expressed as a percentage of total purchases and sales of the Group for the year ended 31st March 2016 are as follows:

| | |
|---|---|
| Purchases | |
| – the largest supplier | 15% |
| – five largest suppliers combined | 47% |
| Sales | |
| – the largest customer | 92% |
| – five largest customers combined | 98% |

None of the directors, their associates or shareholders (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above at any time during the year.

# Report of the Directors

## RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in Note 26 and Note 32 to the consolidated financial statements respectively.

## DONATIONS

Charitable and other donation made by the Group during the year amounted to HK$30,000.

## PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in Note 14 to the consolidated financial statements.

## PRINCIPAL PROPERTIES

Details of the principal properties held for investment purposes are set out on page 87.

## SHARE CAPITAL

Details of the movements in the share capital of the Company are set out in Note 25 to the consolidated financial statements.

## DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31st March 2016 amounted to HK$749,247,000 (2015: HK$761,881,000), comprising retained earnings and contributed surplus.

## FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 88.

## PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor its subsidiary companies has purchased or sold any of the Company's shares during the year ended 31st March 2016 and the Company has not redeemed any of its shares during the same financial year.

## BANK LOANS AND OTHER BORROWINGS

An analysis of the Group's bank borrowings and trust receipt loans at 31st March 2016 and 2015 is set out below:

| | Trust receipt loans | | Bank borrowings | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Within one year | **–** | 1,654 | **9,700** | 50,000 |
| In the second to fifth year | **–** | – | **223,100** | – |
| | **–** | 1,654 | **232,800** | 50,000 |

## PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31st March 2016 are set out in Note 18 to the consolidated financial statements.

## RETIREMENT BENEFIT SCHEMES

Details of the Group's retirement benefit schemes are set out in Note 8 to the consolidated financial statements.

### Directors

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

Mr LEUNG Kai Ching, Kimen
Mr LEUNG Wai Sing, Wilson
Mr KUOK Kun Man
Mr LEUNG, Jimmy
Mr LIU Lup Man
Mr LI Wah Ming, *S.B.S., J.P.* [1]
Mr LAU Wang Yip, Derrick (resigned on 17th March 2016) [1]
Mr LEE Tak Chi [1]
Mr CHEUNG, Johnson (appointed on 6th April 2016) [1]

[1] *Independent non-executive directors*

In accordance with clauses 87(1) and 86(2) of the Company's Bye-laws, Mr LI Wah Ming and Mr CHEUNG, Johnson will retire respectively at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

# Report of the Directors

## DIRECTORS' SERVICE CONTRACT

Each of the executive directors has entered into a service contract with the Company for a term of 3 years and shall continue until terminated by either party giving to the other not less than 3 months notice in writing.

Each of the independent non-executive directors has entered into a service contracts with the Company for a term of 3 years and shall continue until terminated by either party giving to the other not less than 2 months notice in writing.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of directors and senior management are set out on pages 8 and 9.

## DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company, or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the directors of the Company has an interest in a business which competes or may compete with the business of the Group.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

### (a) Long positions in ordinary shares of HK$0.10 each of the Company

As at 31st March 2016, the interests and short positions of each director and chief executives in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept by the Company under Section 352 of Part XV of the SFO or otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

| | Number of shares held | | | Percentage of the issued share capital of the Company |
|---|---|---|---|---|
| | Personal interest | Corporate interest | Total | |
| Mr LEUNG Kai Ching, Kimen | 20,152,000 | 225,911,400 (Note) | 246,063,400 | 42.47% |
| Mr LEUNG Wai Sing, Wilson | 46,320,000 | – | 46,320,000 | 7.99% |
| Mr LEUNG, Jimmy | 1,144,000 | – | 1,144,000 | 0.20% |
| Mr KUOK Kun Man | 752,000 | – | 752,000 | 0.13% |
| Mr LI Wah Ming | 260,000 | – | 260,000 | 0.04% |

Note:

These shares were owned by Shundean Investments Limited, a company incorporated in the British Virgin Islands with limited liability, of which Mr LEUNG Kai Ching, Kimen is the sole shareholder.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION (CONTINUED)

**(b) Long positions in underlying shares of the Company**

At no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors or the chief executives or their spouses or children under 18 years of age to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

Save as disclosed above, as at 31st March 2016, other than one ordinary share each in certain Hong Kong incorporated subsidiaries of the Company held in trust for the Group by Mr LEUNG Kai Ching, Kimen, none of the directors and chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations required to be disclosed pursuant to the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

The register of substantial shareholders required to be kept under section 336 of Part XV of the SFO shows that as at 31st March 2016, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the directors and chief executives.

| Name | Capacity in which shares were held | Number of shares – Long position | Percentage of the issued share capital of the Company |
|---|---|---|---|
| Shundean Investments Limited | Beneficial owner | 225,911,400 (Note i) | 38.99% |
| Mr Webb David Michael | Beneficial owner | 52,367,400 (Note ii) | 9.04% |
| Preferable Situation Assets Limited | Beneficial owner | 35,749,000 (Note ii) | 6.17% |
| Mr LEUNG Wai Lap, David | Beneficial owner | 34,828,190 | 6.01% |

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY (CONTINUED)

Notes:

(i) These shares were owned by Shundean Investments Limited, a company incorporated in the British Virgin Islands with limited liability, of which Mr LEUNG Kai Ching, Kimen is the sole shareholder.

(ii) Mr Webb David Michael beneficially owned 16,618,400 shares, and in addition he held 35,749,000 shares through Preferable Situation Assets Limited, which was 100% directly owned by him.

Save as disclosed above, as at 31st March 2016, according to the register of interests required to be kept by the Company under Section 336 of Part XV of the SFO, there was no person, other than the directors of the Company, whose interests are set out in the section headed "Directors' and chief executives' interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation" above, who had any interest or short position in the shares or underlying shares of the Company.

## SHARE OPTION SCHEME

There was no share option scheme for the year ended 31st March 2016.

## MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws although there are no restrictions against such rights under the laws in Bermuda.

# Report of the Directors

## CORPORATE GOVERNANCE

The Company is maintaining a high standard of corporate governance practices. Details of the corporate governance practices adopted by the Company are set out in Corporate Governance Report on pages 10 to 14.

## AUDIT COMMITTEE

The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of the financial statements of the Group for the year ended 31st March 2016.

The audit committee currently comprises three independent non-executive directors of the Company, namely Mr CHEUNG, Johnson (appointed on 6th April 2016), Mr LI Wah Ming and Mr LEE Tak Chi.

## SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to and within the knowledge of the directors, it is confirmed that there is sufficient public float of more than 25% of the Company's issued shares at all times during the year ended 31st March 2016 and up to the date of this report.

## AUDITOR

The financial statements have been audited by PricewaterhouseCoopers who will retire and, being eligible, offer themselves for re-appointment at the forthcoming Annual General Meeting of the Company.

By order of the Board

**LEUNG Kai Ching, Kimen**
*Chairman*

Hong Kong, 22nd June 2016

# Independent Auditor's Report

pwc

羅兵咸永道

**TO THE SHAREHOLDERS OF ALCO HOLDINGS LIMITED**

*(incorporated in Bermuda with limited liability)*

We have audited the consolidated financial statements of Alco Holdings Limited (the "Company") and its subsidiaries set out on pages 27 to 86, which comprise the consolidated balance sheet as at 31st March 2016, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the 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 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 Section 90 of the Companies Act 1981 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.

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.

*PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong*
*T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com*

# Independent Auditor's Report

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries as at 31st March 2016, and of their financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

**PricewaterhouseCoopers**
*Certified Public Accountants*

Hong Kong, 22nd June 2016

*PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong*
*T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com*

# Consolidated Income Statement

*For the year ended 31st March 2016*

| | Note | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|---|
| Revenue | 5 | **2,879,104** | 2,562,566 |
| Cost of goods sold | 7 | **(2,380,634)** | (2,275,384) |
| Gross profit | | **498,470** | 287,182 |
| Other income | 6 | **10,129** | 18,985 |
| Selling expenses | 7 | **(104,200)** | (98,187) |
| Administrative expenses | 7 | **(87,424)** | (69,034) |
| Other operating expenses | 7 | **(17,473)** | (21,231) |
| Gain on disposal of properties | 29 | **221,318** | – |
| Operating profit | | **520,820** | 117,715 |
| Finance income | 10 | **13,276** | 13,693 |
| Finance costs | 10 | **(8,695)** | (6,831) |
| Profit before income tax | | **525,401** | 124,577 |
| Income tax expense | 11 | **(19,382)** | (10,402) |
| **Profit for the year** | | **506,019** | 114,175 |
| **Profit for the year attributable to:** | | | |
| – Equity holders of the Company | | **506,028** | 114,250 |
| – Non-controlling interests | | **(9)** | (75) |
| | | **506,019** | 114,175 |
| **Earnings per share attributable to equity holders of the Company** | | | |
| – Basic | 12 | **HK87.3 cents** | HK19.7 cents |
| – Diluted | 12 | **HK87.3 cents** | HK19.7 cents |
| Dividends | 13 | **556,193** | 75,318 |

The notes on pages 33 to 86 are an integral part of these consolidated financial statements.

# Consolidated Statement of Comprehensive Income

*For the year ended 31st March 2016*

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Profit for the year | **506,019** | 114,175 |
| Other comprehensive loss, net of tax | | |
| *Item that may be reclassified subsequently to profit or loss* | | |
| Currency translation differences | **(7,036)** | (2,156) |
| Total comprehensive income for the year | **498,983** | 112,019 |
| **Total comprehensive income for the year attributable to:** | | |
| – Equity holders of the Company | **498,992** | 112,094 |
| – Non-controlling interests | **(9)** | (75) |
| | **498,983** | 112,019 |

The notes on pages 33 to 86 are an integral part of these consolidated financial statements.

# Consolidated Balance Sheet

*As at 31st March 2016*

| | Note | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 14 | **198,312** | 200,846 |
| Investment properties | 15 | **79,420** | 315,670 |
| Leasehold land and land use rights | 16 | **6,423** | 6,815 |
| Intangible assets | 17 | **13,650** | 21,450 |
| Deferred income tax assets | 27 | **32,371** | 38,811 |
| Prepayments, deposits and other receivables | 21 | **41,068** | 60,692 |
| | | **371,244** | 644,284 |
| **Current assets** | | | |
| Inventories | 20 | **315,639** | 403,540 |
| Trade and other receivables | 21 | **692,934** | 560,988 |
| Cash and cash equivalents | 22 | **1,591,643** | 888,335 |
| | | **2,600,216** | 1,852,863 |
| **Current liabilities** | | | |
| Trade and other payables | 23 | **348,390** | 512,072 |
| Dividend payable | 13 | **347,621** | – |
| Current income tax liabilities | | **6,755** | 7,086 |
| Deferred gain | 29 | **17,450** | – |
| Trust receipt loan | | **–** | 1,654 |
| Borrowings | 24 | **9,700** | 50,000 |
| | | **729,916** | 570,812 |
| **Net current assets** | | **1,870,300** | 1,282,051 |
| **Total assets less current liabilities** | | **2,241,544** | 1,926,335 |

# Consolidated Balance Sheet

*As at 31st March 2016*

| | Note | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|---|
| **Capital and reserves attributable to equity holders of the Company** | | | |
| Share capital | 25 | **57,937** | 57,937 |
| Reserves | 26 | **1,927,497** | 1,868,825 |
| | | **1,985,434** | 1,926,762 |
| **Non-controlling interests** | | **(436)** | (427) |
| **Total equity** | | **1,984,998** | 1,926,335 |
| **Non-current liabilities** | | | |
| Deferred gain | 29 | **33,446** | – |
| Borrowings | 24 | **223,100** | – |
| | | **256,546** | – |
| **Total equity and non-current liabilities** | | **2,241,544** | 1,926,335 |

The consolidated financial statements on pages 27 to 86 were approved by the Board of Directors on 22nd June 2016 and were signed on its behalf.

**LEUNG Kai Ching, Kimen**
*Director*

**LEUNG Wai Sing, Wilson**
*Director*

The notes on pages 33 to 86 are an integral part of these consolidated financial statements.

# Consolidated Statement of Changes in Equity

*For the year ended 31st March 2016*

| | Attributable to equity holders of the Company | | | | | |
|---|---|---|---|---|---|---|
| | Share capital HK$'000 | Other reserves HK$'000 | Retained earnings HK$'000 | Total HK$'000 | Non-controlling interests HK$'000 | Total equity HK$'000 |
| **At 1st April 2014** | 58,009 | 381,405 | 1,416,859 | 1,856,273 | (352) | 1,855,921 |
| **Comprehensive income/(loss)** | | | | | | |
| Profit/(loss) for the year | – | – | 114,250 | 114,250 | (75) | 114,175 |
| **Other comprehensive loss** | | | | | | |
| Currency translation differences | – | (2,156) | – | (2,156) | – | (2,156) |
| **Total comprehensive (loss)/income** | – | (2,156) | 114,250 | 112,094 | (75) | 112,019 |
| **Transactions with owners** | | | | | | |
| 2015 interim dividend | – | – | (17,381) | (17,381) | – | (17,381) |
| 2014 final dividend | – | – | (23,175) | (23,175) | – | (23,175) |
| Repurchase of the Company's own shares | (72) | (905) | (72) | (1,049) | – | (1,049) |
| **Total transactions with owners** | (72) | (905) | (40,628) | (41,605) | – | (41,605) |
| **At 31st March 2015** | 57,937 | 378,344 | 1,490,481 | 1,926,762 | (427) | 1,926,335 |
| **At 1st April 2015** | **57,937** | **378,344** | **1,490,481** | **1,926,762** | **(427)** | **1,926,335** |
| **Comprehensive income/(loss)** | | | | | | |
| Profit/(loss) for the year | **–** | **–** | **506,028** | **506,028** | **(9)** | **506,019** |
| **Other comprehensive income/(loss)** | | | | | | |
| Realisation of revaluation surplus | **–** | **(58,074)** | **58,074** | **–** | **–** | **–** |
| Currency translation differences | **–** | **(7,036)** | **–** | **(7,036)** | **–** | **(7,036)** |
| **Total comprehensive (loss)/income** | **–** | **(65,110)** | **564,102** | **498,992** | **(9)** | **498,983** |
| **Transactions with owners** | | | | | | |
| 2016 special dividend | **–** | **–** | **(347,621)** | **(347,621)** | **–** | **(347,621)** |
| 2016 interim dividend | **–** | **–** | **(34,762)** | **(34,762)** | **–** | **(34,762)** |
| 2015 final dividend | **–** | **–** | **(57,937)** | **(57,937)** | **–** | **(57,937)** |
| **Total transactions with owners** | **–** | **–** | **(440,320)** | **(440,320)** | **–** | **(440,320)** |
| **At 31st March 2016** | **57,937** | **313,234** | **1,614,263** | **1,985,434** | **(436)** | **1,984,998** |

The notes on pages 33 to 86 are an integral part of these consolidated financial statements.

# Consolidated Statement of Cash Flows

*For the year ended 31st March 2016*

| | Note | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|---|
| Cash flows from operating activities | | | |
| Cash generated from operations | 28(a) | **152,021** | 106,678 |
| Interest received | | **13,276** | 13,693 |
| Interest paid | | **(8,695)** | (6,831) |
| Income tax paid | | **(13,273)** | (4,743) |
| Net cash generated from operating activities | | **143,329** | 108,797 |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | | **(70,133)** | (34,425) |
| Proceeds from disposal of properties | 28(b) | **533,769** | – |
| Proceeds from disposal of plant and equipment | 28(b) | **11,065** | 13,147 |
| Proceeds from redemption of loans and receivables | | **–** | 1,537 |
| Net cash generated from/(used in) investing activities | | **474,701** | (19,741) |
| Cash flows from financing activities | | | |
| Proceeds from trust receipt loans | | **727,155** | 822,063 |
| Repayments of trust receipt loans | | **(728,809)** | (820,409) |
| Proceeds from borrowings | | **535,600** | – |
| Repayments of borrowings | | **(352,800)** | (80,000) |
| Dividends paid to the Company's shareholders | | **(92,699)** | (40,556) |
| Repurchase of the Company's own shares | | **–** | (1,049) |
| Net cash generated from/(used in) financing activities | | **88,447** | (119,951) |
| Net increase/(decrease) in cash and cash equivalents | | **706,477** | (30,895) |
| Cash and cash equivalents at the beginning of the year | | **888,335** | 924,146 |
| Effect of foreign exchange rate change | | **(3,169)** | (4,916) |
| Cash and cash equivalents at the end of the year | 22 | **1,591,643** | 888,335 |

The notes on pages 33 to 86 are an integral part of these consolidated financial statements.

## 1 GENERAL INFORMATION

Alco Holdings Limited (the "Company") is a limited liability company incorporated in Bermuda. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The Company is listed on the Main Board of The Stock Exchange of Hong Kong Limited.

During the year ended 31st March 2016, the Company and its subsidiaries (together, the "Group") are engaged in designing, manufacturing and selling of consumer electronic products.

These consolidated financial statements are presented in thousands of units of Hong Kong dollars ("HK$'000"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 22nd June 2016.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of Appendix 16 to the Rules Governing the Listing Securities on The Stock Exchange of Hong Kong Limited and the Hong Kong Companies Ordinance. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties which are carried at fair value.

The preparation of consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.1 Basis of preparation (Continued)

***(i) New standards and amendments to existing standards that are effective for the Group's accounting period beginning on 1st April 2015:***

| | |
|---|---|
| HKAS 19 (2011) (Amendment) | Defined Benefit Plans: Employee Contributions |
| Annual Improvements Project | Annual Improvements HKFRSs 2010-2012 Cycle |
| Annual Improvements Project | Annual Improvements HKFRSs 2011-2013 Cycle |

***(ii) New standards and amendments to existing standards that are mandatory for the Group's accounting periods beginning on or after 31st March 2016 and have not been early adopted by the Group:***

| | |
|---|---|
| Annual Improvements Project | Annual Improvements HKFRSs 2012-2014 Cycle[1] |
| HKFRS 14 | Regulatory Deferral Accounts[1] |
| HKFRS 10 and HKAS 28 (Amendment) | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[1] |
| HKFRS 11 (Amendment) | Accounting for Acquisitions of Interests in Joint Operations[1] |
| HKAS 1 (Amendment) | Disclosure initiative[1] |
| HKAS 16 and HKAS 38 (Amendment) | Clarification of Acceptable Methods of Depreciation and Amortisation[1] |
| HKAS 16 and HKAS 41 (Amendment) | Agriculture: Bearer Plants[1] |
| HKAS 27 (Amendment) | Equity Method in Separate Financial Statements[1] |
| HKFRS 15 | Revenue from Contracts with Customers[2] |
| HKFRS 9 | Financial Instruments[2] |
| HKFRS 10, HKFRS 12 and HKAS 28 (Amendment) | Investment entities applying the consolidation exception[1] |

[1] Changes effective for annual periods beginning on or after 1st January 2016

[2] Changes effective for annual periods beginning on or after 1st January 2018

The Group has already commenced an assessment of the impact of the above new standards and amendments to existing standards but is not yet in a position to state whether these new standards and amendments to existing standards would have a significant impact to its results of operations and financial position.

There are no other HKFRSs or interpretations that are not yet effective and are expected to have a material impact on the Group.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.1 Basis of preparation (Continued)

#### *(iii) New Hong Kong Companies Ordinance (Cap.622)*

In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation during the financial year, as a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements.

### 2.2 Subsidiaries

#### *2.2.1 Consolidation*

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, 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. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

*(a) Business combinations*

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets.

All other components of non-controlling interests are measured at their acquisition date fair values, unless another measurement basis is required by HKFRS.

Acquisition-related costs are expensed as incurred.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.2 Subsidiaries (Continued)

#### *2.2.1 Consolidation (Continued)*

*(a) Business combinations (Continued)*

If the business combination is achieved in stages, the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through consolidated income statement.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in consolidated income statement or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated income statement.

Intra-group transactions, balances and unrealised gains/losses on transactions between group companies are eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

*(b) Changes in ownership interests in subsidiaries without change of control*

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.2 Subsidiaries (Continued)

#### *2.2.1 Consolidation (Continued)*

*(c) Disposal of subsidiaries*

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in consolidated income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to consolidated income statement.

#### *2.2.2 Separate financial statements*

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

### 2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-makers, who are responsible for allocating resources and assessing performance of the operating segments, have been identified as the senior management that make strategic decisions.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.4 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 ("HK$" or "HKD"), which is the Company's functional and the Group's presentation currency.

#### *(b) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated income statement.

#### *(c) Group companies*

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement 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 rate on the dates of the transactions); and

(iii) all resulting exchange differences are recognised in other comprehensive income.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.4 Foreign currency translation (Continued)

#### *(c) Group companies (Continued)*

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. Currency translation differences arising are recognised in other comprehensive income.

#### *(d) Disposal of foreign operation and partial disposal*

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the currency translation differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated currency translation differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associates or joint ventures that do not result in the Group losing significant influence or joint control) the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

### 2.5 Leasehold land and land use rights

Leasehold land and land use rights classified as operating leases are stated at cost less accumulated amortisation and accumulated impairment losses. Cost mainly represents consideration paid for the rights to use the land from the date the respective rights were granted. Amortisation of leasehold land and land use rights is calculated on a straight-line basis over the period of the rights.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.6 Property, plant and equipment

Leasehold land classified as finance lease and all other property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in an 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. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated income statement during the financial period in which they are incurred.

Leasehold land classified as finance lease commences amortisation from the time when the land interest becomes available for its intended use. Amortisation on leasehold land classified as finance lease and depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over the shorter of the unexpired lease term or their estimated useful lives.

Depreciation on leasehold improvements, buildings and moulds is calculated using the straight-line method to allocate their costs over their estimated useful lives of 15 years, 40 years and 4 years respectively. Other property, plant and equipment are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a reducing balance basis. The principal depreciation rates are as follows:

| | |
|---|---|
| Furniture, fixtures and equipment | 20% |
| Plant and machinery | 14.5% to 20% |
| Motor vehicles | 20% |

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the consolidated income statement.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.7 Investment properties

Investment property, principally comprising leasehold land and buildings, is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group. It also includes properties that are being constructed or developed for future use as investment properties. Land held under operating leases are accounted for as investment properties when the rest of the definition of an investment property is met. In such cases, the operating leases concerned are accounted for as if they were finance leases. Investment property is initially measured at cost, including related transaction costs and where applicable borrowing costs. After initial recognition, investment properties are carried at fair value, representing open market value determined at each reporting date by external valuers. The market value of the properties is calculated on the discounted net rental income allowing for reversionary potential. Changes in fair values are recorded in the consolidated income statement as part of "other income". Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the consolidated income statement.

### 2.8 Intangible assets

#### *(a) Acquired licence right*

An acquired licence right is carried at cost less accumulated amortisation. The economic useful life of an acquired licence right is estimated at the time of purchase (Note 4(b)).

Amortisation is calculated using the straight-line method to allocate the cost of the acquired licence over its estimated useful life of 10 years.

Licence right is tested for impairment annually, in accordance with HKAS 36.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.8 Intangible assets (Continued)

#### *(b) Deferred development costs*

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (directly attributable to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

(i) it is technically feasible to complete the developing/developed product so that it will be available for use or sale;

(ii) management intends to complete the developing/developed product and use or sell it;

(iii) there is an ability to use or sell the developing/developed product;

(iv) it can be demonstrated how the developing/developed product will generate probable future economic benefits;

(v) adequate technical, financial and other resources to complete the development and to use or sell the developing/developed product are available; and

(vi) the expenditure attributable to the developing/developed product during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as expenses as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised over a period of 30 months to reflect the pattern in which the relevant economic benefits are recognised. Development assets are tested for impairment annually, in accordance with HKAS 36.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.9 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

### 2.10 Financial assets

#### *2.10.1 Classification*

The Group classifies its financial assets as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "trade receivables, prepayments, deposits and other receivables" and "cash and cash equivalents" in the consolidated balance sheet (Notes 2.13 and 2.14).

#### *2.10.2 Recognition and measurement*

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment testing of loans and receivables is described in Note 2.11.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.11 Impairment of financial assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

### 2.12 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.13 Trade receivables, prepayments, deposits and other receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables, prepayments, deposits and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

### 2.14 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash on hand, deposits held at call with banks and other short term highly liquid investments with original maturities of three months or less.

### 2.15 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares and share options are shown in equity as a deduction, net of tax, from the proceeds. Where any group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to owners of the Company until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to owners of the Company.

### 2.16 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.17 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

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.

### 2.18 Borrowing costs

All borrowing costs are recognised in the consolidated income statement in the period in which they are incurred.

### 2.19 Current and deferred income tax

The tax expense for the year comprises current and deferred tax and is recognised in the consolidated income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

*(a) Current income tax*

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.19 Current and deferred income tax (Continued)

#### *(b) Deferred income tax*

*Inside basis differences*

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

*Outside basis differences*

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Only where there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

#### *(c) Offsetting*

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.20 Employee benefits

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

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

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

#### (b) *Pension obligations*

The Group operates a number of defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

#### (c) *Termination benefits*

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to a termination when the entity has a detailed formal plan to terminate the employment of current employees without possibility of withdrawal. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present values.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.21 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

### 2.22 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value added tax, returns, rebates and discounts and after eliminating sales within the Group. The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below:

(i) Sales of goods are recognised when a group entity has delivered products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

(ii) Rental income is recognised on a straight-line basis over the periods of the respective leases.

(iii) Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.23 Leases

***Operating lease (as the lessee)***

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement on a straight-line basis over the period of the lease.

***Finance lease (as the lessee)***

The Group has land leases where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

***Operating lease (as the lessor)***

Where the Group leases out assets under operating leases, the assets are included in the consolidated balance sheet according to their nature, as set out in Note 2.7. Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in Note 2.22 (ii).

### 2.24 Sale and leaseback transaction

A sale and leaseback transaction involves the sale of an asset and the leasing back of the same asset. The lease payment and the sale price are usually interdependent because they are negotiated as a package. The accounting treatment of a sale and leaseback transaction depends upon the type of lease involved.

If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount is deferred and amortised over the lease term. If a sale and leaseback transaction results in an operating lease, and it is clear that the transaction is established at fair value, any profit or loss is recognised immediately. If the sale price is below fair value, any profit or loss is recognised immediately except that, if the loss is compensated for by future lease payments at below market price, it is deferred and amortised in proportion to the lease payments over the period for which the asset is expected to be used. If the sale price is above fair value, the excess over fair value is deferred and amortised over the period for which the asset is expected to be used.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.25 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

## 3 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk), credit risk and liquidity risk.

Risk management is carried out by the Group's treasury function. The Group adopts a conservative and balanced treasury policy which focuses on the financial risks factors as below and seeks to minimise potential adverse effects on the Group's financial performance.

### 3.1 Financial risk factors

#### *(a) Market risk*

*(i) Foreign exchange risk*

The Group's transactions are mainly denominated in HKD, United States dollars ("USD") and Renminbi ("RMB"). The majority of assets and liabilities are denominated in HKD, USD and RMB, and there are no significant assets and liabilities denominated in other currencies.

Since HKD is pegged to USD, the Group does not have significant currency risks and it is the Group's policy not to engage in speculative activities. The Group has not entered into any contracts to hedge its exposure for foreign exchange risk.

At 31st March 2016, if RMB had strengthened/weakened by 10% against HKD with all other variables held constant, post-tax profit for the year would have been approximately HK$13,551,000 (2015: HK$43,054,000) higher/lower, mainly as a result of the foreign exchange differences on translation of RMB denominated cash and bank balances and other payables.

## 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 3.1 Financial risk factors (Continued)

#### *(a) Market risk (Continued)*

*(ii) Cash flow and fair value interest rate risk*

As the Group has no significant interest-bearing assets, other than short-term bank deposits, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from bank borrowings. The Group's bank borrowings are carried at floating rates which expose the Group to cash flow interest rate risk. The Group has not entered into any interest rate swaps to hedge its exposure to interest rate risk.

As at 31st March 2016, the Group's borrowings at variable rates were denominated in USD (2015: HKD).

At 31st March 2016, if interest rates on all borrowings had been 100 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been HK$2,328,000 (2015: HK$517,000) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

At 31st March 2016, if interest rates on all interest-bearing bank and cash deposits had been 100 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been HK$15,910,000 (2015: HK$8,870,000) higher/lower due to interest income earned on market interest rate.

The total bank loans held by the Group as at 31st March 2016 and 2015 were all with floating rates.

#### *(b) Credit risk*

Credit risk arises from cash and cash equivalents and short-term deposits with banks and financial institutions, loans and receivables, as well as credit exposures to customers, including outstanding receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

The Group's cash and short-term deposits are placed with reputable banks and financial institutions. For credit exposures from customers, management assesses the credit quality of each individual major customer, taking into account its financial position, past experience and other factors.

## 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 3.1 Financial risk factors (Continued)

#### *(c) Liquidity risk*

Prudent liquidity risk management includes maintaining sufficient cash, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions.

The Group maintains its liquidity mainly through funding generated from its daily operations and maintaining funding availability under committed credit facilities.

Banking facilities have been put in place for contingency purposes. As at 31st March 2016, the Group's total available banking facilities amounted to approximately HK$1,314 million (2015: HK$1,150 million), of which approximately HK$233 million (2015: HK$52 million) has been utilised.

The table below analyses the Group's financial liabilities that will be settled into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

| | Within one year HK$'000 | In the second year HK$'000 | In the third to fifth year HK$'000 | Total HK$'000 | Carrying amount HK$'000 |
|---|---|---|---|---|---|
| At 31st March 2015 | | | | | |
| Borrowings and trust receipt loan | 52,608 | – | – | 52,608 | 51,654 |
| Trade and other payables | 512,072 | – | – | 512,072 | 512,072 |
| At 31st March 2016 | | | | | |
| Borrowings | **9,913** | **118,950** | **109,038** | **237,901** | **232,800** |
| Trade and other payables | **348,390** | **–** | **–** | **348,390** | **348,390** |
| Dividend payable | **347,621** | **–** | **–** | **347,621** | **347,621** |

### 3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend paid to shareholders, raise or repay bank borrowings, issue new shares or sell assets to reduce debt.

## 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 3.2 Capital risk management (Continued)

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings net of cash and cash equivalents divided by total equity as shown in the consolidated balance sheet.

The gearing ratios at 31st March 2016 and 2015 were as follows:

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Cash and cash equivalents (Note 22) | **1,591,643** | 888,335 |
| Borrowings (Note 24) | **(232,800)** | (50,000) |
| Trust receipt loan | **–** | (1,654) |
| Net surplus cash | **1,358,843** | 836,681 |
| Total equity | **1,984,998** | 1,926,335 |
| Gearing ratio | **Not applicable** | Not applicable |

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

### (a) Estimate of fair value of investment properties

The fair value of investment properties is determined by using valuation technique. Details of the judgement and assumptions have been disclosed in Note 15.

### (b) Estimate of useful lives of property, plant and equipment and intangible assets

The Group has significant property, plant and equipment and intangible assets. The Group is required to estimate the useful lives of property, plant and equipment and intangible assets in order to ascertain the amount of depreciation and amortisation charges for each reporting period.

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

### (b) Estimate of useful lives of property, plant and equipment and intangible assets (Continued)

The useful lives are estimated at the time of purchase of these assets after considering future technology changes, business developments and the Group's strategies. The Group performs annual reviews to assess the appropriateness of the estimated useful lives. Such review takes into account any unexpected adverse changes in circumstances or events, including declines in projected operating results, negative industry or economic trends and rapid advancement in technology. The Group extends or shortens the useful lives and/or makes impairment provisions according to the results of the review.

### (c) Impairment of non-financial assets

At each balance sheet date, the Group reviews internal and external sources of information to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment
- leasehold land and land use rights
- intangible assets
- investments in subsidiaries

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised in the consolidated income statement whenever the carrying amount of an asset exceeds its recoverable amounts. If an indication of impairment is identified, the Group is required to estimate the recoverable value, representing the greater of the asset's fair value less cost to sell or its value in use. Changes in any of these estimates could result in a material change to the asset carrying amount in the financial statements.

### (d) Recognition of deferred income tax assets

According to the accounting policy as stated in Note 2.19, a deferred income tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and tax losses can be utilised, and it is measured at the tax rates that are expected to apply when the related deferred income tax asset is realised.

In determining the deferred income tax asset to be recognised, management is required to estimate the realisation of deferred tax assets. Any difference between these estimates and the actual outcome will impact the Group's result in the period in which the actual outcome is determined.

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

### (e) Provision for obsolete or slow moving inventories

The Group makes provision for obsolete or slow moving inventories based on consideration of obsolescence of raw materials and work in progress and the net realisable value of finished goods. The identification of inventory obsolescence and estimated selling price in the ordinary course of business require the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying amount of inventory and impairment provision in the year in which such estimate has been changed.

### (f) Provision for other liabilities and charges

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events. Significant judgement is required in determining the provision for liabilities and charges. The Group's management determines the provision for liabilities and charges by estimating the present value of the expenditures expected to be required to settle the obligation. This assessment requires the use of estimation.

## 5 REVENUE AND SEGMENT INFORMATION

Revenues recognised during the year are as follows:

| | **2016**<br>**HK$'000** | 2015<br>HK$'000 |
|---|---|---|
| Consumer electronic products | **2,879,104** | 2,562,566 |

### (a) Segment analysed by products

The senior management (being the chief operating decision-maker) has determined the operating segments based on the reports reviewed by the management. The chief operating decision-makers have been identified as the executive directors and senior management who directly report to the executive directors. The executive director and senior management reviewed the Group's internal reporting to assess performance and allocate resources. A management approach has been used for the operating segment reporting.

The Group mainly operates in the People's Republic of China (the "PRC") and Hong Kong and is principally engaged in designing, manufacturing and selling of consumer electronic products.

## 5 REVENUE AND SEGMENT INFORMATION (CONTINUED)

### (a) Segment analysed by products (Continued)

As substantial business operations of the Group relate to design, manufacture and sale of consumer electronic products, the senior management makes decisions about resources allocation and performance assessment based on the entity-wide financial information. Accordingly, there is only one single reportable segment for the Group.

| | Consumer electronic products | |
|---|---|---|
| | **2016 HK$'000** | 2015 HK$'000 |
| **Segment results** | | |
| **For the years ended 31st March 2016 and 2015** | | |
| Segment revenue | **2,879,104** | 2,562,566 |
| Segment results | **520,820** | 117,715 |
| Finance income | **13,276** | 13,693 |
| Finance costs | **(8,695)** | (6,831) |
| Profit before income tax | **525,401** | 124,577 |
| Income tax expense | **(19,382)** | (10,402) |
| Profit for the year | **506,019** | 114,175 |
| Profit for the year attributable to [1] | | |
| – Equity holders of the Company | **506,028** | 114,250 |
| – Non-controlling interests | **(9)** | (75) |
| | **506,019** | 114,175 |
| **Segment assets and liabilities** | | |
| **As at 31st March 2016 and 2015** | | |
| Segment assets [2] | **2,859,669** | 2,142,666 |
| Unallocated corporate assets | **111,791** | 354,481 |
| Total assets | **2,971,460** | 2,497,147 |
| Segment liabilities [3] | **348,390** | 513,726 |
| Unallocated corporate liabilities | **638,072** | 57,086 |
| Total liabilities | **986,462** | 570,812 |
| **Other segment information** | | |
| **For the years ended 31st March 2016 and 2015** | | |
| Capital expenditure [4] | **70,133** | 34,425 |

## 5 REVENUE AND SEGMENT INFORMATION (CONTINUED)

### (a) Segment analysed by products (Continued)

(1) Management assesses the performance of the operating segments based on a measure of operating profit. Other information provided is measured in a manner consistent with that in the consolidated financial statements.

(2) Segment assets consist primarily of property, plant and equipment, leasehold land and land use rights, intangible assets, inventories, trade and other receivables and operating cash and exclude items such as investment properties and deferred tax assets.

(3) Segment liabilities comprise operating liabilities and exclude items such as certain corporate borrowings, current income tax liabilities, dividend payable and deferred gain.

(4) Capital expenditure comprises additions to property, plant and equipment.

### (b) Segment analysed by geographical areas

The segment revenue for the years ended 31st March 2016 and 2015 are as follows:

| | **2016**<br>**HK$'000** | 2015<br>HK$'000 |
|---|---|---|
| North America | **2,849,657** | 2,499,377 |
| Asia | **24,282** | 50,238 |
| Europe | **2,528** | 4,761 |
| Others | **2,637** | 8,190 |
| | **2,879,104** | 2,562,566 |

The analysis of revenue by geographical areas is based on the destination to which the shipments are made. Primarily all of the assets and capital expenditure for the years ended 31st March 2016 and 2015 were located or utilised in the PRC or Hong Kong.

Details of the customers accounting for 10% or more of total revenue are as follows:

| | **2016**<br>**HK$'000** | 2015<br>HK$'000 |
|---|---|---|
| Customer A | **2,644,764** | 2,135,859 |

## 6 OTHER INCOME

| | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|
| Fair value gain on investment properties (Note 15) | **60** | 10,460 |
| Rental income from investment properties | **8,373** | 8,489 |
| Amortisation of deferred gain (Note 29) | **1,454** | – |
| Others | **242** | 36 |
| | **10,129** | 18,985 |

## 7 EXPENSES BY NATURE

Expenses included in cost of goods sold, selling expenses, administrative expenses and other operating expenses are analysed as follows:

| | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|
| Amortisation of intangible assets (Note 17) | **7,800** | 7,800 |
| Amortisation of leasehold land and land use rights (Note 16) | **289** | 292 |
| Auditor's remuneration | **2,100** | 2,090 |
| Cost of inventories | **2,151,804** | 1,924,405 |
| Depreciation of property, plant and equipment (Note 14) | **34,645** | 33,369 |
| Employee benefit expenses (including directors' emoluments) (Note 8) | **232,058** | 212,827 |
| Severance pay (Note 8) | **13,279** | 19,940 |
| Gain on disposal of plant and equipment | **(40)** | (6,888) |
| Operating lease rental in respect of land and buildings | **29,902** | 30,439 |
| Research and development costs | **17,420** | 13,858 |
| Impairment of property, plant and equipment | **–** | 4,964 |

## 8 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

| | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|
| Wages and salaries | 213,248 | 195,910 |
| Pension costs – defined contribution retirement schemes (Note (a)) | 2,639 | 2,554 |
| Other staff benefits | 16,171 | 14,363 |
| | 232,058 | 212,827 |
| Severance pay | 13,279 | 19,940 |

Notes:

**(a) Defined contribution retirement schemes**

Before 1st December 2000, the Group operated a defined contribution retirement scheme (the "ORSO Scheme") in Hong Kong for all qualified employees. The rate of contribution payable by the Group was 5% of the individual employee's basic salaries.

With effect from 1st December 2000, the Mandatory Provident Fund Scheme (the "MPF Scheme") was set up under the MPF Scheme Ordinance for existing staff who opted for this scheme and eligible staff recruited on or after that date. The ORSO Scheme has remained in place with the introduction of the MPF Scheme. Under the MPF Scheme, eligible employees and the Group are each required to contribute 5% on the employees' monthly net salaries with a maximum monthly contribution of HK$1,500 for employees' monthly contribution.

Contributions to the ORSO Scheme and MPF Scheme charged to the consolidated income statement for the year amounted to approximately HK$2,639,000 (2015: HK$2,554,000). No forfeited contribution in respect of the defined contribution retirement scheme was utilised during the year (2015: same). No forfeiture contribution (2015: HK$13,000) was available as at 31st March 2016 to reduce future contributions.

Contributions totaling approximately HK$418,000 (2015: HK$315,000) were payable to the ORSO Scheme and MPF Scheme at the year end and were included in other payables and accruals.

## 8 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS) (CONTINUED)

Notes: (Continued)

**(b) Five highest paid individuals**

The five individuals whose emoluments were the highest in the Group for the year include four (2015: four) directors whose emoluments are reflected in the analysis presented in Note 9. The emoluments payable to the remaining one (2015: one) individual during the year are as follows:

| | **2016 HK$'000** | 2015 HK$'000 |
|---|---|---|
| Basic salaries, housing allowances, other allowances and benefits in kind | **1,380** | 1,343 |
| Discretionary bonuses | **7,000** | 4,800 |
| Contributions to pension schemes | **18** | 15 |
| | **8,398** | 6,158 |

The emoluments fell within the following bands:

| | **Number of individual 2016** | 2015 |
|---|---|---|
| Emolument bands | | |
| HK$6,000,001 – HK$7,000,000 | **–** | 1 |
| HK$8,000,001 – HK$9,000,000 | **1** | – |

**(c) Senior management compensation**

The emoluments of the senior management include the one (2015: one) individual whose emoluments are reflected in the analysis presented in Note 8(b).

The emoluments of the remaining two (2015: two) senior management during the year are as follows:

| | **Number of individuals 2016** | 2015 |
|---|---|---|
| Emolument bands | | |
| HK$1 – HK$1,000,000 | **–** | 1 |
| HK$1,000,001 – HK$2,000,000 | **2** | 1 |

## 9 BENEFITS AND INTERESTS OF DIRECTORS

### (a) Directors' and chief executives emoluments

Directors' remuneration, including remuneration of chief executive officer (Mr Leung Wai Sing, Wilson), for the year, disclosed pursuant to Appendix 14 to the Listing Rules and section 383 of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefit of Directors) Regulation, is as follows:

Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiaries undertaking:

**For the year ended 31st March 2015:**

| Name | Fees HK$'000 | Salary HK$'000 | Discretionary bonuses HK$'000 | Employer's contribution to a retirement benefit scheme HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| *Executive directors:* | | | | | |
| Mr LEUNG Kai Ching, Kimen | – | 4,702 | – | 201 | 4,903 |
| Mr LEUNG Wai Sing, Wilson | – | 4,702 | – | 201 | 4,903 |
| Mr KUOK Kun Man | – | 2,380 | – | 102 | 2,482 |
| Mr LEUNG, Jimmy | – | 1,154 | – | 15 | 1,169 |
| Mr LIU Lup Man | – | 908 | – | 15 | 923 |
| *Independent non-executive directors:* | | | | | |
| Mr LI Wah Ming | 130 | – | – | 6 | 136 |
| Mr LAU Wang Yip, Derrick | 130 | – | – | 6 | 136 |
| Mr LEE Tak Chi | 130 | – | – | – | 130 |
| | 390 | 13,846 | – | 546 | 14,782 |

## 9 BENEFITS AND INTERESTS OF DIRECTORS (CONTINUED)

### (a) Directors' and chief executives emoluments (Continued)

**For the year ended 31st March 2016:**

| Name | Fees HK$'000 | Salary HK$'000 | Discretionary bonuses HK$'000 | Employer's contribution to a retirement benefit scheme HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| *Executive directors:* | | | | | |
| Mr LEUNG Kai Ching, Kimen | – | 4,843 | 2,397 | 207 | 7,447 |
| Mr LEUNG Wai Sing, Wilson | – | 4,843 | 2,397 | 207 | 7,447 |
| Mr KUOK Kun Man | – | 2,512 | 1,598 | 107 | 4,217 |
| Mr LEUNG, Jimmy | – | 1,208 | 959 | 18 | 2,185 |
| Mr LIU Lup Man | – | 962 | 639 | 18 | 1,619 |
| *Independent non-executive directors:* | | | | | |
| Mr LI Wah Ming | 160 | – | – | 8 | 168 |
| Mr LAU Wang Yip, Derrick* | 153 | – | – | 8 | 161 |
| Mr LEE Tak Chi | 160 | – | – | – | 160 |
| | 473 | 14,368 | 7,990 | 573 | 23,404 |

* Mr LAU Wang Yip, Derrick resigned as the independent non-executive director of the Group on 17th March 2016.

# Mr CHEUNG, Johnson was appointed as independent non-executive director on 6th April 2016.

### (b) Directors' retirement benefits

No retirement benefits were paid to or receivable by any directors in respect of their other services in connection with the management of the affairs of the Company or its subsidiaries undertaking (2015: Nil).

## 9 BENEFITS AND INTERESTS OF DIRECTORS (CONTINUED)

### (c) Directors' termination benefits

No payment was made to directors as compensation for the early termination of the appointment during the year (2015: Nil).

### (d) Consideration provided to third parties for making available directors' services

No payment was made to the former employer of directors for making available the services of them as a director of the Company (2015: Nil).

### (e) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

There are no loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors during the year (2015: Nil).

### (f) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Company's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2015: Nil).

## 10 FINANCE INCOME AND FINANCE COSTS

| | **2016**<br>**HK$'000** | 2015<br>HK$'000 |
|---|---|---|
| Finance income: | | |
| – Bank interest income | **13,276** | 13,619 |
| – Interest income from loans and receivables | **–** | 74 |
| | **13,276** | 13,693 |
| Finance costs: | | |
| – Interest expense on bank borrowings and trust receipt loan | **8,695** | 6,831 |

## 11 INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 16.5%) on the estimated assessable profits for the year. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates.

| | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|
| Current income tax | | |
| – Hong Kong profits tax | **13,057** | 8,713 |
| – Over provision in prior years | **(115)** | (92) |
| – PRC corporate income tax | **–** | 3,900 |
| Deferred income tax expenses/(credit) | **6,440** | (2,119) |
| Income tax expense | **19,382** | 10,402 |

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rate of Hong Kong as follows:

| | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|
| Profit before income tax | **525,401** | 124,577 |
| Tax calculated at a tax rate of 16.5% (2015: 16.5%) | **86,691** | 20,555 |
| Effect of different tax rates in other countries | **(427)** | 3,458 |
| Income not subject to tax | **(77,376)** | (16,712) |
| Expenses not deductible for tax purposes | **10,601** | 3,181 |
| Over provision in prior years | **(115)** | (92) |
| Tax losses for which no deferred income tax asset was recognised | **8** | 12 |
| Income tax expense | **19,382** | 10,402 |

## 12 EARNINGS PER SHARE

***Basic***

Basic earnings per share is calculated by dividing the profit for the year attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

| | 2016 | 2015 |
|---|---|---|
| Profit for the year attributable to equity holders of the Company *(HK$'000)* | **506,028** | 114,250 |
| Weighted average number of ordinary shares in issue | **579,367,720** | 579,541,999 |
| Basic earnings per share *(HK cents)* | **87.3** | 19.7 |

***Diluted***

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. There were no dilutive potential ordinary shares during the years ended 31st March 2016 and 2015. Therefore, the diluted earnings per share are the same as basic earnings per share.

## 13 DIVIDENDS

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Interim dividend, paid, of HK6 cents (2015: HK3 cents) per ordinary share | **34,762** | 17,381 |
| Special dividend, declared, of HK60 cents (2015: Nil) per ordinary share | **347,621** | – |
| Final dividend, proposed, of HK30 cents (2015: HK10 cents) per ordinary share | **173,810** | 57,937 |
| | **556,193** | 75,318 |

At a meeting held on 22nd June 2016, the directors proposed a final dividend of HK30 cents per ordinary share. This proposed dividend is not reflected as a dividend payable in these consolidated financial statements.

## 14 PROPERTY, PLANT AND EQUIPMENT

(a) Details of movements in property, plant and equipment of the Group are as follows:

| | Land and buildings HK$'000 | Moulds HK$'000 | Leasehold improvements HK$'000 | Furniture, fixtures and equipment HK$'000 | Plant and machinery HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| At 1st April 2014 | | | | | | | |
| Cost | 37,003 | 276,987 | 97,607 | 180,513 | 300,973 | 12,274 | 905,357 |
| Accumulated depreciation and impairment | (6,818) | (252,661) | (5,468) | (147,672) | (271,780) | (8,573) | (692,972) |
| Net book amount | 30,185 | 24,326 | 92,139 | 32,841 | 29,193 | 3,701 | 212,385 |
| Year ended 31st March 2015 | | | | | | | |
| Opening net book amount | 30,185 | 24,326 | 92,139 | 32,841 | 29,193 | 3,701 | 212,385 |
| Additions | – | 14,269 | 12,105 | 6,763 | 198 | 1,090 | 34,425 |
| Disposals | – | – | – | (3,161) | (2,533) | (565) | (6,259) |
| Depreciation | (423) | (14,384) | (7,032) | (6,566) | (4,156) | (808) | (33,369) |
| Impairment | – | – | – | – | (4,964) | – | (4,964) |
| Exchange differences | (33) | – | (1,235) | (52) | (52) | – | (1,372) |
| Closing net book amount | 29,729 | 24,211 | 95,977 | 29,825 | 17,686 | 3,418 | 200,846 |
| At 31st March 2015 | | | | | | | |
| Cost | 36,959 | 262,326 | 108,423 | 168,936 | 167,367 | 10,582 | 754,593 |
| Accumulated depreciation and impairment | (7,230) | (238,115) | (12,446) | (139,111) | (149,681) | (7,164) | (553,747) |
| Net book amount | 29,729 | 24,211 | 95,977 | 29,825 | 17,686 | 3,418 | 200,846 |

## 14 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(a) Details of movements in property, plant and equipment of the Group are as follows: (Continued)

| | Land and buildings HK$'000 | Moulds HK$'000 | Leasehold improvements HK$'000 | Furniture, fixtures and equipment HK$'000 | Plant and machinery HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| Year ended 31st March 2016 | | | | | | | |
| Opening net book amount | 29,729 | 24,211 | 95,977 | 29,825 | 17,686 | 3,418 | 200,846 |
| Additions | – | 9,908 | 8,326 | 23,898 | 26,595 | 1,406 | 70,133 |
| Disposals | (23,791) | – | – | (948) | (9,947) | (130) | (34,816) |
| Depreciation | (403) | (13,337) | (7,614) | (8,223) | (4,336) | (732) | (34,645) |
| Exchange differences | (80) | – | (2,899) | (101) | (101) | (25) | (3,206) |
| Closing net book amount | 5,455 | 20,782 | 93,790 | 44,451 | 29,897 | 3,937 | 198,312 |
| At 31st March 2016 | | | | | | | |
| Cost | 8,492 | 272,234 | 113,412 | 182,038 | 111,584 | 11,430 | 699,190 |
| Accumulated depreciation and impairment | (3,037) | (251,452) | (19,622) | (137,587) | (81,687) | (7,493) | (500,878) |
| Net book amount | 5,455 | 20,782 | 93,790 | 44,451 | 29,897 | 3,937 | 198,312 |

(b) Depreciation expenses have been included in:

| | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|
| Cost of goods sold | 31,612 | 30,152 |
| Administrative expenses | 3,033 | 3,217 |
| | 34,645 | 33,369 |

(c) As at 31st March 2016 and 2015, no bank borrowing was secured on any building which was classified under property, plant and equipment (Note 24).

## 15 INVESTMENT PROPERTIES

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Beginning of the year | **315,670** | 305,210 |
| Fair value gain (Note 6) | **60** | 10,460 |
| Disposal (Note 29) | **(236,310)** | – |
| End of the year | **79,420** | 315,670 |

Rental income derived from the investment properties amounted to approximately HK$8,373,000 (2015: HK$8,489,000) during the year.

**Valuation process of the Group**

The Group measures its investment property at fair value. The fair value of the Group's investment property at 31st March 2016 has been determined on the basis of valuation carried out by an independent qualified valuer, LCH (Asia-Pacific) Surveyors Limited (the "Valuer") (2015: same). The valuation, which conforms to the valuation standards issued by Hong Kong Institute of Surveyors ("HKIS"), was arrived at by reference to the current and forecast rental income, allowing for reversionary potential of the investment property.

The Group reviews the valuation performed by the Valuer for financial reporting purposes. Discussions of valuation processes and results are held between management and the Valuer at least once every year, which is in line with the Group's annual reporting date.

## 15 INVESTMENT PROPERTIES (CONTINUED)

**Fair value measurements using significant unobservable inputs**

The table below analyses investment property carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The Group's investment property is categorised as level 3 and there were no transfers among levels 1, 2 and 3 during the year.

Fair value of the Group's investment property is mainly derived using the investment method of the income approach, by taking into account the current rental income from the existing tenancy agreement and reversionary income potential by adopting appropriate term/reversionary yields, which are derived from analysis of sales transaction and Valuer's interpretation of prevailing investor requirements or expectations. For the reversionary potential of the property, the Valuer refers market price of similar comparable properties. There was no change to the valuation technique with that of prior year.

Term and reversionary yields are estimated by the Valuer based on the risk profile of the investment properties being valued. The higher the yields, the lower is the fair value. At 31st March 2016, yield ranged from 3.1% to 6.1% (2015: 2.4% to 3.9%) were adopted in the term yields analysis for the Group's investment property.

Prevailing market prices are estimated based on recent sales transactions within the subject property and other comparable properties. The lower the prices, the lower is the fair value. At 31st March 2016, prevailing market prices ranged from HK$2,680 to HK$3,075 (2015: HK$2,880 to HK$7,870) per square foot were adopted in the term and reversionary analysis for the Group's investment property.

## 16 LEASEHOLD LAND AND LAND USE RIGHTS

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Beginning of the year | **6,815** | 7,150 |
| Amortisation | **(289)** | (292) |
| Exchange differences | **(103)** | (43) |
| End of the year | **6,423** | 6,815 |

Amortisation expenses of leasehold land and land use rights have been included in administrative expenses.

## 17 INTANGIBLE ASSETS

| | Licence right<br>HK$'000 |
|---|---|
| At 1st April 2014 | |
| Cost | 78,000 |
| Accumulated amortisation | (48,750) |
| Net book amount | 29,250 |
| Year ended 31st March 2015 | |
| Opening net book amount | 29,250 |
| Amortisation | (7,800) |
| Closing net book amount | 21,450 |
| At 31st March 2015 | |
| Cost | 78,000 |
| Accumulated amortisation | (56,550) |
| Net book amount | 21,450 |
| Year ended 31st March 2016 | |
| Opening net book amount | **21,450** |
| Amortisation | **(7,800)** |
| Closing net book amount | **13,650** |
| At 31st March 2016 | |
| Cost | **78,000** |
| Accumulated amortisation | **(64,350)** |
| Net book amount | **13,650** |

Amortisation expenses of licence right has been included in cost of goods sold.

## 18 SUBSIDIARIES

As at 31st March 2016, the Company held interests in the following principal subsidiaries:

| Name | Place of incorporation/ establishment | Issued and fully paid share capital/ registered capital | Percentage of equity held by the Company | | Principal activities |
|---|---|---|---|---|---|
| | | | Direct | Indirect | |
| Alco Investments (B.V.I.) Limited | The British Virgin Islands | Ordinary US$50,000 | 100 | – | Investment holding and provision of management services to its subsidiaries |
| Advance Packaging Limited | Hong Kong | Ordinary HK$500,000 | – | 100 | Property investment |
| Alco Digital Devices Limited | Hong Kong | Ordinary HK$1,000,000 | – | 100 | Software development |
| Alco Electronics Limited | Hong Kong | Ordinary HK$1,000<br>Non-voting deferred HK$5,000,000 | – | 100 | Design, manufacture and sale of consumer electronic products |
| Alco Electronics (Dongguan) Limited[1] | The PRC | Registered capital HK$120,000,000 | – | 100 | Manufacture of consumer electronic products |
| Alco Electronics (Shenzhen) Limited[1] | The PRC | Registered capital HK$25,000,000 | – | 100 | Provision of design and logistic services to group companies |
| Alco International Limited | Hong Kong | Ordinary HK$500,000 | – | 100 | Trading of consumer electronic products |
| Vdiobox Limited | Hong Kong | Ordinary HK$1,000,000 | – | 100 | Trading of consumer electronic products |

Note:

1 Represents a wholly foreign owned enterprise.

The above table lists out the principal subsidiaries of the Company as at 31st March 2016 which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

## 19 FINANCIAL INSTRUMENTS BY CATEGORY

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Assets | | |
| Trade and other receivables (Note 21) | 734,002 | 621,680 |
| Cash and cash equivalents (Note 22) | 1,591,643 | 888,335 |
| Total | 2,325,645 | 1,510,015 |

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Liabilities | | |
| Trade and other payables (Note 23) | 348,390 | 512,072 |
| Dividend payable (Note 13) | 347,621 | – |
| Borrowings (Note 24) | 232,800 | 50,000 |
| Trust receipt loan | – | 1,654 |
| Total | 928,811 | 563,726 |

## 20 INVENTORIES

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Raw materials | 122,960 | 169,850 |
| Work in progress | 10,091 | 18,470 |
| Finished goods | 182,588 | 215,220 |
| | 315,639 | 403,540 |

The cost of inventories recognised as expenses and included in cost of goods sold amounted to approximately HK$2,151,804,000 (2015: HK$1,924,405,000).

## 21 TRADE AND OTHER RECEIVABLES

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Non-current | | |
| Prepayments, deposits and other receivables (Note) | **41,068** | 60,692 |
| Current | | |
| Trade receivables | **662,059** | 533,406 |
| Prepayments, deposits and other receivables (Note) | **30,875** | 27,582 |
| | **692,934** | 560,988 |
| | **734,002** | 621,680 |

Note: As at 31st March 2016, other receivables included HK$43,374,000 (2015: HK$58,414,000) consideration receivable from PVI Global Corporation (a subsidiary of E Ink Holdings Inc. ("E Ink")) for the disposal of the corporate bond of Hydis Technologies Company Limited. A guarantee was granted by E Ink to cover the entire receivable amount.

During the previous financial year, the Group entered into loan agreements with a company incorporated in Denmark under which loans amounted to HK$879,000 (2015: HK$5,587,000) were granted by the Group to the company for the purposes of promoting the bicycle business in Europe. The loans are interest bearing and will be repayable within one year from the grant date. Such loans were fully provided taking into account the measurable decrease in estimated future cash flows.

The credit terms given to customers vary and are generally based on the financial strengths of individual customers. In order to manage the credit risks associated with trade receivables, credit evaluations of customers are performed periodically.

The fair values of the trade and other receivables approximate to their carrying amounts.

At 31st March 2016 and 2015, the ageing analysis of the trade receivables based on shipping terms is as follows:

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| 0 – 30 days | **58,780** | 143,255 |
| 31 – 60 days | **110,303** | 110,115 |
| 61 – 90 days | **51,483** | 54,240 |
| Over 90 days | **441,493** | 225,796 |
| | **662,059** | 533,406 |

As at 31st March 2016, trade receivables of HK$359,587,000 (2015: Nil) were past due with reference to the credit terms offered.

The overdue sum is not considered as impaired since the overdue sum has been settled in June 2016.

## 21 TRADE AND OTHER RECEIVABLES (CONTINUED)

The credit quality of trade receivables that are neither past due nor impaired can be assessed by reference to historical information about counterparty default rates.

| | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|
| Counterparties without external credit rating | | |
| – Customers (more than 6 months) with no defaults in the past | **662,059** | 533,406 |

The carrying amounts of the trade receivables are denominated in the following currencies:

| | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|
| USD | **638,392** | 531,979 |
| Canadian dollar | **21,607** | 990 |
| Great British Pound | **111** | – |
| EURO | **1,566** | 428 |
| HKD | **383** | 9 |
| | **662,059** | 533,406 |

As at 31st March 2016 and 2015, there was no provision for impairment of trade receivables.

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivable mentioned above.

## 22 CASH AND CASH EQUIVALENTS

| | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|
| Cash at bank and on hand | **811,691** | 292,861 |
| Short-term bank deposits | **779,952** | 595,474 |
| | **1,591,643** | 888,335 |
| Maximum exposure to credit risk | **1,591,029** | 886,974 |

The cash and cash equivalents are denominated in the following currencies:

| | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|
| HKD | **666,100** | 50,170 |
| USD | **773,858** | 388,351 |
| RMB | **151,576** | 449,157 |
| Great British Pound | **99** | 602 |
| Others | **10** | 55 |
| | **1,591,643** | 888,335 |

## 23 TRADE AND OTHER PAYABLES

| | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|
| Trade payables | **290,455** | 460,239 |
| Other payables and accruals | **57,935** | 51,833 |
| | **348,390** | 512,072 |

The carrying amounts of trade and other payables approximate to their fair values.

## 23 TRADE AND OTHER PAYABLES (CONTINUED)

At 31st March 2016 and 2015, the ageing analysis of the trade payables based on invoice date is as follows:

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| 0 – 30 days | 267,298 | 434,652 |
| 31 – 60 days | 15,193 | 16,773 |
| 61 – 90 days | 3,317 | 3,247 |
| Over 90 days | 4,647 | 5,567 |
| | 290,455 | 460,239 |

The carrying amounts of trade payables are denominated in the following currencies:

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| HKD | 225,577 | 430,557 |
| USD | 64,820 | 29,682 |
| Others | 58 | – |
| | 290,455 | 460,239 |

## 24 BORROWINGS

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Non-current | | |
| Bank borrowings, unsecured (Note) | 223,100 | – |
| Current | | |
| Bank borrowings, unsecured (Note) | 9,700 | 50,000 |
| Total borrowings | 232,800 | 50,000 |

Note:

The bank borrowings are unsecured and supported by corporate guarantees given by the Company (Note 30).

## 24 BORROWINGS (CONTINUED)

The maturity of bank borrowings is as follows:

| | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|
| Within one year | 9,700 | 50,000 |
| In the second year | 116,400 | – |
| In the third to fifth year | 106,700 | – |
| | 232,800 | 50,000 |

The carrying amounts of the bank borrowings approximate to their fair values.

As at 31st March 2016, the borrowings were denominated in USD (2015: HKD) and interest-bearing at a margin over London Inter-bank Offered Rate (2015: Hong Kong Inter-bank Offered Rate).

## 25 SHARE CAPITAL

The movement of the Company's authorised and issued share capital during the year is as follows:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Number of shares | HK$'000 | Number of shares | HK$'000 |
| Authorised: | | | | |
| Ordinary shares of HK$0.10 each | 800,000,000 | 80,000 | 800,000,000 | 80,000 |
| Issued and fully paid: | | | | |
| Ordinary shares of HK$0.10 each | | | | |
| At the beginning of the year | 579,367,720 | 57,937 | 580,093,720 | 58,009 |
| Repurchase of the Company's own shares | – | – | (726,000) | (72) |
| At the end of the year | 579,367,720 | 57,937 | 579,367,720 | 57,937 |

## 26 RESERVES

| | Share premium HK$'000 | Capital redemption reserve HK$'000 | Exchange and other reserves HK$'000 | Staff compensation reserve HK$'000 | Revaluation surplus HK$'000 | Retained earnings HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| At 1st April 2014 | 310,651 | 940 | (43) | 11,783 | 58,074 | 1,416,859 | 1,798,264 |
| Comprehensive income/(loss) | | | | | | | |
| Profit for the year | – | – | – | – | – | 114,250 | 114,250 |
| Currency translation differences | – | – | (2,156) | – | – | – | (2,156) |
| Total comprehensive (loss)/income | – | – | (2,156) | – | – | 114,250 | 112,094 |
| Transactions with owners | | | | | | | |
| 2015 interim dividend | – | – | – | – | – | (17,381) | (17,381) |
| 2014 final dividend | – | – | – | – | – | (23,175) | (23,175) |
| Repurchase of the Company's own shares | (977) | 72 | – | – | – | (72) | (977) |
| Total transactions with owners | (977) | 72 | – | – | – | (40,628) | (41,533) |
| At 31st March 2015 | 309,674 | 1,012 | (2,199) | 11,783 | 58,074 | 1,490,481 | 1,868,825 |
| At 1st April 2015 | 309,674 | 1,012 | (2,199) | 11,783 | 58,074 | 1,490,481 | 1,868,825 |
| Comprehensive income/(loss) | | | | | | | |
| Profit for the year | – | – | – | – | – | 506,028 | 506,028 |
| Realisation of revaluation surplus | – | – | – | – | (58,074) | 58,074 | – |
| Currency translation differences | – | – | (7,036) | – | – | – | (7,036) |
| Total comprehensive (loss)/income | – | – | (7,036) | – | (58,074) | 564,102 | 498,992 |
| Transactions with owners | | | | | | | |
| 2016 special dividend | – | – | – | – | – | (347,621) | (347,621) |
| 2016 interim dividend | – | – | – | – | – | (34,762) | (34,762) |
| 2015 final dividend | – | – | – | – | – | (57,937) | (57,937) |
| Total transactions with owners | – | – | – | – | – | (440,320) | (440,320) |
| At 31st March 2016 | 309,674 | 1,012 | (9,235) | 11,783 | – | 1,614,263 | 1,927,497 |

## 27 DEFERRED INCOME TAX

Deferred income tax is calculated in full on temporary differences under the liability method using a principal tax rate of 16.5% (2015: 16.5%).

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

| | **2016 HK$'000** | 2015 HK$'000 |
|---|---|---|
| Deferred income tax assets to be recovered after more than 12 months | **38,511** | 45,751 |
| Deferred income tax liabilities to be settled after more than 12 months | **(6,140)** | (6,940) |
| Deferred income tax assets, net | **32,371** | 38,811 |

The movement in deferred tax assets during the year is as follows:

| **Deferred income tax assets/(liabilities)** | **Tax losses** HK$'000 | **Accelerated tax depreciation** HK$'000 | **Others** HK$'000 | **Total** HK$'000 |
|---|---|---|---|---|
| **At 1st April 2014** | 6,105 | (1,467) | 32,054 | 36,692 |
| Credited/(charged) to consolidated income statement | 3,925 | 191 | (1,997) | 2,119 |
| **At 31st March 2015** | 10,030 | (1,276) | 30,057 | 38,811 |
| **At 1st April 2015** | **10,030** | **(1,276)** | **30,057** | **38,811** |
| Credited/(charged) to consolidated income statement | **5,114** | **136** | **(11,690)** | **(6,440)** |
| **At 31st March 2016** | **15,144** | **(1,140)** | **18,367** | **32,371** |

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of approximately HK$2,213,000 (2015: HK$2,293,000) in respect of tax losses amounting to approximately HK$6,036,000 (2015: HK$6,033,000) that can be carried forward against future taxable profit. Approximately HK$378,000 (2015: HK$377,000) of the unrecognised tax losses have no expiry date and the remaining balance of HK$5,658,000 (2015: HK$5,656,000) will be expired at various dates up to and including 2035 (2015: 2035).

## 28 NOTE TO CONSOLIDATION STATEMENT OF CASH FLOWS

### (a) Reconciliation of profit before income tax to cash generated from operations:

| | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|
| Profit before income tax | 525,401 | 124,577 |
| Interest income | (13,276) | (13,693) |
| Interest expense on bank borrowings and trust receipt loans | 8,695 | 6,831 |
| Amortisation of intangible assets | 7,800 | 7,800 |
| Gain on disposal of plant and equipment | (40) | (6,888) |
| Gain on disposal of properties | (221,318) | – |
| Amortisation of deferred gain | (1,454) | – |
| Depreciation of property, plant and equipment | 34,645 | 33,369 |
| Impairment of property, plant and equipment | – | 4,964 |
| Amortisation of leasehold land and land use rights | 289 | 292 |
| Fair value gain on investment properties | (60) | (10,460) |
| Exchange loss on loans and receivables | – | 25 |
| Operating profit before working capital changes | 340,682 | 146,817 |
| Decrease/(increase) in inventories | 87,901 | (50,101) |
| (Increase)/decrease in trade and other receivables | (112,880) | 69,558 |
| Decrease in trade and other payables | (163,682) | (59,596) |
| Net cash generated from operations | 152,021 | 106,678 |

## 28 NOTE TO CONSOLIDATION STATEMENT OF CASH FLOWS (CONTINUED)

**(b)** In the consolidated statement of cash flows, proceeds from disposal of properties, plant and equipment comprise:

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Net book amount (Notes 14 and 15) | **271,126** | 6,259 |
| Gain on disposal of plant and equipment (Note 7) | **40** | 6,888 |
| Gain on disposal of properties (Note 29) | **221,318** | – |
| Amortisation of deferred gain (Note 29) | **1,454** | – |
| Deferred gain (Note 29) | **50,896** | – |
| Proceeds from disposal of properties, plant and equipment | **544,834** | 13,147 |
| Representing: | | |
| Proceeds from disposal of properties (Note 29) | **533,769** | – |
| Proceeds from disposal of plant and equipment | **11,065** | 13,147 |
| | **544,834** | 13,147 |

## 29 GAIN ON DISPOSAL OF PROPERTIES AND DEFERRED GAIN

In January 2016, Alco Electronics Limited ("AEL"), a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with an independent third party, Lead Harvest Group Limited ("Lead Harvest"), for the disposal of a self-occupied property (Note 14) and certain investment properties (Note 15) in Quarry Bay with carrying values of HK$23,791,000 and HK$236,310,000, respectively, at a total net consideration of HK$533,769,000. The transaction was completed on 29th February 2016 ("Completion Date").

## 29 GAIN ON DISPOSAL OF PROPERTIES AND DEFERRED GAIN (CONTINUED)

Upon completion of the disposal, AEL and Lead Harvest entered into a tenancy agreement, whereby AEL leased the aforesaid self-occupied property from Lead Harvest for its own use for 3 years commencing on the Completion Date. The fair value of the self-occupied property near the Completion Date was determined by the Valuer. The excess of consideration over fair value has been deferred and amortised over the lease period, resulting in the recognition of "deferred gain" amounting to HK$50,896,000 in the consolidated balance sheet and amortisation of the deferred gain amounting to HK$1,454,000 in the consolidated income statement for the current year.

During the current year, gain on the disposals of a self-occupied property and certain investment properties of HK$100,763,000 and HK$122,009,000 have been recognised in the consolidated income statement.

## 30 BANKING FACILITIES

As at 31st March 2016, banking facilities of approximately HK$1,314 million (2015: HK$1,150 million) were granted by banks to the Group, of which approximately HK$233 million (2015: HK$52 million) have been utilised by the Group. All banking facilities were supported by corporate guarantees given by the Company and no facility is secured by charges over the use of certain assets of the Group (2015: same).

## 31 COMMITMENTS

### (a) Capital commitments

| | **2016** **HK$'000** | 2015 HK$'000 |
|---|---|---|
| Moulds, plant and machinery and renovation contracted but not provided for | **11,878** | 16,018 |

## 31 COMMITMENTS (CONTINUED)

### (b) Operating lease commitments (as lessee)

The future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings are as follows:

| | **2016** **HK$'000** | 2015 HK$'000 |
|---|---|---|
| Not later than one year | **32,843** | 35,165 |
| Later than one year and not later than five years | **134,980** | 139,017 |
| Later than five years | **295,644** | 326,267 |
| | **463,467** | 500,449 |

### (c) Operating lease commitments (as lessor)

The Group leases various properties under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

The future aggregate minimum lease rental receivables under non-cancellable operating leases in respect of land and buildings are as follows:

| | **2016** **HK$'000** | 2015 HK$'000 |
|---|---|---|
| Not later than one year | **924** | 4,370 |
| Later than one year and not later than five years | **152** | 336 |
| | **1,076** | 4,706 |

The lease terms are from one to two years.

## 32 BALANCE SHEET OF THE COMPANY

| | Note | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|---|
| **Non-current asset** | | | |
| Investments in subsidiaries | | **1,129,629** | 1,142,145 |
| **Current assets** | | | |
| Other receivables | | **105** | 105 |
| Dividend receivable | | **347,621** | – |
| Cash and cash equivalents | | **252** | 242 |
| | | **347,978** | 347 |
| **Current liabilities** | | | |
| Other payables | | **306** | 198 |
| Dividend payable | | **347,621** | – |
| Current income tax liabilities | | **27** | 7 |
| | | **347,954** | 205 |
| **Net current assets** | | **24** | 142 |
| **Total assets less current liabilities** | | **1,129,653** | 1,142,287 |
| **Capital and reserves attributable to equity holders of the Company** | | | |
| Share capital | | **57,937** | 57,937 |
| Reserves | a | **1,071,716** | 1,084,350 |
| **Total equity** | | **1,129,653** | 1,142,287 |

The balance sheet was approved by the Board of Directors on 22nd June 2016 and were signed on its behalf.

**LEUNG Kai Ching, Kimen**
*Director*

**LEUNG Wai Sing, Wilson**
*Director*

## 32 BALANCE SHEET OF THE COMPANY (CONTINUED)

Note (a)

Reserves movement of the Company

| | Share premium HK$'000 | Capital redemption reserve HK$'000 | Contributed surplus HK$'000 | Staff compensation reserve HK$'000 | Retained earnings HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| **At 1st April 2014** | 310,651 | 940 | 40,586 | 11,783 | 635,220 | 999,180 |
| **Comprehensive income** | | | | | | |
| Profit for the year | – | – | – | – | 126,703 | 126,703 |
| **Transactions with owners** | | | | | | |
| 2015 interim dividend | – | – | – | – | (17,381) | (17,381) |
| 2014 final dividend | – | – | – | – | (23,175) | (23,175) |
| Repurchase of the Company's own shares | (977) | 72 | – | – | (72) | (977) |
| **Total transactions with owners** | (977) | 72 | – | – | (40,628) | (41,533) |
| **At 31st March 2015** | 309,674 | 1,012 | 40,586 | 11,783 | 721,295 | 1,084,350 |
| **At 1st April 2015** | **309,674** | **1,012** | **40,586** | **11,783** | **721,295** | **1,084,350** |
| **Comprehensive income** | | | | | | |
| Profit for the year | **–** | **–** | **–** | **–** | **427,686** | **427,686** |
| **Transactions with owners** | | | | | | |
| 2016 special dividend | **–** | **–** | **–** | **–** | **(347,621)** | **(347,621)** |
| 2016 interim dividend | **–** | **–** | **–** | **–** | **(34,762)** | **(34,762)** |
| 2015 final dividend | **–** | **–** | **–** | **–** | **(57,937)** | **(57,937)** |
| **Total transactions with owners** | **–** | **–** | **–** | **–** | **(440,320)** | **(440,320)** |
| **At 31st March 2016** | **309,674** | **1,012** | **40,586** | **11,783** | **708,661** | **1,071,716** |

Note:

The contributed surplus of the Company, which arose from a corporate reorganisation in November 1992, represents the difference between the nominal value of the Company's shares issued in exchange for the issued ordinary shares of Alco Investments (B.V.I.) Limited and the value of net assets of the underlying subsidiaries acquired as at 6th November 1992. Under the Companies Act 1981 of Bermuda (as amended), a company may not declare or pay a dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that (i) the company is, or would after the payment be, unable to pay its liabilities as they become due; or (ii) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts. Otherwise the contributed surplus is distributable.

# Principal Properties

*31st March 2016*

As at 31st March 2016, principal properties held for investment purposes are as follows:

| Location | Lot number | Existing use | Lease term |
|---|---|---|---|
| Workshops A to J,<br>on 7th Floor of Block 1,<br>Kwai Tak Industrial Centre,<br>Nos. 15-33 Kwai Tak Street,<br>Kwai Chung, New Territories,<br>Hong Kong | Kwai Chung Town<br>Lot Nos. 322, 323<br>and 324 | Industrial rental | Medium term |
| Lot Nos. 593 and 595<br>in Demarcation District No. 106,<br>Off Kam Sheung Road,<br>Ng Ka Tsuen, Kam Tin,<br>Yuen Long, New Territories,<br>Hong Kong | Lot Nos. 593 and 595<br>in Demarcation<br>District No. 106 | Industrial rental | Medium term |

# Five-year Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is as follows:

| | **2016**<br>**HK$'000** | 2015<br>HK$'000 | 2014<br>HK$'000 | 2013<br>HK$'000 | 2012<br>HK$'000 |
|---|---|---|---|---|---|
| Revenue | **2,879,104** | 2,562,566 | 2,291,141 | 1,865,778 | 2,768,538 |
| Profit/(loss) attributable to equity holders of the Company | **506,028** | 114,250 | (19,099) | 58,413 | 80,136 |
| Total assets | **2,971,460** | 2,497,147 | 2,561,764 | 2,734,840 | 2,774,239 |
| Total liabilities | **(986,462)** | (570,812) | (705,843) | (807,834) | (928,953) |
| Total equity | **1,984,998** | 1,926,335 | 1,855,921 | 1,927,006 | 1,845,286 |