泰豐國際集團有限公司*

# Sino-Tech International Holdings Limited

(Incorporated in Bermuda with limited liability)
(Stock Code: 724)

Annual Report

2015

* For Identification Purpose Only

# Contents

# Corporate Information

## EXECUTIVE DIRECTORS

Mr. Wang Zhaofeng *(Chairman)*
Mr. Lam Yat Keung
Mr. Huang Hanshui

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ho Chi Fai
Ms. Liu Yanfang
Mr. Zhang Jue

## AUDIT COMMITTEE

Mr. Ho Chi Fai *(Chairman)*
Ms. Liu Yanfang
Mr. Zhang Jue

## REMUNERATION COMMITTEE

Mr. Zhang Jue *(Chairman)*
Mr. Ho Chi Fai
Ms. Liu Yanfang

## NOMINATION COMMITTEE

Ms. Liu Yanfang *(Chairman)*
Mr. Wang Zhaofeng
Mr. Zhang Jue

## INVESTMENT COMMITTEE

Mr. Zhang Jue *(Chairman)*
Mr. Ho Chi Fai
Ms. Liu Yanfang

## COMPANY SECRETARY

Ms. Tsang Man Sze

## AUDITOR

SHINEWING (HK) CPA Limited

## REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton, HM 11
Bermuda

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

18th Floor, Times Media Centre
133 Wan Chai Road
Hong Kong

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Codan Services Limited
Clarendon House
2 Church Street
PO Box HM1022
Hamilton HM DX
Bermuda

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

## SHARE LISTING

The Stock Exchange of Hong Kong Limited
Stock Code: 724

## WEBSITE

www.irasia.com/listco/hk/sinotech

# Results Overview and Financial Highlights

## RESULTS OVERVIEW

For the year ended 31 December 2015 (the "Reporting Period"), Sino-Tech International Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") reported revenue of approximately HK$545.1 million, representing a decrease of 9.1% as compared with approximately HK$599.9 million for the year ended 31 December 2014 (the "Corresponding Period").

Loss for the Reporting Period decreased to approximately HK$23.2 million from approximately HK$40.4 million for the Corresponding Period. Loss attributable to owners of the Company was approximately HK$23.2 million for the Reporting Period as compared with approximately HK$40.4 million for the Corresponding Period. The reduction in loss for the Reporting Period was mainly due to the gain on modification of terms of convertible notes, which partly offset, among others, the increased operating loss and the imputed interest expenses on convertible notes. The increase in operating loss was mainly due to the expansion of loss from the electronic products business as a result of, among others, the drop in revenue, the increase in distribution costs and the increase in minimum wages in the People's Republic of China (the "PRC" or "China").

The gain on modification of terms of convertible notes, the impairment loss on interests in joint ventures and the imputed interest expenses on convertible notes (collectively, the "Non-cash Items") arose as a result of accounting treatment under the provisions of the applicable accounting standards and were of non-cash nature. Before the Non-cash Items, the Group made a loss of approximately HK$38.7 million for the Reporting Period, as compared with a loss of approximately HK$20.5 million for the Corresponding Period.

## FINANCIAL HIGHLIGHTS

| | **2015**<br>**HK$'000** | 2014<br>HK$'000 |
|---|---|---|
| Revenue | **545,055** | 599,867 |
| Gross profit | **32,620** | 33,300 |
| Loss for the year | **(23,211)** | (40,434) |
| Gain on modification of terms of convertible notes | **27,821** | – |
| Impairment loss on interests in joint ventures (included in other expenses) | **–** | (998) |
| Imputed interest expenses on convertible notes | **(12,287)** | (18,941) |
| **Loss for the year before gain on modification of terms of convertible notes, impairment loss on interests in joint ventures and imputed interest expenses on convertible notes** | **(38,745)** | (20,495) |

# Management Discussion and Analysis

## BUSINESS AND FINANCIAL REVIEW

The electronic products business reported a drop of 9.1% in revenue to approximately HK$545.1 million for the Reporting Period from approximately HK$599.9 million for the Corresponding Period. During the Reporting Period, the gross profit for the electronic products business decreased by 2.1% to approximately HK$32.6 million from approximately HK$33.3 million for the Corresponding Period. The decreases were mainly attributable to the volatility and uncertainty of the business environment in the PRC during the Reporting Period. Furthermore, the increase in minimum wages in the PRC resulted in an increase in labour costs, which has also lowered the gross profit during the Reporting Period.

On 9 January 2015, the ordinary resolution of the special general meeting was duly passed and the extension of the maturity date and the adjustment of the conversion price of the outstanding convertible notes became effective. For details, please refer to the announcements of the Company dated 14 November 2014, 17 November 2014 and 9 January 2015, as well as the circular of the Company dated 19 December 2014 and the Company's annual report for the year ended 31 December 2014 (the "2014 Annual Report") and interim report for the six months ended 30 June 2015 (the "2015 Interim Report"). Immediately following the modification of terms of convertible notes, as disclosed in the 2014 Annual Report and the 2015 Interim Report and set out in note 28 to the consolidated financial statements, the estimated financial effect of the modification was a recognition of gain of approximately HK$27.8 million credited to profit or loss and a transfer of approximately HK$35.3 million from the convertible notes reserve to accumulated losses during the Reporting Period.

During the Reporting Period, the convertible notes with an aggregate principal amount of HK$42.0 million were converted into 1,199,999,998 new ordinary shares of HK$0.01 each in the capital of the Company (the "Conversion"), as disclosed in the 2015 Interim Report and set out in notes 28 and 31 to the consolidated financial statements. Following the Conversion and as at 31 December 2015, the principal amount of convertible notes remained outstanding was HK$260.4 million with a conversion price of HK$0.035 per share and the maturity date is 31 December 2016. The Company is considering various alternatives to more permanently improve the Group's financial position.

The Company completed the issue and allotment of an aggregate of 722,500,000 fully-paid subscription shares to two subscribers on 9 November 2015 in accordance with the terms and conditions of the Subscription Agreements (as defined below). The net proceeds from the issue of the subscription shares were approximately HK$33.1 million and the Company intended to utilise the net proceeds as general working capital of the Group. As at the date of this report, the net proceeds are held as bank deposits and not yet utilised. For details, please refer to the announcements of the Company dated 27 October 2015 and 9 November 2015 and the paragraph headed "Liquidity, Financial Resources and Capital Structure" in the Management Discussion and Analysis on page 5 of this report. As at the date of this report, the winding-up of CITIC Logistics (International) Company Limited (in liquidation) ("CLI") is still in process. During the Reporting Period, as disclosed in the 2015 Interim Report, the disposal of the entire 90% equity interest in CITIC Logistics Company Limited ("CLBJ") was completed, according to CLBJ and the liquidators of CLI.

# Management Discussion and Analysis

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group mainly finances its business operations with internally generated cash flows and general banking facilities.

As at 31 December 2015, the Group had bank balances and cash of approximately HK$66.8 million (2014: HK$45.1 million). The Group's current ratio (measured as total current assets to total current liabilities) was 1.2 times (2014: 1.0 time).

As at 31 December 2015, the Company had outstanding zero coupon convertible notes due on 31 December 2016 with an aggregate principal amount of HK$260.4 million (2014: HK$302.4 million) and a conversion price of HK$0.035 (2014: an initial conversion price of HK$0.12) per share. During the Reporting Period, the convertible notes with an aggregate principal amount of HK$42.0 million were converted into 1,199,999,998 new ordinary shares of HK$0.01 each in the capital of the Company. Details are set out in the 2015 Interim Report and notes 28 and 31 to the consolidated financial statements.

On 27 October 2015, the Company entered into two subscription agreements (the "Subscription Agreements") with two subscribers, respectively for the subscription of an aggregate of 722,500,000 new ordinary shares at the subscription price of HK$0.047 per share for an aggregate consideration of approximately HK$34.0 million (the "Subscription"). The subscription price represented a discount of approximately 16.1% to the closing price of HK$0.056 per share as quoted on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 27 October 2015, being the date of the Subscription Agreements. Under the Subscription Agreements, the subscribers, namely Active Shell Investment Limited and Regency Eagle Investment Limited（帝鷹投資有限公司）, have agreed to subscribe for 484,000,000 and 238,500,000 subscription shares, respectively. The directors of the Company (the "Director(s)") have considered that the Subscription would allow the Group to raise additional funds and widen the Company's shareholder base. The Directors considered that the terms of the Subscription Agreements were fair and reasonable and were in the interests of the Company and the shareholders of the Company (the "Shareholders") as a whole. The Subscription was completed on 9 November 2015. For details, please refer to the announcements of the Company dated 27 October 2015 and 9 November 2015 and note 31 to the consolidated financial statements. The Company intended to utilise the net proceeds of approximately HK$33.1 million from the Subscription as general working capital of the Group. Up to the date of approval of these consolidated financial statements, the net proceeds from the Subscription were held as bank deposits and not yet utilised.

As at 31 December 2015, the Group had no outstanding bank borrowings (2014: nil). The gearing ratio, which is calculated by total interest bearing borrowings to total equity, was nil as at 31 December 2015 and 2014.

As at 31 December 2015, the Group had no capital expenditure commitments (2014: nil).

# Management Discussion and Analysis

## SIGNIFICANT INVESTMENTS

The Group did not have any significant investments during the Reporting Period.

## MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

The Group did not have any material acquisitions or disposals of subsidiaries and associated companies during the Reporting Period.

## CHARGE ON GROUP'S ASSETS

As at 31 December 2015, the Group did not have any assets pledged (2014: nil).

## FOREIGN EXCHANGE EXPOSURES

The Group mainly earns revenue and incurs costs in Hong Kong dollars, U.S. dollars and Renminbi ("RMB"). The management is aware of the possible exchange rate exposure resulted from the fluctuation of RMB against the Hong Kong dollars and will closely monitor its impact on the performance of the Group to determine if any hedging policy is necessary. With regard to the U.S. dollars, foreign exchange exposure would be minimal so long as the Hong Kong SAR Government's policy to peg the Hong Kong dollars to the U.S. dollars remains in effect.

## CONTINGENT LIABILITIES

Details of the contingent liabilities of the Group are set out in note 37 to the consolidated financial statements.

## EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2015, the Group had 664 (2014: 794) full time employees in Hong Kong and the PRC. Total staff costs (including Directors' remuneration) for the Reporting Period amounted to approximately HK$27.4 million (2014: HK$32.5 million). The employees are remunerated with reference to the qualification, experience, responsibility and performance of the individual, the performance of the Group and the market practices. Apart from the basic remuneration package, the mandatory provident fund scheme and the central provident scheme in the PRC, the Company also operates a share option scheme based on which the Board may, at its discretion, grant options to eligible employees of the Group.

# Management Discussion and Analysis

## FUTURE OUTLOOK

According to the International Monetary Fund (the "IMF"), global growth is projected at 3.4% in 2016 and 3.6% in 2017. Overall, forecasts for global growth have been revised downward by 0.2 percentage points for both 2016 and 2017. These revisions in January 2016 reflected to a substantial degree, but not exclusively, a weaker pickup in emerging economies than what was forecast in October 2015. According to the IMF, the slowdown and rebalancing of the Chinese economy, lower commodity prices, and strains in some large emerging market economies will continue to weigh on growth prospects in 2016 and 2017. In advanced economies, a modest and uneven recovery is expected to continue, with a gradual further narrowing of output gaps. Overall activity remains resilient in the United States, supported by still-easy financial conditions and strengthening housing and labour markets, but with dollar strength weighing on manufacturing activity and lower oil prices curtailing investment in mining structures and equipment. According to the IMF, risks to the global outlook remain tilted to the downside and relate to ongoing adjustments in the global economy including the gradual exit from extraordinarily accommodative monetary conditions in the United States.

China's economy grew 6.9% in 2015, its slowest pace since 1990 though in line with the government's target of around 7.0%. Growth this year is likely to slow down further, however, as Beijing tries to tackle problems of excessive stock and manufacturing overcapacity as one of the major tasks of its supply-side structural reform plan, according to a report dated 19 January 2016 in the South China Morning Post (the "SCMP"). Beijing's supply-side policies should benefit manufacturers in the long run, but the push is unable to address the slowdown in growth in the short term, according to a report dated 1 February 2016 in the SCMP. According to a report dated 1 March 2016 in the Financial Times (the "FT"), activity in China's factory and services sectors fell in February 2016 to its lowest level since the aftermath of the global financial crisis, the latest signal of a deepening economic slowdown that prompted the central bank to inject cash into the banking system.

According to the FT report dated 1 March 2016, China's official manufacturing purchasing managers' index (the "PMI") fell to 49 in February 2016 from 49.8 in January 2016, equaling its weakest since February 2009 and the seventh straight month of decline. The official services sector PMI, which had previously held up better than the manufacturing index in China's economic slowdown, also slipped to 52.7 in February 2016, its weakest level since December 2008. China has set a lower target for its 2016 economic growth, calling for an expansion of 6.5% to 7.0%. The broader range suggests that the government is still prioritising growth, even as it seeks a balance between short-term stimulus and long-term structural reform, according to a report dated 5 March 2016 in the FT. The IMF expects growth in China to slow to 6.3% in 2016 and 6.0% in 2017, primarily reflecting weaker investment growth as the economy continues to rebalance. According to the IMF, China can avoid a hard landing if Beijing pursues reforms to state enterprises and sticks to a more market-driven and well-communicated exchange rate policy, as per a report dated 5 February 2016 in the SCMP.

# Management Discussion and Analysis

Against this backdrop, the operating environment for manufacturers in the PRC is likely to remain challenging and would continue to have an impact on the performance of the Group's electronic products business in the future. Competition is expected to be keen not only in the PRC but also in other Asia countries. As Europe is hard to build a momentum in their economic recovery, and for these reasons, the selling price of consumable products will be under pressure and thus the selling price of our electronic components will be under pressure as well. Profit margin of the Group's electronic products has been squeezed by growing competition within the industry due to fixed production costs as well as the increasing wages rate. Cost control will be a priority to the Group and we will explore and consider ways to increase profitability including the outsourcing of some labour intensive process. As a result, the Group will take a cautious view of its electronic products business in the coming year.

# Biographical Details of Directors

## EXECUTIVE DIRECTORS

**Mr. Wang Zhaofeng** ("Mr. Wang"), aged 46, was appointed as an executive Director and the chairman of the Company (the "Chairman") on 10 July 2013 and 26 February 2016, respectively. Mr. Wang holds master and doctor of law degrees from Renmin University of China. He went to University of Cambridge in England, Cornell University in the United States and Max Planck Institute in Germany in 2004, 2009 and 2015, respectively as a visiting scholar. Mr. Wang has about 17 years of experience working in the judiciary department and as a practicing lawyer in the PRC. He is currently a legal counsel to several major media and large enterprises. Mr. Wang was a deputy director for the Public Prosecution Department of the People's Procuratorate of Haidian District in Beijing from 1998 to 2002, and a deputy director for the Legal Policy Research Office of the People's Procuratorate of Beijing from 2002 to 2006. Currently, Mr. Wang is a managing partner of and a director-general of the Litigation and Arbitration Professional Committee of Beijing DeHeng Law Offices. Mr. Wang is also a member of the Lawyers Development Strategy Research Committee of All China Lawyers Association in the PRC, a deputy director of the Lawyer Business Research Centre of Renmin University of China and a part-time professor of China University of Political Science and Law.

**Mr. Lam Yat Keung** ("Mr. Lam"), aged 58, was appointed as the president of the Company (the "President") on 13 December 2003 and stepped down on 2 March 2010 but remained as an executive Director. Mr. Lam was re-appointed as the President on 1 December 2012 and stepped down on 1 December 2015 but remained as an executive Director. Mr. Lam has over 30 years of experience in business development, strategic planning, policy making and research and development in the manufacturing industry in Hong Kong and the PRC, particularly in the consumer products and electronic components sectors. Mr. Lam and his wife, Ms. Lam Pik Wah, are directors of certain subsidiaries of the Company.

**Mr. Huang Hanshui** ("Mr. Huang"), aged 45, was appointed as an executive Director on 9 March 2010. Mr. Huang holds a Master of Business Administration (MBA) degree from the National University of Singapore and a Bachelor of Arts degree from Xiamen University. Mr. Huang has over 20 years of experience in various areas, including financial and risk management, equity research, strategic management, human resources services and sales & marketing. Prior to joining the Company, he worked as an equity analyst in Nomura Securities and Standard & Poor's. Mr. Huang is currently the chief financial officer of the Company and a director of certain subsidiaries of the Company.

# Biographical Details of Directors

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Ho Chi Fai** ("Mr. Ho"), aged 59, was appointed as an independent non-executive Director on 15 January 2004. Mr. Ho graduated from the Hong Kong Polytechnic University in 1979 with a Higher Diploma in Accountancy. Prior to joining the Company, he had over 20 years of experience working in an international bank with particular expertise in money market operations and accounting and was the financial controller of a computer manufacturer and an electronic components manufacturer.

**Ms. Liu Yanfang** ("Ms. Liu"), aged 51, was appointed as an independent non-executive Director on 24 June 2010. Ms. Liu holds a bachelor's degree in law from China University of Political Science and Law. She has over 20 years of experience working as a corporate legal counsel and in financial crimes investigations. Ms. Liu is currently a PRC practicing attorney and she has been a senior partner with Allbright Law Offices situated in Shanghai since 2004. From 1992 to 2003, Ms. Liu served various positions with the Ministry of Public Security including as director of the Securities Crime Investigation Department and as deputy director of the Finance Department under the Economic Protection Bureau. From 1989 to 1992, she worked in the All-China Women's Federation. From 1987 to 1989, she worked as an attorney for a law firm in Hebei province.

**Mr. Zhang Jue** ("Mr. Zhang"), aged 30, was appointed as an independent non-executive Director on 20 February 2016. Mr. Zhang obtained a bachelor's degree with a major in Financial Management from Shanghai University of Finance and Economics in 2007 and a Master's degree of Accounting from Tsinghua University in 2015. Mr. Zhang has over 8 years of experience in various areas, including investment, financial management, market research and auditing. Mr. Zhang worked as a senior manager from December 2012 to December 2013 and as the financial controller from December 2013 to June 2014 in China New Town Development Company Limited, the shares of which are dual-listed on the main boards of The Singapore Exchange Securities Trading Limited (stock code: D4N.si) and the Stock Exchange (stock code: 1278). Since 2012, he served as a vice president in Beijing Black Eagle Fu Cheng Investment Management Co. Ltd.*（北京黑鷹富成投資管理有限公司）and/or its related companies. Mr. Zhang is currently a director of CCL Cold Storage Logistics Co., Ltd.*（北京中冷物流股份有限公司）, the shares of which are quoted on the National Equities Exchange and Quotations of the PRC (stock code: 835382).

* *For identification purpose only*

# Report of the Directors

The Board presents their report and the audited consolidated financial statements of the Company and its subsidiaries for the Reporting Period.

## PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries as at 31 December 2015 are set out in note 38 to the consolidated financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the Reporting Period are set out in the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income on pages 31 and 32 of this report.

The Board does not recommend the payment of final dividend for the Reporting Period (2014: nil).

## SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and of the assets, liabilities and non-controlling interests of the Group for the past five financial years is set out on page 116 of this report.

## SHARE CAPITAL

Details of movements in the share capital of the Company during the Reporting Period are set out in note 31 to the consolidated financial statements.

## CONVERTIBLE NOTES

Details of movements in the convertible notes of the Company during the Reporting Period are set out in note 28 to the consolidated financial statements.

## RESERVES

Details of movements in the reserves of the Group and the Company during the Reporting Period are set out in the consolidated statement of changes in equity and note 33 to the consolidated financial statements, respectively.

# Report of the Directors

## DISTRIBUTABLE RESERVES

As at 31 December 2015, the Company did not have any reserves available for distribution, as computed in accordance with the Companies Act 1981 of Bermuda (2014: nil). The Company's share premium account of HK$2,271,283,000 (2014: HK$2,210,494,000) could be distributed in the form of fully paid bonus shares.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the bye-laws of the Company (the "Bye-laws") or the laws in Bermuda which would oblige the Company to offer new shares on a pro-rata basis to its existing Shareholders.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

On 9 November 2015, the Company completed the Subscription of an aggregate of 722,500,000 new ordinary shares at the subscription price of HK$0.047 per share. For details, please refer to the announcements of the Company dated 27 October 2015 and 9 November 2015, the paragraph headed "Liquidity, Financial Resources and Capital Structure" in the Management Discussion and Analysis on page 5 and note 31 to the consolidated financial statements.

Save as disclosed above, during the Reporting Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the Reporting Period are set out in note 17 to the consolidated financial statements.

## MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the largest customer and the five largest customers of the Group accounted for 10.25% and 29.35%, respectively, of the total revenue of the Group for the Reporting Period.

The aggregate purchases attributable to the largest supplier and the five largest suppliers of the Group accounted for 14.30% and 57.71%, respectively, of the total purchases of the Group for the Reporting Period.

None of the Directors, their associates or any Shareholders (which to the knowledge of the Directors own more than 5% of the Company's share capital) had any interest in the five largest customers or suppliers.

# Report of the Directors

## DIRECTORS

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

### Executive Directors

| | |
|---|---|
| Mr. Wang Zhaofeng | |
| Mr. Lam Yat Keung | |
| Mr. Huang Hanshui | |
| Mr. Li Weimin | (appointed on 1 December 2015 and resigned on 26 February 2016) |

### Independent non-executive Directors

| | |
|---|---|
| Mr. Ho Chi Fai | |
| Ms. Liu Yanfang | |
| Mr. Zhang Jue | (appointed on 20 February 2016) |
| Professor Ma Hongwei | (resigned on 20 February 2016) |

Pursuant to Bye-law 86, Mr. Zhang Jue will hold office until the forthcoming annual general meeting of the Company (the "2016 AGM") and, being eligible, will offer himself for re-election at the 2016 AGM. In accordance with Bye-law 87, Mr. Lam Yat Keung and Mr. Ho Chi Fai will retire by rotation at the 2016 AGM and, being eligible, will offer themselves for re-election at the 2016 AGM.

None of the Directors being proposed for re-election at the 2016 AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensations, other than statutory compensation.

Save as disclosed above, there is no other information regarding Directors that is required to be disclosed pursuant to Rule 13.51B(1) of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange.

# Report of the Directors

## DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

No transactions, arrangements or 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 had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the Reporting Period.

## DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors or their respective associates had an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

## DIRECTORS' REMUNERATION AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the Directors' remuneration and those of the five highest paid individuals in the Group are set out in notes 15 and 16 to the consolidated financial statements.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2015, the interests and short positions of the Directors and chief executives of the Company (the "Chief Executives") in the shares, underlying shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO); or (ii) to be entered in the register pursuant to Section 352 of the SFO; or (iii) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules, were as follows:

**Long positions in the shares and underlying shares of the Company:**

| Name of Directors | Capacity | Number of shares and underlying shares held | Percentage of shareholding |
|---|---|---|---|
| Mr. Li Weimin (Note 1) | Beneficial owner | 9,182,985,823 | 66.12% |
| Mr. Huang Hanshui (Note 2) | Beneficial owner | 86,827,895 | 0.63% |

Notes:

1. Mr. Li Weimin was appointed as the Chairman and an executive Director on 1 December 2015 and resigned on 26 February 2016. He is interested in 9,182,985,823 shares, consisting of (i) an interest in 1,742,985,823 shares beneficially owned and held in his own name; and (ii) a derivative interest in 7,440,000,000 conversion shares to be allotted and issued upon full conversion of the outstanding convertible notes issued to him by the Company with an aggregate principal amount of HK$260,400,000.

2. Mr. Huang Hanshui, an executive Director, has a derivative interest in 86,827,895 shares pursuant to share options granted to him on 6 December 2010.

Save as disclosed above, as at 31 December 2015, none of the Directors, the Chief Executives or their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO), or which had to be recorded in the register required to be kept under Section 352 of the SFO, or otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the paragraph headed "Directors' and Chief Executives' interests in shares and underlying shares" above and "Share option scheme" as set out in note 32 to the consolidated financial statements, at no time during the Reporting Period was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate and neither the Directors nor the Chief Executives, or any of their spouses or children under the age of 18, had any rights to subscribe for the equity or debt securities of the Company, or had exercised any such rights.

# Report of the Directors

## SUBSTANTIAL SHAREHOLDERS

As at 31 December 2015, the register of substantial Shareholder maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of certain Directors and the Chief Executives, the Company had not been notified any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

## SHARE OPTION SCHEME

At the Company's annual general meeting held on 8 June 2012, the Company terminated the old share option scheme and adopted a new share option scheme. Details are set out in note 32 to the consolidated financial statements.

## MANAGEMENT CONTRACTS

No contracts, other than employment contracts, concerning the management and administration of the whole or any substantial part of the Company's business were entered into or existed during the Reporting Period.

## CONNECTED TRANSACTION

During the Reporting Period, there were no connected transactions or continuing connected transactions of the Company under Chapter 14A of the Listing Rules which are required to comply with any of the reporting, announcement or independent Shareholders' approval requirements under the Listing Rules.

## CORPORATE GOVERNANCE PRACTICE

The Company's corporate governance principles and practices are set out in the Corporate Governance Report on pages 18 to 28 of this report.

## SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained sufficient public float as required under the Listing Rules as at the date of this report.

## AUDITOR

SHINEWING (HK) CPA Limited will retire and, being eligible, will offer themselves for re-appointment as auditor of the Company at the 2016 AGM.

On behalf of the Board

**Wang Zhaofeng**
*Chairman*

Hong Kong, 24 March 2016

# Corporate Governance Report

## CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining high standards of corporate governance. During the Reporting Period, the Company has applied the principles of and complied with the code provisions ("Code Provisions") set out in the Corporate Governance Code and Corporate Governance Report (the "CG Code") contained in Appendix 14 of the Listing Rules except for the following deviations:

Under the Code Provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. The duties and responsibilities of the chief executive were shared among the members of the Board during the Reporting Period. In view of the size of operation of the Group, the Board considers that it will be suitable for implementing the Company's strategies under this arrangement. The Board shall review this arrangement from time to time to ensure appropriate and timely action is taken to meet changing circumstances.

Moreover, under the Code Provision A.4.1 of the CG Code, non-executive directors should be appointed for a specific term, subject to re-election. Mr. Ho Chi Fai, an independent non-executive Director, is not appointed for a specific term but his directorship is subject to retirement by rotation and re-election in accordance with the Bye-laws and the Listing Rules. Under the Bye-laws, one-third of the Directors shall retire from office by rotation at each annual general meeting. According to the Listing Rules, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

The Directors will continuously review and improve the corporate governance practices and standards of the Company to ensure that business activities and decision making process are regulated in a proper and prudent manner.

## BOARD OF DIRECTORS

As at the date of this report, the Board comprises a balanced composition of Directors who possess a wide spectrum of relevant skills and experience, including three executive Directors and three independent non-executive Directors. All Directors are expressly identified in all corporate communications. The biographical details of each Director are set out on pages 9 to 10 of this report. The Board has established four Board committees, namely the Audit Committee, the Remuneration Committee, the Nomination Committee and the Investment Committee (together the "Board Committees").

# Corporate Governance Report

During the Reporting Period, the attendance of the Directors at the Board meetings, Audit Committee meetings, Remuneration Committee meetings, Nomination Committee meetings, Investment Committee meeting, the Company's special general meeting held on 9 January 2015 ("2015 SGM") and the Company's annual general meeting held on 8 June 2015 ("2015 AGM") is given below and their respective responsibilities are discussed later in this report.

| | | No. of meetings attended/held | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | 2015 SGM | 2015 AGM | Board meetings | Audit Committee meetings | Remuneration Committee meetings | Nomination Committee meetings | Investment Committee meeting |
| **Executive Directors** | | | | | | | | |
| Mr. Wang Zhaofeng | | 1/1 | 1/1 | 10/10 | N/A | N/A | 2/2 | N/A |
| Mr. Lam Yat Keung | | 1/1 | 1/1 | 10/10 | N/A | N/A | N/A | N/A |
| Mr. Huang Hanshui | | 1/1 | 1/1 | 10/10 | N/A | N/A | N/A | N/A |
| Mr. Li Weimin | (appointed on 1 December 2015 and resigned on 26 February 2016) | note 1 | note 1 | note 1 | N/A | N/A | N/A | N/A |
| **Independent non-executive Directors** | | | | | | | | |
| Mr. Ho Chi Fai | | 1/1 | 1/1 | 10/10 | 2/2 | 2/2 | N/A | 1/1 |
| Ms. Liu Yanfang | | 1/1 | 1/1 | 10/10 | 2/2 | 2/2 | 2/2 | 1/1 |
| Mr. Zhang Jue | (appointed on 20 February 2016) | note 2 | note 2 | note 2 | note 2 | note 2 | note 2 | note 2 |
| Professor Ma Hongwei | (resigned on 20 February 2016) | 1/1 | 1/1 | 10/10 | 2/2 | 2/2 | 2/2 | 1/1 |

Notes:

1. Mr. Li Weimin was appointed as the Chairman and an executive Director after holding of the 2015 SGM, the 2015 AGM and the Board meetings.

2. Mr. Zhang Jue was appointed as an independent non-executive Director, a member of each of the Audit Committee and the Nomination Committee, and the chairman and a member of each of the Remuneration Committee and the Investment Committee after the Reporting Period.

The Board is accountable to Shareholders for the performance and activities of the Company and is primarily responsible for setting directions, formulating strategies, monitoring performance and managing risks of the Group. The day-to-day management, operation and administration of the Company are delegated to the management executives while certain key matters such as making recommendation of dividend or other distributions and appointment of Directors are reserved for the approval by the Board.

# Corporate Governance Report

The Board held meetings from time to time whenever necessary. Notice of at least fourteen days has been given to all Directors for all regular board meetings and the Directors can include matters for discussion in the agenda if necessary. Agenda and accompanying board papers in respect of regular Board meetings are sent to all Directors within reasonable time before the meeting. Minutes of Board meetings and meetings of the Board Committees are kept by the secretary of the meetings and all Directors have access to board papers and related materials, and are provided with adequate information on a timely manner, which enable the Board to make an informed decision on matters placed before it.

In case a Director has a material interest in the subject matter to be considered by the Board, a Board meeting should be held and such Director must abstain from voting and not being counted towards the quorum in respect of the subject matter of the meeting.

All Directors are regularly updated on governance and regulatory matters. There is an established procedure for Directors to obtain independent professional advice at the expense of the Company in discharge of their duties.

During the Reporting Period, the Board complies at all times with the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors and one of them has appropriate professional qualifications or accounting or related financial management expertise.

The Company has received from each independent non-executive Director an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules and the Company is of the opinion that the independent status of them remains intact as at 31 December 2015.

## DIRECTORS' TRAINING

The Directors newly appointed during and subsequent to the Reporting Period have received induction on the first occasion of their appointment, so as to ensure that they have appropriate understanding of the business and operations of the Company and that they are fully aware of their responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

# Corporate Governance Report

Under the Code Provision A.6.5 of the CG Code, all directors should participate in continuous development to develop and refresh their knowledge and skills to ensure that their contribution to the board remains informed and relevant. The Directors are continuously updated with legal and regulatory developments, and the business and market changes to facilitate the discharge of their responsibilities. The Company has provided timely technical updates, including the briefing on the amendments on the Listing Rules and the news release published by the Stock Exchange to the Directors. Continuous briefing and seminars on professional development for Directors are arranged where necessary. Up to the date of this report, all Directors have attended in-house seminars on regulatory and corporate governance matters arranged by the Company and the Company has received from each of the Directors the confirmation on continuous professional training, as recorded in the table below:

| | Seminars on regulations and updates | Reading guides and papers relating to regulations and directors' duties |
|---|---|---|
| **Executive Directors** | | |
| Mr. Wang Zhaofeng | ✓ | ✓ |
| Mr. Lam Yat Keung | ✓ | ✓ |
| Mr. Huang Hanshui | ✓ | ✓ |
| **Independent Non-Executive Directors** | | |
| Mr. Ho Chi Fai | ✓ | ✓ |
| Ms. Liu Yanfang | ✓ | ✓ |
| Mr. Zhang Jue | ✓ | ✓ |

## DIRECTORS' INSURANCE

The Company has arranged appropriate insurance cover in respect of legal action against the Directors.

## PRESIDENT/CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The President/Chairman is responsible for the leadership and effective running of the Board and ensuring that all significant and key issues are discussed and where required, timely and constructively resolved by the Board.

# Corporate Governance Report

The chief executive officer of the Company ("CEO") was delegated with the authority and responsibility to manage the Group's business in all aspects effectively, implement major strategies, make day-to-day decision and coordinate overall business operation. During the Reporting Period, the duties and responsibilities of the CEO were shared among the members of the Board. In view of the size of operation of the Group, the Board considers that it will be suitable for implementing the Company's strategies under this arrangement. The Board shall review this arrangement from time to time to ensure appropriate and timely action is taken to meet changing circumstances.

During the Reporting Period, as announced by the Company on 27 November 2015, with effect from 1 December 2015, Mr. Lam Yat Keung stepped down from his position as the President and Mr. Li Weimin was appointed as the Chairman and an executive Director. After the Reporting Period, as announced by the Company on 26 February 2016, with effect from 26 February 2016, Mr. Li Weimin resigned as the Chairman and an executive Director and Mr. Wang Zhaofeng was appointed as the Chairman.

## APPOINTMENT, RE-ELECTION AND REMOVAL

Each of the executive Directors is engaged on a service contract. Each of the independent non-executive Directors (except Mr. Ho Chi Fai) is engaged with an appointment letter from the Company for a fixed term of three years, which will continue thereafter until terminated by either party by giving not less than one month notice in writing to the other party, and his/her term of office is subject to retirement by rotation and re-election in accordance with the Bye-laws and the Listing Rules.

According to the Bye-laws, one-third of the Directors shall retire from office by rotation at each annual general meeting. Any director appointed to fill a casual vacancy or as an addition to the Board shall hold office only until the next following annual general meeting and shall then be eligible for re-election at that meeting.

The procedures and process of appointment, re-election and removal of Directors are laid down in the Bye-laws. The Nomination Committee is responsible for reviewing the Board composition, monitoring the appointment and succession planning of Directors and assessing the independence of independent non-executive Directors.

# Corporate Governance Report

## NOMINATION COMMITTEE

After the Reporting Period, as announced by the Company on 19 February 2016, Professor Ma Hongwei resigned as a member of the Nomination Committee with effect from 20 February 2016. The Nomination Committee currently comprises three members namely, Ms. Liu Yanfang (the chairman of the Nomination Committee) and Mr. Zhang Jue, independent non-executive Directors, and Mr. Wang Zhaofeng, an executive Director.

The Board adopted the board diversity policy (the "Board Diversity Policy") in accordance with the requirements set out in the CG Code. Such policy aims to achieve diversity on the Board in supporting the attainment of its strategic objectives and its sustainable development. Selection of candidates on the Board will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

The primary duties of the Nomination Committee are to review the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and to identify individuals suitably qualified to become board members. It is also responsible for assessing the independence of independent non-executive Directors and making recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors. The Nomination Committee will also review the Board Diversity Policy to ensure its effectiveness. The recommendations of the Nomination Committee are then put forward for consideration and adoption, where appropriate, by the Board.

During the Reporting Period, two Nomination Committee meetings were held to review the structure, size and composition of the Board, the retirement and re-appointment arrangement of the Directors in the 2015 AGM, review the effectiveness of the Board Diversity Policy and make recommendations to the Board for consideration of appointment of a new Director. The terms of reference of the Nomination Committee are consistent with the terms set out in the relevant section of the CG Code.

# Corporate Governance Report

## REMUNERATION COMMITTEE

The Company has established a Remuneration Committee to ensure that there are formal and transparent procedures for setting policies on the remuneration of Directors. After the Reporting Period, as announced by the Company on 19 February 2016, Professor Ma Hongwei resigned as the chairman and a member of the Remuneration Committee with effect from 20 February 2016. The Remuneration Committee currently comprises all independent non-executive Directors, namely, Mr. Zhang Jue (the chairman of the Remuneration Committee), Mr. Ho Chi Fai and Ms. Liu Yanfang.

The Company has adopted the model to make recommendations to the Board to determine the remuneration packages of Directors and senior management.

During the Reporting Period, two Remuneration Committee meetings were held to review the remuneration packages of the Directors. The Remuneration Committee ensures that no Director is involved in deciding his own remuneration. The terms of reference of the Remuneration Committee are consistent with the terms set out in the relevant section of the CG Code.

## AUDIT COMMITTEE

After the Reporting Period, as announced by the Company on 19 February 2016, Professor Ma Hongwei resigned as a member of the Audit Committee with effect from 20 February 2016. The Audit Committee currently comprises all independent non-executive Directors, namely, Mr. Ho Chi Fai (the chairman of the Audit Committee), Ms. Liu Yanfang and Mr. Zhang Jue.

The primary duties of the Audit Committee include to make recommendations to the Board for appointment, reappointment and removal of the Company's external auditor, to review and monitor its independence and objectivity, and to develop and implement policy on the engagement of non-audit services by the Company's external auditor. Apart from monitoring the integrity of financial statements, the Audit Committee also oversees the Company's financial reporting system, risk management and internal control systems.

During the Reporting Period, two Audit Committee meetings were held to review the interim and final results of the Group, the financial reporting matters as well as the internal control systems of the Group. In August 2015, the Board further re-adopted the terms of reference of the Audit Committee in light of the amendments to the Listing Rules. The terms of reference of the Audit Committee are consistent with the terms set out in the relevant section of the CG Code.

## AUDITOR'S REMUNERATION

The statement of the external auditor of the Company about its reporting responsibilities on the financial statements is set out in the "Independent Auditor's Report" on pages 29 to 30.

For the Reporting Period, the remuneration paid/payable to the external auditor of the Company, SHINEWING (HK) CPA Limited, is set out below:

| | HK$'000 |
|---|---|
| Audit services | 695 |
| Non-audit services: | |
| – Taxation services | 272 |
| – 2015 interim review | 63 |
| – Others | 27 |
| | 362 |
| | 1,057 |

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as its own code of conduct regarding securities transactions by Directors. 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 for the Reporting Period.

# Corporate Governance Report

## CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for determining the policy for the corporate governance of the Company and performing the corporate governance duties as below:

(a) to develop and review the Company's policies and practices on corporate governance;

(b) to review and monitor the training and continuous professional development of Directors and senior management;

(c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual applicable to employees of the Company and Directors; and

(e) to review the Company's compliance with the code and disclosure in the Corporate Governance Report.

The terms of reference of the corporate governance functions of the Board are consistent with the terms set out in the relevant section of the CG Code.

## ACCOUNTABILITY AND INTERNAL CONTROL

The management has regularly provided explanation and information to the Board so as to enable the Board to make an informed assessment of the financial and other information put before the Board for approval.

The Directors acknowledge their responsibility for preparing the financial statements and presenting a balanced, clear and understandable assessment in the Company's annual and interim reports, other financial disclosures required under the Listing Rules and reports to regulators.

The Directors conducted a review of the effectiveness of the system of internal control of the Group. The review covered all material controls, including financial, operational and compliance controls and risk management functions. The review has also considered the adequacy of resources, qualifications and experience of the Company's staff in accounting and financial reporting function together with their training programmes and budget. The Directors will continuously review and improve the effectiveness of the internal control system of the Group.

## COMPANY SECRETARY

All Directors have access to the advice and services of the company secretary of the Company, Ms. Tsang Man Sze ("Ms. Tsang"), a full time employee of the Company. Ms. Tsang has undertaken sufficient hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.

## COMMUNICATION WITH SHAREHOLDERS

The Company aims to provide its Shareholders and investors with high standard of disclosure and financial transparency. The Board is committed to provide clear and detailed information of the Group to Shareholders in a timely manner and on a regular basis through the publication of interim and annual reports and/or dispatching circular, notices and other announcements.

Shareholders are welcome to attend Shareholder's meeting where they are fully briefed on the Company's activities and questions can be raised to the Board and the management. The Board proposes separate resolutions for each issue to be considered and put each proposed resolution to the vote by way of a poll. Poll results will be posted on the websites of the Company and the Stock Exchange after Shareholders' meetings.

## SHAREHOLDERS' RIGHTS

### Convening a Special General Meeting by Shareholders

Pursuant to Bye-law 58, a special general meeting may be convened by the Board upon requisition by any shareholder holding at the date of deposit of written requisition not less than one tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company. The Shareholder shall make a written requisition to the Board or the company secretary of the Company at the head office address of the Company, specifying the shareholding information of the Shareholder, his/her contact details and the proposal regarding any specified transaction/business and its supporting documents.

# Corporate Governance Report

The Board shall arrange to hold such general meeting within two months after the receipt of such written requisition. Pursuant to Bye-law 59, the Company shall serve requisite notice of the general meeting, including the time, place of meeting and particulars of resolutions to be considered at the meeting and the general nature of the business.

If within twenty one days of the receipt of such written requisition, the Board fails to proceed to convene such special general meeting, the Shareholder shall do so in accordance with the provisions of Section 74(3) of the Companies Act 1981 of Bermuda.

## Putting Forward Proposals at General Meetings

A Shareholder shall make a written requisition to the Board or the company secretary of the Company at the head office address of the Company, specifying the shareholding information of the Shareholder, his/her contact details and the proposal he/she intends to put forward at general meeting regarding any specified transaction/business and its supporting documents.

## Putting Forward Enquiries to the Board

Shareholders may at any time send their enquiries and concerns to the Board in writing to the Company's head office in Hong Kong at 18th Floor, Times Media Centre, 133 Wan Chai Road, Hong Kong.

# Independent Auditor's Report

信永中和 ShineWing

**SHINEWING** (HK) CPA Limited
43/F., Lee Garden One
33 Hysan Avenue
Causeway Bay, Hong Kong

TO THE MEMBERS OF
**SINO-TECH INTERNATIONAL HOLDINGS LIMITED**
*(incorporated in Bermuda with limited liability)*

We have audited the consolidated financial statements of Sino-Tech International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 31 to 115, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company 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 Bermuda Companies Act, 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.

# 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 judgement, 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 the 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 31 December 2015, 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.

**SHINEWING (HK) CPA Limited**
*Certified Public Accountants*
**Wong Hon Kei, Anthony**
*Practising Certificate Number: P05591*

Hong Kong
24 March 2016

# Consolidated Statement of Profit or Loss

For the year ended 31 December 2015

| | Notes | 2015 HK$'000 | 2014 HK$'000 |
|---|---|---|---|
| Revenue | 7 | **545,055** | 599,867 |
| Cost of sales | | **(512,435)** | (566,567) |
| Gross profit | | **32,620** | 33,300 |
| Other income | 8 | **192** | 7,641 |
| Gain on modification of terms of convertible notes | 28 | **27,821** | – |
| Distribution costs | | **(20,375)** | (11,247) |
| Administrative expenses | | **(50,079)** | (50,166) |
| Share of results of joint ventures | | **(678)** | (9) |
| Other expenses | | **(424)** | (1,011) |
| Finance costs | 9 | **(12,288)** | (18,942) |
| Loss before taxation | | **(23,211)** | (40,434) |
| Taxation | 10 | **–** | – |
| Loss for the year attributable to owners of the Company | 11 | **(23,211)** | (40,434) |
| Loss per share | | | |
| Basic and diluted (HK cents) | 14 | **(0.18)** | (0.34) |

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2015

| | 2015<br>HK$'000 | 2014<br>HK$'000 |
|---|---|---|
| Loss for the year | **(23,211)** | (40,434) |
| Other comprehensive income for the year | | |
| Item that may be reclassified subsequently to profit or loss: | | |
| Exchange differences arising on translation of foreign operations | **264** | 22 |
| Total comprehensive expenses for the year attributable to owners of the Company | **(22,947)** | (40,412) |

# Consolidated Statement of Financial Position

As at 31 December 2015

| | Notes | 2015<br>HK$'000 | 2014<br>HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 17 | 25,248 | 28,687 |
| Interests in joint ventures | 18 | 4,306 | 4,984 |
| | | 29,554 | 33,671 |
| **Current assets** | | | |
| Inventories | 19 | 86,098 | 108,239 |
| Trade and bills receivables | 20 | 212,304 | 204,778 |
| Prepayments, deposits and other receivables | 21 | 2,975 | 2,699 |
| Amount due from a joint venture | 36(a) | – | 31 |
| Amounts due from former subsidiaries | 22 | – | – |
| Tax recoverable | 10 | 10,127 | 4,910 |
| Deposits in other financial institutions | 23 | 446 | 446 |
| Bank balances and cash | 24 | 66,813 | 45,097 |
| | | 378,763 | 366,200 |
| **Current liabilities** | | | |
| Trade and bills payables | 25 | 60,144 | 47,547 |
| Other payables and accruals | 26 | 12,342 | 13,862 |
| Amount due to a joint venture | 36(a) | 2,519 | – |
| Amounts due to former subsidiaries | 22 | 4,417 | 4,417 |
| Obligations under finance leases | 27 | – | 4 |
| Convertible notes | 28 | 247,978 | 302,400 |
| | | 327,400 | 368,230 |
| **Net current assets (liabilities)** | | 51,363 | (2,030) |
| **Total assets less current liabilities** | | 80,917 | 31,641 |

# Consolidated Statement of Financial Position

As at 31 December 2015

| | Notes | 2015<br>HK$'000 | 2014<br>HK$'000 |
|---|---|---|---|
| **Non-current liability** | | | |
| Employee benefits | 29 | **144** | 143 |
| **Net assets** | | **80,773** | 31,498 |
| **Capital and reserves** | | | |
| Share capital | 31 | **138,892** | 119,667 |
| Reserves | | **(58,119)** | (88,169) |
| Total equity | | **80,773** | 31,498 |

The consolidated financial statements on pages 31 to 115 were approved and authorised for issue by the board of directors on 24 March 2016 and are signed on its behalf by:

| | |
|---|---|
| *Director* | *Director* |
| **Lam Yat Keung** | **Huang Hanshui** |

# Consolidated Statement of Changes In Equity

For the year ended 31 December 2015

| | Attributable to owners of the Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 | Share premium HK$'000 | Contributed surplus (note a) HK$'000 | Share-based compensation reserve HK$'000 | Foreign exchange reserve HK$'000 | Convertible notes reserve (note 28) HK$'000 | Accumulated losses HK$'000 | Total HK$'000 |
| At 1 January 2014 | 119,667 | 2,210,494 | 5,800 | 43,722 | (55) | 92,707 | (2,400,425) | 71,910 |
| Loss for the year | – | – | – | – | – | – | (40,434) | (40,434) |
| Other comprehensive income for the year | | | | | | | | |
| Exchange differences arising on translation of foreign operations | – | – | – | – | 22 | – | – | 22 |
| Total comprehensive income (expense) for the year | – | – | – | – | 22 | – | (40,434) | (40,412) |
| Share options lapsed | – | – | – | (3,676) | – | – | 3,676 | – |
| At 31 December 2014 and 1 January 2015 | 119,667 | 2,210,494 | 5,800 | 40,046 | (33) | 92,707 | (2,437,183) | 31,498 |
| Loss for the year | – | – | – | – | – | – | (23,211) | (23,211) |
| Other comprehensive income for the year | | | | | | | | |
| Exchange differences arising on translation of foreign operations | – | – | – | – | 264 | – | – | 264 |
| Total comprehensive income (expense) for the year | – | – | – | – | 264 | – | (23,211) | (22,947) |
| Derecognition upon modification of terms of convertible notes (note 28) | – | – | – | – | – | (92,707) | 92,707 | – |
| Recognition upon modification of terms of convertible notes (note 28) | – | – | – | – | – | 57,442 | (57,442) | – |
| Issue of new shares upon conversion of convertible notes (notes 28 and 31(a)) | 12,000 | 34,866 | – | – | – | (7,978) | – | 38,888 |
| Issue of new shares on subscriptions | 7,225 | 26,733 | – | – | – | – | – | 33,958 |
| Transaction costs attributable to issue of new shares on subscriptions | – | (810) | – | – | – | – | – | (810) |
| Share options lapsed | – | – | – | (18,378) | – | – | 18,378 | – |
| Unclaimed dividend forfeited (note b) | – | – | – | – | – | – | 186 | 186 |
| At 31 December 2015 | 138,892 | 2,271,283 | 5,800 | 21,668 | 231 | 49,464 | (2,406,565) | 80,773 |

Notes:

(a) The contributed surplus represents the difference between the nominal value of the shares of the former group's holding company acquired pursuant to a group reorganisation prior to the listing of the Company's shares, over the nominal value of the Company's shares issued in exchange therefore.

(b) Pursuant to Bye-law 144 of the bye-laws of the Company, any dividend unclaimed after a period of six years from the date of declaration of such dividend shall be forfeited and shall revert to the Company. During the year ended 31 December 2015, approximately HK$186,000 unclaimed dividend which previously included in other payables had been forfeited and reverted to the Company and there was no unclaimed dividend payables as at 31 December 2015.

# Consolidated Statement of Cash Flows

For the year ended 31 December 2015

| | 2015<br>HK$'000 | 2014<br>HK$'000 |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Loss before taxation | **(23,211)** | (40,434) |
| Adjustments for: | | |
| Bank interest income | **(8)** | (10) |
| Finance costs | **12,288** | 18,942 |
| Depreciation of property, plant and equipment | **13,312** | 23,822 |
| Gain on modification of terms of convertible notes | **(27,821)** | – |
| Share of results of joint ventures | **678** | 9 |
| Impairment loss on interests in joint ventures | **–** | 998 |
| Impairment loss on property, plant and equipment | **224** | – |
| Impairment loss on trade receivables | **1,385** | – |
| Reversal of impairment loss on amount due from a former subsidiary | **–** | (6,662) |
| Reversal of impairment loss on other receivables | **–** | (14) |
| Net loss (gain) on disposals of property, plant and equipment | **198** | (295) |
| Write-offs of property, plant and equipment | **2** | 13 |
| Operating cash flows before working capital changes | **(22,953)** | (3,631) |
| Decrease in inventories | **22,141** | 28,540 |
| Increase in trade and bills receivables | **(8,911)** | (10,621) |
| Increase in prepayments, deposits and other receivables | **(276)** | (782) |
| Increase (decrease) in trade and bills payables | **12,597** | (46,811) |
| (Decrease) increase in other payables and accruals | **(1,334)** | 2,032 |
| Increase in non-current employee benefits | **1** | 42 |
| Cash generated from (used in) operations | **1,265** | (31,231) |
| Purchase of tax reserve certificate | **(5,217)** | (2,395) |
| NET CASH USED IN OPERATING ACTIVITIES | **(3,952)** | (33,626) |

# Consolidated Statement of Cash Flows

For the year ended 31 December 2015

| | 2015 HK$'000 | 2014 HK$'000 |
|---|---|---|
| **INVESTING ACTIVITIES** | | |
| Purchase of property, plant and equipment | **(10,517)** | (7,740) |
| Proceeds from disposals of property, plant and equipment | **136** | 2,266 |
| Repayment from (advance to) a joint venture | **31** | (21) |
| Bank interest received | **8** | 10 |
| Repayment from a former subsidiary | **–** | 6,662 |
| NET CASH (USED IN) FROM INVESTING ACTIVITIES | **(10,342)** | 1,177 |
| **FINANCING ACTIVITIES** | | |
| Net proceeds from issue of shares on subscriptions | **33,148** | – |
| Advance from a joint venture | **2,519** | – |
| Repayment of obligations under finance leases | **(4)** | (5) |
| Interest paid on obligations under finance leases | **(1)** | (1) |
| Repayment to a former subsidiary | **–** | (2,948) |
| NET CASH FROM (USED IN) FINANCING ACTIVITIES | **35,662** | (2,954) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | **21,368** | (35,403) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR | **45,097** | 80,462 |
| EFFECT OF FOREIGN EXCHANGE RATE CHANGES | **348** | 38 |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR, representing bank balances and cash | **66,813** | 45,097 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 1. GENERAL AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

Sino-Tech International Holdings Limited (the "Company") was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The address of the registered office is at Clarendon House, 2 Church Street, Hamilton, HM 11, Bermuda and principal place of business is at 18th Floor, Times Media Centre, 133 Wan Chai Road, Hong Kong.

The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is the same as the functional currency of the Company.

The Company is an investment holding company and the principal activities of its subsidiaries (together with the Company hereinafter referred to as the "Group") are set out in note 38.

## 2. SUMMARY OF NEW AND REVISED HONG KONG ACCOUNTING STANDARDS ("HKAS(s)") AND HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)") AND NEW COMPANIES ORDINANCE

In the current year, the Group has applied for the first time the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

| | |
|---|---|
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2010 – 2012 Cycle |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2011 – 2013 Cycle |
| Amendments to HKAS 19 | Defined Benefit Plans: Employee Contributions |

Except as described below, the application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current year and prior years and/or on the disclosures set out in the consolidated financial statements.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 2. SUMMARY OF NEW AND REVISED HONG KONG ACCOUNTING STANDARDS ("HKAS(s)") AND HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)") AND NEW COMPANIES ORDINANCE *(Continued)*

### Annual Improvements to HKFRSs 2010 – 2012 Cycle

The Annual Improvements to HKFRSs 2010 – 2012 Cycle include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 2 (i) change the definitions of "vesting condition" and "market condition"; and (ii) add definitions for "performance condition" and "service condition" which were previously included within the definition of "vesting condition". The amendments to HKFRS 2 are effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

The amendments to HKFRS 3 clarify that contingent consideration that is classified as an asset or a liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial instrument within the scope of HKFRS 9 or HKAS 39 or a non-financial asset or liability. Changes in fair value (other than measurement period adjustments) should be recognised in profit and loss. The amendments to HKFRS 3 are effective for business combinations for which the acquisition date is on or after 1 July 2014.

The amendments to HKFRS 8 (i) require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have "similar economic characteristics"; and (ii) clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segment assets are regularly provided to the chief operating decision-maker.

The amendments to the basis for conclusions of HKFRS 13 clarify that the issue of HKFRS 13 and consequential amendments to HKAS 39 and HKFRS 9 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 2. SUMMARY OF NEW AND REVISED HONG KONG ACCOUNTING STANDARDS ("HKAS(s)") AND HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)") AND NEW COMPANIES ORDINANCE *(Continued)*

### Annual Improvements to HKFRSs 2010 – 2012 Cycle *(Continued)*

The amendments to HKAS 16 and HKAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

The amendments to HKAS 24 clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

The directors of the Company (the "Director(s)") consider that the application of the amendments to HKFRSs 2010 – 2012 Cycle has had no material impact in the Group's consolidated financial statements.

### Annual Improvements to HKFRSs 2011 – 2013 Cycle

The Annual Improvements to HKFRSs 2011 – 2013 Cycle include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

## 2. SUMMARY OF NEW AND REVISED HONG KONG ACCOUNTING STANDARDS ("HKAS(s)") AND HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)") AND NEW COMPANIES ORDINANCE *(Continued)*

### Annual Improvements to HKFRSs 2011 – 2013 Cycle *(Continued)*

The amendments to HKFRS 13 clarify that the scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, HKAS 39 or HKFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within HKAS 32.

The amendments to HKAS 40 clarify that HKAS 40 and HKFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether:

(a) the property meets the definition of investment property in terms of HKAS 40; and

(b) the transaction meets the definition of a business combination under HKFRS 3.

The amendments are applied prospectively. The Directors consider that the application of the amendments to HKFRSs 2011 – 2013 Cycle has had no material impact in the Group's consolidated financial statements.

### Part 9 of Hong Kong Companies Ordinance (Cap. 622)

In addition, the annual report requirements of Part 9 "Accounts and Audit" of the 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 2. SUMMARY OF NEW AND REVISED HONG KONG ACCOUNTING STANDARDS ("HKAS(s)") AND HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)") AND NEW COMPANIES ORDINANCE *(Continued)*

### New and revised HKFRSs issued but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

| | |
|---|---|
| HKFRS 9 (2014) | Financial Instruments[2] |
| HKFRS 15 | Revenue from Contracts with Customers[2] |
| Amendments to HKFRSs | Annual Improvements HKFRSs 2012 – 2014 Cycle[1] |
| Amendments to HKAS 1 | Disclosure Initiative[1] |
| Amendments to HKAS 16 and HKAS 38 | Clarification of Acceptable Methods of Depreciation and Amortisation[1] |
| Amendments to HKAS 16 and HKAS 41 | Agriculture: Bearer Plants[1] |
| Amendments to HKAS 27 | Equity Method in Separate Financial Statements[1] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3] |
| Amendments to HKFRS 10, HKFRS 12 and HKAS 28 | Investment Entities: Applying the Consolidation Exception[1] |
| Amendments to HKFRS 11 | Accounting for Acquisitions of Interests in Joint Operations[1] |

1 Effective for annual periods beginning on or after 1 January 2016.

2 Effective for annual periods beginning on or after 1 January 2018.

3 Effective date not yet been determined.

The Directors anticipate that, except as described below, the application of the other new and revised HKFRSs will have no material impact on the results and the financial position of the Group.

## 2. SUMMARY OF NEW AND REVISED HONG KONG ACCOUNTING STANDARDS ("HKAS(s)") AND HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)") AND NEW COMPANIES ORDINANCE *(Continued)*

### HKFRS 9 (2014) Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 was amended in 2010 and includes the requirements for the classification and measurement of financial liabilities and for derecognition. In 2013, HKFRS 9 was further amended to bring into effect a substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the financial statements. A finalised version of HKFRS 9 was issued in 2014 to incorporate all the requirements of HKFRS 9 that were issued in previous years with limited amendments to the classification and measurement by introducing a "fair value through other comprehensive income" ("FVTOCI") measurement category for certain financial assets. The finalised version of HKFRS 9 also introduces an "expected credit loss" model for impairment assessments.

Key requirements of HKFRS 9 (2014) are described as follows:

- All recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9 (2014), entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 2. SUMMARY OF NEW AND REVISED HONG KONG ACCOUNTING STANDARDS ("HKAS(s)") AND HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)") AND NEW COMPANIES ORDINANCE *(Continued)*

### HKFRS 9 (2014) Financial Instruments *(Continued)*

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss ("FVTPL"), HKFRS 9 (2014) requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as FVTPL was presented in profit or loss.

- In the aspect of impairment assessments, the impairment requirements relating to the accounting for an entity's expected credit losses on its financial assets and commitments to extend credit were added. Those requirements eliminate the threshold that was in HKAS 39 for the recognition of credit losses. Under the impairment approach in HKFRS 9 (2014), it is no longer necessary for a credit event to have occurred before credit losses are recognised. Instead, expected credit losses and changes in those expected credit losses should always be accounted for. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition and, consequently, more timely information is provided about expected credit losses.

- HKFRS 9 (2014) introduces a new model which is more closely aligns hedge accounting with risk management activities undertaken by companies when hedging their financial and non-financial risk exposures. As a principle-based approach, HKFRS 9 (2014) looks at whether a risk component can be identified and measured and does not distinguish between financial items and non-financial items. The new model also enables an entity to use information produced internally for risk management purposes as a basis for hedge accounting. Under HKAS 39, it is necessary to exhibit eligibility and compliance with the requirements in HKAS 39 using metrics that are designed solely for accounting purposes. The new model also includes eligibility criteria but these are based on an economic assessment of the strength of the hedging relationship. This can be determined using risk management data. This should reduce the costs of implementation compared with those for HKAS 39 hedge accounting because it reduces the amount of analysis that is required to be undertaken only for accounting purposes.

## 2. SUMMARY OF NEW AND REVISED HONG KONG ACCOUNTING STANDARDS ("HKAS(s)") AND HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)") AND NEW COMPANIES ORDINANCE *(Continued)*

### HKFRS 9 (2014) Financial Instruments *(Continued)*

HKFRS 9 (2014) will become effective for annual periods beginning on or after 1 January 2018 with early application permitted.

The Directors anticipate that the adoption of HKFRS 9 (2014) in the future may have significant impact on amounts reported in respect of the Group's financial assets and financial liabilities.

Regarding the Group's financial assets and financial liabilities, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

### HKFRS 15 Revenue from Contracts with Customers

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Thus, HKFRS 15 introduces a model that applies to contracts with customers, featuring a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised. The five steps are as follows:

(i) Identify the contract with the customer;

(ii) Identify the performance obligations in the contact;

(iii) Determine the transaction price;

(iv) Allocate the transaction price to the performance obligations; and

(v) Recognise revenue when (or as) the entity satisfies a performance obligation.

HKFRS 15 also introduces extensive qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 2. SUMMARY OF NEW AND REVISED HONG KONG ACCOUNTING STANDARDS ("HKAS(s)") AND HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)") AND NEW COMPANIES ORDINANCE *(Continued)*

### HKFRS 15 Revenue from Contracts with Customers *(Continued)*

HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and the related interpretations when it becomes effective.

HKFRS 15 will become effective for annual periods beginning on or after 1 January 2018 with early application permitted. The Directors anticipate that the application of HKFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

### Annual Improvement to HKFRSs 2012 – 2014 Cycle

The Annual Improvements to HKFRSs 2012 – 2014 Cycle include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 5 clarify that changing from one of the disposal methods (i.e. disposal through sale or disposal through distribution to owners) to the other should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in HKFRS 5. Besides, the amendments also clarify that changing the disposal method does not change the date of classification.

The amendments to HKFRS 7 clarify that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in HKFRS 7 in order to assess whether the additional disclosures for any continuing involvement in a transferred asset that is derecognised in its entirety are required. Besides, the amendments to HKFRS 7 also clarify that disclosures in relation to offsetting financial assets and financial liabilities are not required in the condensed interim financial report, unless the disclosures provide a significant update to the information reported in the most recent annual report.

## 2. SUMMARY OF NEW AND REVISED HONG KONG ACCOUNTING STANDARDS ("HKAS(s)") AND HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)") AND NEW COMPANIES ORDINANCE *(Continued)*

### Annual Improvement to HKFRSs 2012 – 2014 Cycle *(Continued)*

The amendments to HKAS 19 clarify that the market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

HKAS 34 requires entities to disclose information in the notes to the interim financial statements "if not disclosed elsewhere in the interim financial report". The amendments to HKAS 34 clarify that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report. The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. If users do not have access to the other information in this manner, then the interim financial report is incomplete.

The Directors do not anticipate that the application of the amendments included in the Annual Improvements to HKFRSs 2012 – 2014 Cycle will have a material effect on the Group's consolidated financial statements.

### Amendments to HKAS 1 Disclosure Initiative

The amendments clarify that companies should use professional judgement in determining what information as well as where and in what order information is presented in the financial statements. Specifically, an entity should decide, taking into consideration all relevant facts and circumstances, how it aggregates information in the financial statements, which include the notes. An entity does not require to provide a specific disclosure required by a HKFRS if the information resulting from that disclosure is not material. This is the case even if the HKFRS contain a list of specific requirements or describe them as minimum requirements.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 2. SUMMARY OF NEW AND REVISED HONG KONG ACCOUNTING STANDARDS ("HKAS(s)") AND HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)") AND NEW COMPANIES ORDINANCE *(Continued)*

### Amendments to HKAS 1 Disclosure Initiative *(Continued)*

Besides, the amendments provide some additional requirements for presenting additional line items, headings and subtotals when their presentation is relevant to an understanding of the entity's financial position and financial performance respectively. Entities, in which they have investments in associates or joint ventures, are required to present the share of other comprehensive income of associates and joint ventures accounted for using the equity method, separated into the share of items that (i) will not be reclassified subsequently to profit or loss; and (ii) will be reclassified subsequently to profit or loss when specific conditions are met.

Furthermore, the amendments clarify that:

(i) an entity should consider the effect on the understandability and comparability of its financial statements when determining the order of the notes; and

(ii) significant accounting policies are not required to be disclosed in one note, but instead can be included with related information in other notes.

The amendments will become effective for financial statements with annual periods beginning on or after 1 January 2016. Earlier application is permitted.

The Directors anticipate that the application of Amendments to HKAS 1 in the future may have a material impact on the disclosures made in the Group's consolidated financial statements.

### Amendments to HKAS 16 and HKAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments to HKAS 16 prohibit the use of revenue-based depreciation methods for property, plant and equipment under HKAS 16. The amendments to HKAS 38 introduce a rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate. This presumption can be rebutted only in the following limited circumstances:

(i) when the intangible asset is expressed as a measure of revenue; or

(ii) when a high correlation between revenue and the consumption of the economic benefits of the intangible assets could be demonstrated.

## 2. SUMMARY OF NEW AND REVISED HONG KONG ACCOUNTING STANDARDS ("HKAS(s)") AND HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)") AND NEW COMPANIES ORDINANCE *(Continued)*

### Amendments to HKAS 16 and HKAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation *(Continued)*

The amendments to HKAS 16 and HKAS 38 will become effective for financial statements with annual periods beginning on or after 1 January 2016. Earlier application is permitted. The amendments should be applied prospectively.

As the Group use straight-line method for depreciation of property, plant and equipment, the Directors do not anticipate that the application of the amendments to HKAS 16 and HKAS 38 will have a material impact on the Group's consolidated financial statements.

### Amendments to HKAS 27 Equity Method in Separate Financial Statements

The amendments to HKAS 27 allow an entity to apply the equity method to account for its investments in subsidiaries, joint ventures and associates in its separate financial statements. As a result of the amendments, the entity can choose to account for these investments either:

(i) at cost;

(ii) in accordance with HKFRS 9 (or HKAS 39); or

(iii) using the equity method as described in HKAS 28.

The amendments to HKAS 27 will become effective for financial statements with annual periods beginning on or after 1 January 2016. Earlier application is permitted. The amendments should be applied retrospectively.

The Directors do not anticipate that the application of the amendments to HKAS 27 will have a material impact on the Company's financial statements.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis.

Historical cost is generally based on the fair value of the consideration given in exchange for goods.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company has:

- the power over the investee;
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power to affect the Group's returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of the subsidiaries begins when the Group obtains control over the subsidiaries and ceases when the Group loses control of the subsidiaries. Specifically, income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date the Group gains control until the date when the Group ceases to control the subsidiaries.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Changes in the Group's ownership interests in existing subsidiaries

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

### Interests in joint ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The Group's investments in joint ventures are accounted for in the consolidated financial statements using the equity method of accounting. The financial statements of joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, interests in joint ventures are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of profit or loss and other comprehensive income of the joint ventures. When the Group's share of loss of a joint venture exceeds the Group's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Interests in joint ventures *(Continued)*

An interest in a joint venture is accounted for using the equity method from the date on which the investee becomes a joint venture. On acquisition of the interest in a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Where a group entity transacts with its joint venture of the Group (such as a sale or contribution of assets), profits and losses resulting from the transactions with the joint venture are recognised in the Group's consolidated financial statements only to the extent of the interest in the joint venture that are not related to the Group.

If a joint venture uses accounting policies other than those of the Group for like transactions and events in similar circumstances, adjustments are made to make the joint venture's accounting policies conform to those of the Group when the joint venture's financial statements are used by the Group in applying the equity method.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue from the sale of goods is recognised when the goods are delivered and title has been passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Property, plant and equipment

Property, plant and equipment including leasehold buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in profit or loss.

### Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Leasing *(Continued)*

*The Group as lessee*

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised directly to profit or loss.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

### Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates on the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. HK$) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of the foreign exchange reserve.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Foreign currencies *(Continued)*

On the disposal of a foreign operation (i.e. 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 arrangement that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are reattributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of joint arrangements that do not result in the Group losing joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

### Employee benefits

*(a) Defined contribution retirement benefit plans*

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered services entitling them to the contributions.

*(b) Termination benefits*

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

*(c) Employee entitlements*

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

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Employee benefits *(Continued)*

#### *(d) Long service payment*

The Group's net obligations in respect of long service payment on cessation of employment in certain circumstances under the Hong Kong Employment Ordinance is the amount of future benefit that the employees have earned in return for their services in the current and prior periods.

### Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "loss before taxation" as reported in the consolidated statement of profit or loss because of income or expense that are taxable or deductible in other years that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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

Deferred tax liabilities are recognised for taxable temporary differences associated with interests in subsidiaries and an associate, and interests in joint arrangements, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interest are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Taxation *(Continued)*

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are calculated using the first-in, first-out method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

### Cash and cash equivalents

Bank balances and cash in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

*Financial assets*

The Group's financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial asset and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial instruments *(Continued)*

*Financial assets (Continued)*

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and bills receivables, deposits and other receivables, amounts due from a joint venture and former subsidiaries, deposits in other financial institutions and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment (see accounting policy on impairment loss on financial assets below).

*Impairment of financial assets*

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For all financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade and other receivables, assets that are assessed not to be impaired individually are, in addition assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 to 120 days, observable changes in national or local economic conditions that correlate with default on receivables.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial instruments *(Continued)*

*Financial assets (Continued)*

*Impairment of financial assets (Continued)*

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial assets is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance amount are recognised in profit or loss. When trade and other receivables are considered uncollectible, they are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

*Financial liabilities and equity instruments*

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

*Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial instruments *(Continued)*

*Financial liabilities and equity instruments (Continued)*

*Financial liabilities*

Financial liabilities including trade and bills payables, other payables and accruals, amounts due to a joint venture and former subsidiaries, obligations under finance leases and convertible notes are subsequently measured at amortised cost, using the effective interest method.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Interest expense is recognised on an effective interest basis.

*Convertible notes*

The component parts of the convertible notes issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

At the date of issue, the fair value of the liability component (including early redemption option which is closely related) is estimated using the prevailing market interest rate of similar non-convertible instruments. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion, redemption or at the instrument's maturity date.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial instruments *(Continued)*

#### *Convertible notes (Continued)*

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognised in equity will be transferred to share premium where the conversion option remains unexercised at the maturity date of the convertible note, the balance recognised in equity will be transferred to accumulated losses. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible loan notes using the effective interest method.

#### *Derecognition*

The Group derecognises a financial asset only when the contractual rights to the cash flows from the assets expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the financial asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material). When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

### Equity-settled share-based payment transactions

*Share options granted to employees*

For grants of share options that are conditional upon satisfying specified vesting conditions, the fair value of services received determined by reference to the fair value of share options granted at the date of grant is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share-based compensation reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss, such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share-based compensation reserve.

When share options are exercised, the amount previously recognised in share-based compensation reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share-based compensation reserve will be transferred to accumulated losses.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Equity-settled share-based payment transactions *(Continued)*

*Share options granted to suppliers and other eligible persons*

Share options issued in exchange for goods or services are measured at the fair values of the goods or services received, unless that fair value cannot be reliably measured, in which case the goods or services received are measured by reference to the fair value of the share options granted. The fair values of the goods or services received are recognised as expenses, with a corresponding increase in equity (share-based compensation reserve), when the Group obtains the goods or when the counterparties render services, unless the goods or services qualify for recognition as assets.

### Impairment losses on tangible and intangible assets (other than impairment of goodwill)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately in profit or loss.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 4. CRITICAL JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

### Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

*Income taxes*

In respect of the Hong Kong Profits Tax under enquiries by the Hong Kong Inland Revenue Department (the "IRD") as mentioned in note 10, management judgement was required in assessing the likelihood of success in substantiating the claim for allowances. As the enquiry is at fact-finding stage, no additional provision for Hong Kong Profits Tax for prior years was considered necessary. The provision of income taxes is reviewed on an ongoing basis. As at 31 December 2015, the accumulated amount of protective profits tax assessment issued by the IRD to the Group amounting to approximately HK$9,167,000 (2014: HK$3,950,000).

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 4. CRITICAL JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

### Key sources of estimation uncertainty

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

*Estimated useful life of property, plant and equipment*

The Group depreciates the property, plant and equipment on a straight-line basis between the rates of 2% to 30% per annum, commencing from the date the property, plant and equipment are available for use. The estimated useful lives that the Group places the property, plant and equipment into productive use reflects the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment. Depreciation of approximately HK$13,312,000 (2014: HK$23,822,000) has been recognised for the year.

*Impairment of trade and other receivables*

The policy for impairment on trade and other receivables of the Group is based on the evaluation of collectability and ageing analysis of the trade and other receivables and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in impairment of their ability to make payments, additional impairment may be required. During the year ended 31 December 2015, impairment loss on trade and other receivables of approximately HK$1,385,000 (2014: nil) has been recognised. There was no reversal of impairment loss of trade and other receivables recognised during the year ended 31 December 2015 (2014: approximately HK$14,000). As at 31 December 2015, the carrying amount of trade and other receivables was approximately HK$215,279,000 (2014: HK$207,477,000), net of accumulated impairment loss of approximately HK$21,132,000 (2014: HK$19,747,000).

## 4. CRITICAL JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

### Key sources of estimation uncertainty *(Continued)*

*Allowance of inventories*

The management of the Group reviews an ageing analysis at the end of each reporting period, and makes provision for obsolete and slow-moving inventory items identified. The management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. During the years ended 31 December 2015 and 2014, no allowance of inventories has been recognised. As at 31 December 2015, the carrying amount of inventories was approximately HK$86,098,000 (2014: HK$108,239,000).

*Impairment on property, plant and equipment*

Determining whether property, plant and equipment are impaired requires an estimation of the recoverable amount of the property, plant and equipment. Such estimation was based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. During the year ended 31 December 2015, impairment loss of approximately HK$224,000 in respect of property, plant and equipment has been recognised in the consolidated statement of profit or loss (2014: nil). As at 31 December 2015, the carrying amount of property, plant and equipment was approximately HK$25,248,000 (2014: HK$28,687,000), net of accumulated impairment losses of approximately HK$402,000 (2014: HK$178,000).

*Impairment on interests in joint ventures*

The management of the Group reviews interests in joint ventures for impairment based primarily on the fair value of trademarks which are the only assets held by the joint ventures. In estimating the fair value of trademarks, the Group engages third party qualified valuer to perform the valuation and uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of trademarks. Note 18 provides detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair value of trademarks. Such inputs and key assumptions are subject to uncertainty and might materially differ from the actual results.

During the year ended 31 December 2015, no impairment loss on interests in joint ventures was recognised (2014: approximately HK$998,000). As at 31 December 2015, the carrying amount of interests in joint ventures was approximately HK$4,306,000 (2014: HK$4,984,000), net of accumulated impairment loss of approximately HK$998,000 (2014: HK$998,000).

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 4. CRITICAL JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

### Key sources of estimation uncertainty *(Continued)*

*Impairment on amounts due from former subsidiaries*

The Directors assessed the recoverability of the amounts due from former subsidiaries based on their estimation in assessing the ultimate realisation of these receivables. Such estimation was based on certain assumptions, which are subject to uncertainty and may materially differ from the actual results. The carrying amount of amounts due from former subsidiaries was nil as at 31 December 2015 and 2014, net of accumulated impairment loss of approximately HK$172,244,000 (2014: HK$172,244,000).

*Deferred taxes*

As at 31 December 2015, deferred tax assets in relation to unused tax losses of approximately HK$363,000 (2014: HK$90,000) has been recognised in the Group's consolidated statement of financial position. No deferred tax asset has been recognised on other tax losses and deductible temporary differences of approximately HK$167,927,000 (2014: HK$137,939,000) due to the unpredictability of future profit streams. The realisation of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal takes place.

## 5. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of net debts, which includes amounts due to a joint venture, amounts due to former subsidiaries, obligations under finance leases, convertible notes, and equity attributable to owners of the Company, comprising share capital and reserves, and net of bank balances and cash. The Directors review the capital structure periodically. As part of this review, the Directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the Directors, the Group will balance its overall capital structure through new share issues as well as share options. The Directors will also consider the raise of long-term borrowings as second resource of capital when investment opportunities arise and the return of such investments will justify the cost of debts from the borrowings.

## 6. FINANCIAL INSTRUMENTS

### (a) Categories of financial instruments

| | 2015<br>HK$'000 | 2014<br>HK$'000 |
|---|---|---|
| **Financial assets** | | |
| Loans and receivables (including cash and cash equivalents) | **280,757** | 251,242 |
| **Financial liabilities** | | |
| Other financial liabilities at amortised cost | **325,702** | 366,337 |

### (b) Financial risk management objective and policies

The Group's major financial instruments include trade and bills receivables, deposits and other receivables, amounts due from a joint venture and former subsidiaries, deposits in other financial institutions, bank balances and cash, trade and bills payables, other payables and accruals, amounts due to a joint venture and former subsidiaries, obligations under finance leases and convertible notes. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include credit risk, currency risk, interest rate risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

*Credit risk*

As at 31 December 2015, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 6. FINANCIAL INSTRUMENTS *(Continued)*

### (b) Financial risk management objective and policies *(Continued)*

***Credit risk*** *(Continued)*

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors consider that the Group's credit risk on trade debt is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks and other financial institutions with high credit ratings.

Other than the above, the Group has significant credit risk on amounts due from former subsidiaries which have been deconsolidated. The Directors consider that the recoverability of amounts due from the former subsidiaries is remote and adequate impairment losses were made in prior years.

The Group's concentration of credit risk by geographical locations is mainly in the People's Republic of China (the "PRC"), which accounted for 74% (2014: 61%) of the total trade receivable as at 31 December 2015.

The Group has concentration of credit risk as 18% (2014: 7%) and 50% (2014: 30%) of the trade receivables was due from the Group's largest trade debtor and the five largest trade debtors respectively.

None of the Group's financial assets are secured by collateral or other credit enhancements.

## 6. FINANCIAL INSTRUMENTS *(Continued)*

### (b) Financial risk management objective and policies *(Continued)*

*Currency risk*

The functional currencies of certain subsidiaries are United States Dollar ("US$") or Renminbi ("RMB").

Several subsidiaries of the Company have sales and purchases denominated in currencies other than the respective functional currency, which expose the Group to foreign currency risk. Approximately 78% (2014: 76%) of the Group's sales and 92% (2014: 89%) of the Group's purchases are denominated in currencies other than the functional currency of the group entity making the sales and purchases. The Group currently does not have a foreign currency hedging policy. The Group will monitor foreign exchange exposure and consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the Group's material foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

| | Assets | | Liabilities | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| HK$ | **80,322** | 66,976 | **14,957** | 10,121 |
| US$ | **511** | 512 | **–** | – |
| RMB | **122,309** | 112,621 | **46,841** | 37,936 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 6. FINANCIAL INSTRUMENTS *(Continued)*

### (b) Financial risk management objective and policies *(Continued)*

*Currency risk (Continued)*

*Sensitivity analysis*

The Group is mainly exposed to the currency risk of HK$/US$/RMB.

The following table details the Group's sensitivity to a 5% (2014: 5%) increase and decrease in exchange rates of the relevant foreign currencies against the respective reporting entity's functional currency. 5% (2014: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items, and adjusts their translation at the end of the reporting period for a 5% (2014: 5%) change in foreign currency rates.

A positive number below indicates a decrease in post-tax loss where the respective functional currencies of the reporting entity weaken 5% (2014: 5%) against the relevant foreign currencies. For a 5% (2014: 5%) strengthening of the respective functional currencies against the relevant foreign currencies, there would be an equal and opposite impact on the loss, and the balances below would be negative.

| | HK$ | | US$ | | RMB | |
|---|---|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Profit or loss | **2,729** | 2,374 | **21** | 21 | **3,151** | 3,118 |

*Interest rate risk*

As at 31 December 2015 and 2014, the Group is exposed to cash flow interest rate risk in relation to variable-rate deposits in other financial institutions (note 23) and bank balances (note 24).

As at 31 December 2014, the Group was exposed to fair value interest rate risk in relation to fixed-rate obligations under finance leases (note 27).

## 6. FINANCIAL INSTRUMENTS *(Continued)*

### (b) Financial risk management objective and policies *(Continued)*

*Interest rate risk (Continued)*

*Sensitivity analysis*

The Group's deposits in other financial institutions and bank balances are short-term in nature and the exposure of the interest rate is minimal and no sensitivity analysis to interest rate risk on these two items is presented.

The Group's operating cash flows are substantially independent of changes in market interest rates.

*Liquidity risk*

Individual operating entities within the Group are responsible for their own cash management, including the cash, current working capital and the raising of funds. The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and current working capital to meet its liquidity requirements in the short and longer term.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for non-derivative financial liabilities are based on the agreed repayment dates. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 6. FINANCIAL INSTRUMENTS *(Continued)*

### (b) Financial risk management objective and policies *(Continued)*

*Liquidity risk (Continued)*

| | Repayable on demand or within 1 year HK$'000 | Total undiscounted cash flows HK$'000 | Carrying amount HK$'000 |
|---|---|---|---|
| **At 31 December 2015** | | | |
| **Non-derivative financial liabilities** | | | |
| Trade and bills payables | 60,144 | 60,144 | 60,144 |
| Other payables and accruals | 10,644 | 10,644 | 10,644 |
| Amount due to a joint venture | 2,519 | 2,519 | 2,519 |
| Amounts due to former subsidiaries | 4,417 | 4,417 | 4,417 |
| Convertible notes | 260,400 | 260,400 | 247,978 |
| | 338,124 | 338,124 | 325,702 |

| | Repayable on demand or within 1 year HK$'000 | Total undiscounted cash flows HK$'000 | Carrying amount HK$'000 |
|---|---|---|---|
| At 31 December 2014 | | | |
| **Non-derivative financial liabilities** | | | |
| Trade and bills payables | 47,547 | 47,547 | 47,547 |
| Other payables and accruals | 11,969 | 11,969 | 11,969 |
| Amounts due to former subsidiaries | 4,417 | 4,417 | 4,417 |
| Obligations under finance leases | 5 | 5 | 4 |
| Convertible notes | 302,400 | 302,400 | 302,400 |
| | 366,338 | 366,338 | 366,337 |

## 6. FINANCIAL INSTRUMENTS *(Continued)*

### (b) Financial risk management objective and policies *(Continued)*

*Fair value measurements of financial instruments*

The Directors consider that the carrying amounts of current portion of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements not materially different from their fair values due to their immediate or short-term maturities.

## 7. REVENUE AND SEGMENT INFORMATION

Information reported to the Directors, being the chief operating decision makers, for the purposes of resource allocation and assessment of segment performance focuses on the types of goods delivered. The Group is principally engaged in the manufacturing and trading of electronic and electrical parts and components. The Group's operation is attributable to a single reportable and operating segment under HKFRS 8 and no segment information is presented. No operating segments have been aggregated in arriving at the reportable segment of the Group.

Revenue represents revenue arising on manufacturing and trading of electronic and electrical parts and components.

### (a) Geographical information

The Group's operation is mainly located in Hong Kong and the PRC. However, the external customers of the Group are located world-wide, such as Hong Kong, the PRC and Asia Pacific etc.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 7. REVENUE AND SEGMENT INFORMATION *(Continued)*

### (a) Geographical information *(Continued)*

Information about the Group's revenue from external customers is presented based on the location of customers and information about its non-current assets is presented based on the location of assets are detailed below:

| | Revenue from external customers | | Non-current assets | |
|---|---|---|---|---|
| | **Year ended 31 December 2015 HK$'000** | Year ended 31 December 2014 HK$'000 | **As at 31 December 2015 HK$'000** | As at 31 December 2014 HK$'000 |
| Hong Kong | **156,993** | 195,549 | **4,926** | 5,565 |
| Elsewhere in the PRC | **311,109** | 312,445 | **24,628** | 28,106 |
| Asia Pacific | **62,556** | 67,188 | **–** | – |
| Others | **14,397** | 24,685 | **–** | – |
| Total | **545,055** | 599,867 | **29,554** | 33,671 |

### (b) Information about major customers

During the year ended 31 December 2015, there was a Group's individual customer contributed revenue of approximately HK$55,866,000, which accounted for more than 10% to the total revenue of the Group (2014: none).

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 8. OTHER INCOME

| | 2015<br>HK$'000 | 2014<br>HK$'000 |
|---|---|---|
| Bank interest income | 8 | 10 |
| Insurance compensation received | 11 | 658 |
| Net gain on disposals of property, plant and equipment | – | 295 |
| Reversal of impairment loss on amount due from a former subsidiary | – | 6,662 |
| Reversal of impairment loss on other receivables | – | 14 |
| Others | 173 | 2 |
| | 192 | 7,641 |

## 9. FINANCE COSTS

| | 2015<br>HK$'000 | 2014<br>HK$'000 |
|---|---|---|
| Borrowing costs on obligations under finance leases | 1 | 1 |
| Imputed interest expenses on convertible notes (note 28) | 12,287 | 18,941 |
| | 12,288 | 18,942 |

## 10. TAXATION

No provision for Hong Kong Profits Tax has been made for the years ended 31 December 2015 and 2014 as the Group either has no assessable profits arising in Hong Kong or has sufficient tax losses brought forward from previous years to offset the estimated assessable profits for both reporting periods. The tax rate of Hong Kong Profits Tax is 16.5% (2014: 16.5%).

The IRD enquired the Hong Kong Profits Tax of a subsidiary of the Company in respect of the years of assessment 2006/07 to 2014/15 (the "Tax Enquiries"). As the assessment would be statutorily time-barred within 7 years from the beginning of the year of assessment which the assessment is related, a protective assessment of approximately HK$1,555,000, HK$2,395,000 and HK$5,217,000, in respect of years of assessment 2006/07, 2007/08 and 2008/09, were raised by the IRD on 7 March 2013, 18 March 2014 and 18 March 2015 respectively. The subsidiary lodged objections against the assessment and the IRD held over the payment of the profits tax and an equal amount of tax reserve certificates were purchased and recorded as tax recoverable as at 31 December 2014 and 2015 accordingly.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 10. TAXATION *(Continued)*

Subsequent to the reporting period, in respect of the Tax Enquiries, as the assessment for the year of assessment 2009/10 would be statutorily time-barred by 31 March 2016, a protective assessment of approximately HK$1,488,000 was raised by the IRD on 15 March 2016. The subsidiary lodged an objection against the assessment. As at the date of this report, no replies have been received from the IRD.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the subsidiary registered in the PRC is 25% from 1 January 2008 onwards. No provision for the Enterprise Income Tax have been made for the years ended 31 December 2015 and 2014 as the subsidiary of the Company has no assessable profits for both reporting periods.

Taxation for the year can be reconciled to the loss before taxation per the consolidated statement of profit or loss as follows:

| | **2015** | 2014 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Loss before taxation | **(23,211)** | (40,434) |
| Tax calculated at the domestic income tax rate of 16.5% (2014: 16.5%) | **(3,830)** | (6,672) |
| Tax effect of different tax rates | **(243)** | (219) |
| Tax effect of expenses that are not deductible in determining taxable profit | **3,363** | 4,423 |
| Tax effect of income that is not taxable in determining taxable profit | **(4,594)** | (1,102) |
| Tax effect of other deductible temporary differences not recognised | **197** | 1,981 |
| Tax effect of share of loss of joint ventures | **112** | 1 |
| Tax effect of tax losses not recognised | **4,995** | 3,063 |
| Utilisation of tax losses previously not recognised | **–** | (1,475) |
| Taxation | **–** | – |

Details of deferred tax are set out in note 30.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 11. LOSS FOR THE YEAR

Loss for the year has been arrived at after charging:

| | 2015<br>HK$'000 | 2014<br>HK$'000 |
|---|---|---|
| Cost of inventories recognised as expenses | 512,435 | 566,567 |
| Staff costs (note 12) | 27,449 | 32,526 |
| Depreciation of property, plant and equipment | | |
| – owned assets | 13,308 | 23,817 |
| – assets held under finance leases | 4 | 5 |
| Auditor's remuneration | 695 | 674 |
| Write-offs of property, plant and equipment (included in other expenses) | 2 | 13 |
| Net exchange loss | 4,285 | 682 |
| Net loss on disposals of property, plant and equipment (included in other expenses) | 198 | – |
| Impairment loss on property, plant and equipment (included in other expenses) | 224 | – |
| Impairment loss on interests in joint ventures (included in other expenses) | – | 998 |
| Impairment loss on trade receivables | 1,385 | – |

## 12. STAFF COSTS

| | 2015<br>HK$'000 | 2014<br>HK$'000 |
|---|---|---|
| Staff costs (including directors' emoluments) comprise: | | |
| Salaries, allowances and benefits | 26,660 | 27,142 |
| Retirement benefits scheme contributions | 938 | 998 |
| Loss of office compensation | – | 4,119 |
| (Reversal of provision) provision for other employee benefits and long service payments | (149) | 267 |
| | 27,449 | 32,526 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 13. DIVIDENDS

No dividend was paid or proposed for the year ended 31 December 2015, nor has any dividend been proposed since the end of the reporting period (2014: nil).

## 14. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss for the year attributable to owners of the Company of approximately HK$23,211,000 (2014: HK$40,434,000) and the weighted average number of approximately 12,765,308,000 (2014: approximately 11,966,699,000) ordinary shares in issue during the reporting period.

For the years ended 31 December 2015 and 2014, the diluted loss per share is the same as the basic loss per share.

The computation of diluted loss per share for the years ended 31 December 2015 and 2014 did not assume the exercise of the Company's share options as the exercise prices of the share options were higher than the average market price for shares. The computation of diluted loss per share for the years ended 31 December 2015 and 2014 did not assume the conversion of the Company's outstanding convertible notes as the conversion of convertible notes would result in a decrease in loss per share.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 15. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to each of the seven (2014: seven) directors and the chief executive were as follows:

### For the year ended 31 December 2015

| Name of director | Fees HK$'000 | Salaries, allowances and benefits HK$'000 | Loss of office compensation HK$'000 | Retirement benefits scheme contributions HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **Executive Directors** | | | | | |
| Wang Zhaofeng | 600 | 48 | – | 18 | 666 |
| Lam Yat Keung | 600 | 4,972 | – | 258 | 5,830 |
| Huang Hanshui | 600 | 2,029 | – | 180 | 2,809 |
| Li Weimin ("Mr. Li") (note a) | 50 | 216 | – | 22 | 288 |
| **Independent Non-Executive Directors** | | | | | |
| Ho Chi Fai | 90 | – | – | – | 90 |
| Liu Yanfang | 90 | – | – | – | 90 |
| Ma Hongwei (note b) | 90 | – | – | – | 90 |
| | 2,120 | 7,265 | – | 478 | 9,863 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 15. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS *(Continued)*

For the year ended 31 December 2014

| Name of director | Fees | Salaries, allowances and benefits | Loss of office compensation | Retirement benefits scheme contributions | Total |
|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Executive Directors** | | | | | |
| Lam Yat Keung | 600 | 5,048 | – | 277 | 5,925 |
| Huang Hanshui | 600 | 1,954 | – | 180 | 2,734 |
| Wang Zhaofeng | 600 | – | – | 17 | 617 |
| Lim Chuan Yang (note c) | 263 | 1,354 | 4,119 | 101 | 5,837 |
| **Independent Non-Executive Directors** | | | | | |
| Ho Chi Fai | 90 | – | – | – | 90 |
| Liu Yanfang | 90 | – | – | – | 90 |
| Ma Hongwei | 90 | – | – | – | 90 |
| | 2,333 | 8,356 | 4,119 | 575 | 15,383 |

Notes:

(a) Appointed on 1 December 2015 and resigned on 26 February 2016.

(b) Resigned on 20 February 2016.

(c) Mr. Lim Chuan Yang retired as an executive Director on 9 June 2014 and stepped down as the chief executive officer of the Company (the "CEO") on 16 June 2014. His emoluments disclosed above included those for services rendered by him as the CEO.

(d) Mr. Zhang Jue appointed as an independent non-executive Director on 20 February 2016.

No director and chief executive waived or agreed to waive any emoluments for the years ended 31 December 2015 and 2014.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 16. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2014: three) were Directors whose emoluments are disclosed in note 15. The emoluments of the remaining three (2014: two) individuals were as follows:

| | 2015 HK$'000 | 2014 HK$'000 |
|---|---|---|
| Salaries, allowances and benefits | 4,991 | 3,284 |
| Retirement benefits scheme contributions | 54 | 34 |
| | 5,045 | 3,318 |

Their emoluments were within the following bands:

| | Number of employees | |
|---|---|---|
| | 2015 | 2014 |
| HK$1,000,001 to HK$1,500,000 | 1 | – |
| HK$1,500,001 to HK$2,000,000 | 2 | 2 |
| | 3 | 2 |

During the year ended 31 December 2015, no emoluments were paid by the Group to the five highest paid individuals (including directors and employees) or other directors as an inducement to join or upon joining the Group, or as compensation for loss of office.

During the year ended 31 December 2014, except for loss of office compensation paid by the Group to Mr. Lim Chuan Yang as disclosed in note 15 above, no emoluments were paid by the Group to the five highest paid individuals (including directors and employees) or other directors as an inducement to join or upon joining the Group, or as compensation for loss of office.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 17. PROPERTY, PLANT AND EQUIPMENT

| | Plant and machinery | Leasehold improvements and others | Total |
|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 |
| **COST** | | | |
| At 1 January 2014 | 181,781 | 72,796 | 254,577 |
| Exchange realignment | (64) | – | (64) |
| Additions | 2,921 | 5,289 | 8,210 |
| Write-offs | – | (32) | (32) |
| Disposals | (19,903) | (3,450) | (23,353) |
| At 31 December 2014 and 1 January 2015 | 164,735 | 74,603 | 239,338 |
| Exchange realignment | (662) | – | (662) |
| Additions | 10,141 | 376 | 10,517 |
| Write-offs | – | (54) | (54) |
| Disposals | (10,013) | (196) | (10,209) |
| **At 31 December 2015** | **164,201** | **74,729** | **238,930** |
| **DEPRECIATION AND IMPAIRMENT** | | | |
| At 1 January 2014 | 148,198 | 60,080 | 208,278 |
| Exchange realignment | (48) | – | (48) |
| Depreciation provided for the year | 10,653 | 13,169 | 23,822 |
| Eliminated on write-offs | – | (19) | (19) |
| Eliminated on disposals | (19,655) | (1,727) | (21,382) |
| At 31 December 2014 and 1 January 2015 | 139,148 | 71,503 | 210,651 |
| Exchange realignment | (578) | – | (578) |
| Depreciation provided for the year | 11,915 | 1,397 | 13,312 |
| Impairment loss recognised in profit or loss | 224 | – | 224 |
| Eliminated on write-offs | – | (52) | (52) |
| Eliminated on disposals | (9,679) | (196) | (9,875) |
| **At 31 December 2015** | **141,030** | **72,652** | **213,682** |
| **CARRYING VALUES** | | | |
| **At 31 December 2015** | **23,171** | **2,077** | **25,248** |
| At 31 December 2014 | 25,587 | 3,100 | 28,687 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 17. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The above property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

| | |
|---|---|
| Plant and machinery | 10% to 30% |
| Leasehold improvements and others | 10% to 30% or over the term of lease |

As at 31 December 2014, the carrying value of the Group's office equipment grouped under leasehold improvements and others included an amount of approximately HK$4,000 (2015: nil) in respect of assets held under finance leases.

The Directors conducted a review of the Group's property, plant and equipment and determined that certain plant and machinery was impaired. Accordingly, impairment loss of approximately HK$224,000 has been recognised for the year ended 31 December 2015. The recoverable amounts of the relevant assets have been determined on the basis of fair value less costs to disposal using the market approach with reference to the recent sales prices of similar assets within the same industry, adjusting differences such as condition and timing of transaction, which is within Level 3 fair value hierarchy.

## 18. INTERESTS IN JOINT VENTURES

| | **2015**<br>**HK$'000** | 2014<br>HK$'000 |
|---|---|---|
| Cost of unlisted investment in joint ventures | **5,998** | 5,998 |
| Share of post-acquisition losses and other comprehensive expenses and impairment loss | **(1,692)** | (1,014) |
| | **4,306** | 4,984 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 18. INTERESTS IN JOINT VENTURES *(Continued)*

Details of each of the Group's joint ventures, which are accounted for using the equity method in the consolidated financial statements, as at 31 December 2015 and 2014, are as follows:

| Name | Form of business structure | Place of incorporation | Principal place of operation | Class of shares held | Proportion of ownership interest and voting power held by the Group | | | | Principal activities |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | 2015 | | 2014 | | |
| | | | | | Direct | Indirect | Direct | Indirect | |
| Semtech International (B.V.I.) Limited ("Semtech BVI") | Corporation | British Virgin Islands | Hong Kong | Ordinary | **50%** | **–** | 50% | – | Investment holding |
| Semtech Electronics Limited ("Semtech Electronics") | Corporation | Hong Kong | Hong Kong | Ordinary | **–** | **50%** | – | 50% | Trademark holding |

Semtech BVI and its wholly-owned subsidiary, Semtech Electronics (collectively referred to as "Semtech BVI Group") have been classified as joint ventures on the basis that certain significant decisions about the financial and operating activities of the Semtech BVI Group require the unanimous consent of both the Group and the other shareholder of Semtech BVI Group.

Semtech BVI is the only directly held joint venture of the Group. Summarised financial information of Semtech BVI Group is set out below. The summarised financial information below represents amounts shown in Semtech BVI's consolidated management accounts prepared in accordance with HKFRSs.

| | 2015<br>HK$'000 | 2014<br>HK$'000 |
|---|---|---|
| Current assets | **2,526** | 4 |
| Non-current assets | **6,100** | 12,000 |
| Current liabilities | **(14)** | (41) |
| The above amounts of assets and liabilities include the following: | | |
| Current financial liabilities (excluding trade and other payables and provisions) | **–** | (31) |

## 18. INTERESTS IN JOINT VENTURES *(Continued)*

| | 2015 HK$'000 | 2014 HK$'000 |
|---|---|---|
| Net assets of Semtech BVI Group | **8,612** | 11,963 |
| Proportion of the Group's ownership interest in Semtech BVI Group | **50%** | 50% |
| Impairment losses recognised | **–** | (998) |
| Carrying amount of the Group's interest in Semtech BVI Group | **4,306** | 4,984 |

As at 31 December 2015 and 2014, the management of the Group reviewed the interests in joint ventures for impairment and determined that interests in joint ventures was impaired based on a valuation on trademarks held by the joint ventures. The fair value of trademarks, measured by an independent professional valuer not connected with the Group, was determined using the income approach based on financial budgets prepared by the management. The unobservable inputs used in level 3 fair value measurements included the following:

(i) royalty rate of 0.38% (2014: 0.38%);

(ii) after-tax discount rate of 18.11% (2014: 17.99%) per annum; and

(iii) negative revenue growth rate of 8% per annum for the year 2016 and 3% per annum for periods beyond 2016 (2014: revenue growth rate in the range of 1% to 5% per annum for the first three years and 3% per annum for periods beyond three years).

Based on the results of the valuation, the management of the Group determined that no impairment losses on interests in joint ventures recognised for the year ended 31 December 2015 (2014: approximately HK$998,000).

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 19. INVENTORIES

| | 2015 HK$'000 | 2014 HK$'000 |
|---|---|---|
| Raw materials | 32,356 | 36,518 |
| Work-in-progress | 924 | 1,577 |
| Finished goods | 52,818 | 70,144 |
| | 86,098 | 108,239 |

## 20. TRADE AND BILLS RECEIVABLES

The Group allows an average credit period of 30 to 120 days (2014: 30 to 120 days) to its trade customers.

| | 2015 HK$'000 | 2014 HK$'000 |
|---|---|---|
| Trade and bills receivables | 213,851 | 204,940 |
| Less: Accumulated impairment | (1,547) | (162) |
| | 212,304 | 204,778 |

The Group did not hold any collateral over the trade and bills receivables.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 20. TRADE AND BILLS RECEIVABLES *(Continued)*

The following is an ageing analysis of trade and bills receivables, net of impairment, presented based on the due date at the end of the reporting periods:

| | **2015** | 2014 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Current | **172,076** | 157,245 |
| Overdue: | | |
| – within 3 months | **34,654** | 35,405 |
| – 4-6 months | **4,406** | 10,393 |
| – 7-12 months | **1,114** | 1,735 |
| – over 12 months | **54** | – |
| | **40,228** | 47,533 |
| | **212,304** | 204,778 |

Trade receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

Included in the Group's trade and bills receivables balance are debtors with an aggregate carrying amount of approximately HK$40,228,000 (2014: HK$47,533,000) which were past due at the end of the reporting period for which the Group has not provided for impairment loss. Receivables that were past due but not impaired related to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 20. TRADE AND BILLS RECEIVABLES *(Continued)*

Movement in the impairment on trade receivables:

| | 2015 HK$'000 | 2014 HK$'000 |
|---|---|---|
| Balance at beginning of the year | 162 | 231 |
| Impairment loss recognised | 1,385 | – |
| Amount written off as uncollectible | – | (69) |
| Balance at end of the year | 1,547 | 162 |

Included in the impairment on trade receivables are individually impaired trade receivables with an aggregate balance of approximately HK$1,547,000 (2014: HK$162,000) since the management considered the prolonged outstanding balances were uncollectible.

Included in trade and bills receivables are the following amounts denominated in currencies other than the functional currency of the respective reporting entity of the Group:

| | 2015 '000 | 2014 '000 |
|---|---|---|
| HK$ | 73,872 | 66,850 |
| RMB | 102,409 | 89,161 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | 2015 HK$'000 | 2014 HK$'000 |
|---|---|---|
| Prepayments, deposits and other receivables | 22,560 | 22,284 |
| Less: Accumulated impairment | (19,585) | (19,585) |
| | 2,975 | 2,699 |

The Group did not hold any collateral over the other receivables.

Movement in the impairment on prepayments, deposits and other receivables:

| | 2015 HK$'000 | 2014 HK$'000 |
|---|---|---|
| Balance at beginning of the year | 19,585 | 19,599 |
| Impairment loss reversed | – | (14) |
| Balance at end of the year | 19,585 | 19,585 |

Included in the impairment on prepayments, deposits and other receivables are individually impaired other receivables with an aggregate balance of approximately HK$19,585,000 (2014: HK$19,585,000) since the management considered the prolonged outstanding balances were uncollectible.

Included in prepayments, deposits and other receivables are the following amounts denominated in currencies other than the functional currency of the respective reporting entity of the Group:

| | 2015 '000 | 2014 '000 |
|---|---|---|
| HK$ | 5 | 5 |
| RMB | – | 25 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 22. AMOUNTS DUE FROM (TO) FORMER SUBSIDIARIES

The amounts are unsecured, interest-free and repayable on demand.

Amounts due from (to) former subsidiaries were as follows:

| | 2015<br>HK$'000 | 2014<br>HK$'000 |
|---|---|---|
| Amounts due from former subsidiaries (note) | – | – |
| Amounts due to former subsidiaries | 4,417 | 4,417 |

Note:

| | 2015<br>HK$'000 | 2014<br>HK$'000 |
|---|---|---|
| Amounts due from former subsidiaries | 172,244 | 172,244 |
| Less: Accumulated impairment | (172,244) | (172,244) |
| | – | – |

Movement in the impairment on amounts due from former subsidiaries:

| | 2015<br>HK$'000 | 2014<br>HK$'000 |
|---|---|---|
| Balance at beginning of the year | 172,244 | 178,906 |
| Impairment loss reversed | – | (6,662) |
| Balance at end of the year | 172,244 | 172,244 |

During the year ended 31 December 2014, the Group have recovered partial amount due from a former subsidiary of approximately HK$6,662,000 from liquidators of CITIC Logistics (International) Company Limited (in liquidation) ("CLI").

Included in the impairment on amounts due from former subsidiaries are individually impaired amounts due from former subsidiaries with an aggregate balance of approximately HK$172,244,000 (2014: HK$172,244,000) which have been placed under liquidation.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 23. DEPOSITS IN OTHER FINANCIAL INSTITUTIONS

The amounts at 31 December 2015 and 2014 represented deposits placed with securities brokers for trading securities and carried interest at prevailing market rates.

## 24. BANK BALANCES AND CASH

At 31 December 2015 and 2014, cash at bank carried interest at floating rates based on daily bank deposits rates.

Included in bank balances and cash are the following amounts denominated in currencies other than the functional currency of the respective reporting entity of the Group:

| | **2015** | 2014 |
|---|---|---|
| | **'000** | '000 |
| HK$ | **6,445** | 90 |
| US$ | **66** | 66 |
| RMB | **32** | 38 |

## 25. TRADE AND BILLS PAYABLES

The following is an ageing analysis of trade and bills payables presented based on the due date at the end of the reporting periods:

| | **2015** | 2014 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Current | **55,259** | 42,577 |
| Overdue: | | |
| – within 3 months | **3,801** | 3,876 |
| – 4-6 months | **979** | 905 |
| – 7-12 months | **4** | 4 |
| – over 12 months | **101** | 185 |
| | **60,144** | 47,547 |

The average credit period on purchases is 30 to 120 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 25. TRADE AND BILLS PAYABLES *(Continued)*

Included in trade and bills payables are the following amounts denominated in currencies other than the functional currency of the respective reporting entity of the Group:

| | **2015** | 2014 |
|---|---|---|
| | **'000** | '000 |
| HK$ | **10,991** | 9,092 |
| RMB | **36,056** | 26,318 |

## 26. OTHER PAYABLES AND ACCRUALS

Included in other payables and accruals are the following amounts denominated in currencies other than the functional currency of the respective reporting entity of the Group:

| | **2015** | 2014 |
|---|---|---|
| | **'000** | '000 |
| HK$ | **1,447** | 1,029 |
| RMB | **3,177** | 3,736 |

## 27. OBLIGATIONS UNDER FINANCE LEASES

The Group leased certain of its office equipment under finance leases for its business operation. The lease term is 5 years (2014: 5 years). Interest rate underlying obligations under finance leases was fixed at respective contract dates and was 2.5% (2014: 2.5%) per annum.

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Amounts payable under finance leases repayable: | | | | |
| Within one year | **–** | 5 | **–** | 4 |
| Less: Future finance charges | **–** | (1) | **N/A** | N/A |
| Present value of lease obligations | **–** | 4 | **–** | 4 |
| Less: Amounts due within one year shown under current liabilities | | | **–** | (4) |
| Amounts due after one year | | | **–** | – |

The Group's obligations under finance leases denominated in HK$ are secured by the lessors' charge over the leased assets.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 28. CONVERTIBLE NOTES

On 19 November 2009, the Company issued unsecured convertible notes for the partial settlement of the consideration for the acquisition of CLI. Details of the transaction are set out in the Company's circular dated 16 October 2009. The sole holder of the convertible notes, Mr. Li, was appointed as an executive Director on 1 December 2015 and resigned subsequently on 26 February 2016.

Details of the Group's convertible notes outstanding as at 31 December 2015 and 2014 are set out below:

| | | 2015 | 2014 |
|---|---|---|---|
| Date of issue | : | **19 November 2009** | 19 November 2009 |
| Date of modification | : | **9 January 2015** | N/A |
| Principal amount | : | **HK$950,400,000** | HK$950,400,000 |
| Coupon rate | : | **Nil** | Nil |
| Conversion price | : | **HK$0.035 per share** | HK$0.12 per share |
| Conversion period | : | **The period commencing from the date of modification of the convertible notes and ending on the maturity date** | The period commencing from the date of issue of the convertible notes and ending on the maturity date |
| Collaterals | : | **Nil** | Nil |
| Maturity date | : | **31 December 2016** | 15 November 2014 |

Subject to the occurrence of an event of default (as defined in the terms and conditions of the convertible notes), the convertible notes may be redeemed in amounts of HK$100,000 or integral multiples thereof at the option and in the absolute discretion of the Company on any business day prior to the maturity date by giving not less than seven days notice to the holder of the convertible notes.

The convertible notes contain two components, liability and equity components. The equity component is presented in equity under the heading of convertible notes reserve. The effective interest rate of the liability component of the convertible notes is 5.00% (2014: 7.60%) per annum. The liability and equity components of the convertible notes are measured at fair values at the date of modification (2014: date of issue) and the valuation was determined by an independent valuer.

## 28. CONVERTIBLE NOTES *(Continued)*

On 14 November 2014, the Company and Mr. Li entered into a deed of variation, pursuant to which it was agreed that, subject to the fulfillment of conditions precedent, (i) the maturity date of the outstanding convertible notes with an aggregate principal amount of HK$302,400,000 would be extended from 15 November 2014 to 31 December 2016; and (ii) the original conversion price of HK$0.12 per share would be adjusted to the conversion price of HK$0.035 per share. Save for the above alterations, all other terms and conditions of the outstanding convertible notes remained unchanged. On 9 January 2015, the relevant ordinary resolution was duly passed at the special general meeting and the extension of the maturity date and the adjustment of conversion price of the outstanding convertible notes became effective. For details, please refer to the announcements of the Company dated 14 November 2014, 17 November 2014 and 9 January 2015, as well as the circular of the Company dated 19 December 2014 and the Company's annual report for the year ended 31 December 2014.

The extension of the maturity date and the adjustment of the conversion price resulted in the extinguishment of the financial liability of the convertible notes and the recognition of new financial liability and equity components. On 9 January 2015, the carrying values of liability component and equity component of the convertible notes immediately before the modification were approximately HK$302,400,000 and HK$92,707,000 respectively. According to a valuation report issued by an independent professional valuer not connected with the Group, the fair value of the new liability component and equity component immediately following the modification are approximately HK$274,579,000 and HK$57,442,000 respectively. These caused a recognition of gain of approximately HK$27,821,000 credited to profit or loss and a transfer of a net amount of approximately HK$35,265,000 from the convertible notes reserve to accumulated losses for the year ended 31 December 2015.

Convertible notes of the Company with an aggregate principal amount of HK$42,000,000 were converted into 1,199,999,998 ordinary shares of HK$0.01 each at a conversion price of HK$0.035 per share on 4 June 2015.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 28. CONVERTIBLE NOTES *(Continued)*

Movements of the liability and equity components of the convertible notes for the years ended 31 December 2015 and 2014 are set out below:

| | Liability component HK$'000 | Equity component HK$'000 | Total HK$'000 |
|---|---|---|---|
| At 1 January 2014 | 283,459 | 92,707 | 376,166 |
| Imputed interest charged to the consolidated statement of profit or loss (note 9) | 18,941 | – | 18,941 |
| At 31 December 2014 and 1 January 2015 | 302,400 | 92,707 | 395,107 |
| Derecognition of original liability/equity component upon modification of terms of convertible notes | (302,400) | (92,707) | (395,107) |
| Recognition of new liability/equity component upon modification of terms of convertible notes | 274,579 | 57,442 | 332,021 |
| Conversion into shares of the Company (note 31(a)) | (38,888) | (7,978) | (46,866) |
| Imputed interest charged to the consolidated statement of profit or loss (note 9) | 12,287 | – | 12,287 |
| At 31 December 2015 | 247,978 | 49,464 | 297,442 |

As at 31 December 2015, the principal amount of convertible notes remained outstanding is HK$260,400,000 (2014: HK$302,400,000).

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 29. EMPLOYEE BENEFITS

| | **2015** | 2014 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Liabilities for employee benefit comprise: | | |
| Annual leave payments accrual | **1,518** | 1,668 |
| Long service payments obligation (note 35) | **144** | 143 |
| | **1,662** | 1,811 |
| Categorised as: | | |
| Due within one year (included in other payables and accruals) | **1,518** | 1,668 |
| Due after one year (shown under non-current liabilities) | **144** | 143 |
| | **1,662** | 1,811 |

## 30. DEFERRED TAX

The followings are the major deferred tax liabilities (assets) recognised and movements thereon during the years ended 31 December 2015 and 2014:

| | **Accelerated tax depreciation** | **Tax losses** | **Total** |
|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 |
| At 1 January 2014 | 45 | (45) | – |
| (Credited) charged to profit or loss | (31) | 31 | – |
| At 31 December 2014 and 1 January 2015 | 14 | (14) | – |
| Charged (credited) to profit or loss | 46 | (46) | – |
| At 31 December 2015 | 60 | (60) | – |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 30. DEFERRED TAX *(Continued)*

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

| | **2015** | 2014 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Deferred tax liabilities | **60** | 14 |
| Deferred tax assets | **(60)** | (14) |
| | **–** | – |

As at 31 December 2015, the Group has unused estimated tax losses of approximately HK$147,817,000 (2014: HK$118,747,000). A deferred tax asset has been recognised in respect of such tax losses of approximately HK$363,000 (2014: HK$90,000). No deferred tax asset has been recognised in respect of the remaining tax losses of approximately HK$147,454,000 (2014: HK$118,657,000) due to the unpredictability of future profits streams.

Included in unrecognised tax losses are losses of approximately HK$10,367,000 (2014: HK$7,504,000) that will expire after five years from the year of assessment to which they relate to. Other losses may be carried forward indefinitely.

As at 31 December 2015, the Group has deductible temporary differences of approximately HK$20,473,000 (2014: HK$19,282,000). No deferred tax asset is recognised in respect of these deductible temporary differences as at 31 December 2015 and 2014 due to the unpredictability of future profits streams.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 31. SHARE CAPITAL

| | Number of shares '000 | HK$'000 |
|---|---|---|
| Authorised ordinary shares of HK$0.01 each: | | |
| At 1 January 2014, 31 December 2014 and 31 December 2015 | 30,000,000 | 300,000 |
| Issued and fully paid ordinary shares of HK$0.01 each: | | |
| At 1 January 2014 and 31 December 2014 | 11,966,699 | 119,667 |
| Issue of new shares upon conversion of convertible notes (note a) | 1,200,000 | 12,000 |
| Issue of new shares on subscriptions (note b) | 722,500 | 7,225 |
| At 31 December 2015 | 13,889,199 | 138,892 |

Notes:

(a) On 4 June 2015, convertible notes of the Company with an aggregate principal amount of HK$42,000,000 were converted into 1,199,999,998 new ordinary shares of HK$0.01 each at a conversion price of HK$0.035 per share. These new shares issued ranked pari passu with other shares then in issue in all aspects. Details of the convertible notes are set out in note 28 to the consolidated financial statements.

(b) On 27 October 2015, the Company entered into two subscription agreements with two independent third parties for subscription of an aggregate of 722,500,000 new ordinary shares at a subscription price of HK$0.047 per share. The issue and allotment of subscription shares were completed on 9 November 2015. These new shares issued ranked pari passu with other shares then in issue in all aspects. Details of the subscription for new ordinary shares are set out in the Company's announcements dated 27 October 2015 and 9 November 2015.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 32. SHARE OPTION SCHEME

The Company has adopted a share option scheme on 28 November 2002 (the "2002 Share Option Scheme") for the purpose of providing incentives or rewards to wider classes of person or entity to be the participants (the "Participants") thereunder for their contribution to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and any entity in which the Group holds any equity interest ("Invested Entity").

On 8 June 2012, a new share option scheme (the "2012 Share Option Scheme") was adopted by the shareholders of the Company, pursuant to an ordinary resolution passed at the annual general meeting held on 8 June 2012. The 2002 Share Option Scheme was terminated accordingly on the same day and no further options will be granted under the 2002 Share Option Scheme but in all other aspects, the provisions of the 2002 Share Option Scheme shall remain in full force and effect in respect of any options granted prior to the adoption of the 2012 Share Option Scheme and any such options shall continue to be valid and exercisable in accordance with their terms of issue. The 2012 Share Option Scheme will be expired on 7 June 2022.

### Terms of 2012 Share Option Scheme

Pursuant to the terms of the 2012 Share Option Scheme, the Directors may, at their absolute discretion, invite any person belonging to any of the following classes of Participants, to take up options to subscribe for shares:

(a) any eligible employee;
(b) any non-executive director (including independent non-executive directors) of the Company, any of its subsidiaries or any Invested Entity;
(c) any supplier of goods or services to any member of the Group or any Invested Entity;
(d) any customer of the Group or any Invested Entity;
(e) any person or entity that provides research, development or technological support or services to the Group or any Invested Entity;
(f) any shareholder or any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity; and
(g) any ex-employee who has contributed to the development and growth of the Group and any Invested Entity.

The basis of eligibility of any of the above class of Participants to the grant of any options shall be determined by the Directors from time to time on the basis of their contribution to the development and growth of the Group and any Invested Entity based on his work experience, industry knowledge or other relevant factors, or is expected to be able to contribute to the business development of the Group and any Invested Entity based on his business connections or other relevant factors, and subject to such conditions as the Directors think fit.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 32. SHARE OPTION SCHEME *(Continued)*

### Terms of 2012 Share Option Scheme *(Continued)*

The subscription price for the shares under the 2012 Share Option Scheme shall be a price determined by the Directors, but shall not be lower than the higher of: (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the date of grant; (ii) the average closing price of the shares stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of grant; and (iii) the nominal value of the shares. Options granted are exercisable at any time during a period to be notified by the Directors but limited to a maximum period of ten years after the date the options are granted. Options granted should be accepted within 28 days from the date of offer. A consideration of HK$1 is payable on acceptance of the offer of grant of an option.

The maximum number of shares which may be issued upon exercise of all options to be granted under the 2012 Share Option Scheme and the other schemes shall not exceed 10% of the shares in issue at the date on which the 2012 Share Option Scheme is conditionally adopted by the Company at a general meeting of the shareholders.

The Company may, by the approval of the shareholders in general meeting, grant options beyond the 10% limit provided that the options in excess of the 10% limit are granted only to Participants specifically identified by the Company before shareholders' approval is sought.

Unless approved by the shareholders as set out herein, the total number of shares issued and to be issued upon exercise of the options granted to each Participant (including both exercised and outstanding options) in any twelve-month period must not exceed 1% of the shares of the Company in issue. Where any further grant of options to a Participant would result in the shares issued and to be issued upon exercise of any options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the twelve-month period up to and including the date of such further grant representing in aggregate over 1% of the shares in issue, such further grant must be separately approved by the shareholders in general meeting with such Participant and his associates abstaining from voting.

However, the overall limit on the number of shares which may be issued upon exercise of all options granted under all share option schemes of the Company must not exceed 30% of the shares in issue from time to time.

Unless the Directors otherwise determined and stated in the offer of the grant of options to a Participant, a Participant is not required to achieve any performance targets before any options granted under the 2012 Share Option Scheme can be exercised.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 32. SHARE OPTION SCHEME *(Continued)*

### Terms of 2012 Share Option Scheme *(Continued)*

At 31 December 2015, the number of shares in respect of which options had been granted and remained outstanding and exercisable under the 2002 Share Option Scheme was 399,940,000 (2014: 965,651,000) representing 3% (2014: 8%) of the shares of the Company in issue at that date. No option is granted under the 2012 Share Option Scheme during the year ended 31 December 2015 (2014: nil).

The following tables disclosed the movements of the Company's share options for the years ended 31 December 2015 and 2014:

| | | | Number of share options | | | | |
|---|---|---|---|---|---|---|---|
| **Participants** | **Date of grant** | **Exercise price per share** | **Outstanding at 1 January 2014** '000 | **Lapsed during the year** (note) '000 | **Outstanding at 31 December 2014 and 1 January 2015** '000 | **Lapsed during the year** '000 | **Outstanding at 31 December 2015** '000 |
| **Directors** | | | | | | | |
| Mr. Huang Hanshui | 6 December 2010 | HK$0.305 | 86,828 | – | 86,828 | – | 86,828 |
| Mr. Lim Chuan Yang | 30 November 2011 | HK$0.098 | 113,142 | (113,142) | – | – | – |
| **Employees (in aggregate)** | 30 November 2011 | HK$0.098 | 565,711 | – | 565,711 | (565,711) | – |
| **Customers, suppliers and other eligible persons (in aggregate)** | 6 December 2010 | HK$0.305 | 86,828 | – | 86,828 | – | 86,828 |
| | 30 November 2011 | HK$0.098 | 226,284 | – | 226,284 | – | 226,284 |
| | | | 1,078,793 | (113,142) | 965,651 | (565,711) | 399,940 |
| Exercisable at the end of the reporting period | | | | | 965,651 | | 399,940 |
| Weighted average exercise price | | | HK$0.131 | HK$0.098 | HK$0.135 | HK$0.098 | HK$0.188 |

Note:

The participant, Mr. Lim Chuan Yang, retired as an executive Director on 9 June 2014 and stepped down as the CEO on 16 June 2014. Pursuant to the provisions of the 2002 Share Option Scheme, share options granted to Mr. Lim Chuan Yang lapsed on 16 June 2014.

The options outstanding at 31 December 2015 had an exercisable period of 10 years from the date of grant and a weighted average remaining contractual life of 5.5 years (2014: 6.7 years).

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 33. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

| | 2015<br>HK$'000 | 2014<br>HK$'000 |
|---|---|---|
| **Non-current asset** | | |
| Investments in subsidiaries | 46,400 | 46,400 |
| **Current assets** | | |
| Prepayments, deposits and other receivables | 1,109 | 938 |
| Amounts due from subsidiaries (note a) | 182,642 | 182,642 |
| Amounts due from former subsidiaries (note a) | – | – |
| Bank balances and cash | 42,906 | 25,360 |
| | 226,657 | 208,940 |
| **Current liabilities** | | |
| Other payables and accruals | 2,119 | 3,166 |
| Convertible notes | 247,978 | 302,400 |
| | 250,097 | 305,566 |
| **Net current liabilities** | (23,440) | (96,626) |
| **Total assets less current liabilities** | 22,960 | (50,226) |
| **Net assets (liabilities)** | 22,960 | (50,226) |
| **Capital and reserves** | | |
| Share capital | 138,892 | 119,667 |
| Reserves (note b) | (115,932) | (169,893) |
| **Total equity (capital deficiency)** | 22,960 | (50,226) |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 33. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Notes:

(a) The amounts are unsecured, interest-free and repayable on demand.

(b) Movements in the reserves during the years are as follows:

| | Share premium HK$'000 | Contributed surplus HK$'000 | Share-based compensation reserve HK$'000 | Convertible notes reserve HK$'000 | Accumulated losses HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| At 1 January 2014 | 2,210,494 | 62,315 | 43,722 | 92,707 | (2,543,210) | (133,972) |
| Loss and total comprehensive expense for the year | – | – | – | – | (35,921) | (35,921) |
| Share options lapsed | – | – | (3,676) | – | 3,676 | – |
| At 31 December 2014 and 1 January 2015 | 2,210,494 | 62,315 | 40,046 | 92,707 | (2,575,455) | (169,893) |
| Profit and total comprehensive expense for the year | – | – | – | – | 964 | 964 |
| Derecognition upon modification of terms of convertible notes (note 28) | – | – | – | (92,707) | 92,707 | – |
| Recognition upon modification of terms of convertible notes (note 28) | – | – | – | 57,442 | (57,442) | – |
| Issue of new shares upon conversion of convertible notes (notes 28 and 31(a)) | 34,866 | – | – | (7,978) | – | 26,888 |
| Issue of new shares on subscriptions | 26,733 | – | – | – | – | 26,733 |
| Transaction costs attributable to issue of new shares on subscriptions | (810) | – | – | – | – | (810) |
| Share options lapsed | – | – | (18,378) | – | 18,378 | – |
| Unclaimed dividend forfeited | – | – | – | – | 186 | 186 |
| **At 31 December 2015** | **2,271,283** | **62,315** | **21,668** | **49,464** | **(2,520,662)** | **(115,932)** |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 34. LEASE COMMITMENTS

### The Group as lessee

| | 2015 HK$'000 | 2014 HK$'000 |
|---|---|---|
| Lease payments paid under operating leases in respect of: | | |
| – land and buildings | 10,059 | 9,089 |
| – others | 10,717 | 11,117 |
| | 20,776 | 20,206 |

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

| | 2015 HK$'000 | 2014 HK$'000 |
|---|---|---|
| Within one year | 15,208 | 15,005 |
| In the second to fifth years inclusive | 11,316 | 20,539 |
| Over five years | – | 8 |
| | 26,524 | 35,552 |

Operating lease payments represent rentals payable by the Group for certain of its godowns, offices, production plant and motor vehicles. Leases are negotiated for original terms ranging from 2 to 6 years (2014: 2 to 6 years). Rentals are fixed over the terms of respective leases.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 35. RETIREMENT BENEFIT OBLIGATIONS

### (a) Long service payments obligation

| | 2015<br>HK$'000 | 2014<br>HK$'000 |
|---|---|---|
| Long service payments obligation (note 29) | 144 | 143 |

Under the Hong Kong Employment Ordinance, the Group is obliged to make lump sum payments on cessation of employment in certain circumstances to certain employees who have completed at least five years of service with the Group. The amount payable is dependent on the employees' final salary and years of service and is reduced by entitlements accrued under the Group's retirement plans that are attributable to contributions made by the Group at a discount rate of 8% (2014: 8%) and an assumed retirement age of 65 years old. The Group does not set aside any assets to fund any remaining obligations.

Movement for the year:

| | 2015<br>HK$'000 | 2014<br>HK$'000 |
|---|---|---|
| Balance at beginning of the year | 143 | 101 |
| Increase in obligation (included in staff costs under administrative expenses) | 1 | 42 |
| Balance at end of the year | 144 | 143 |

## 35. RETIREMENT BENEFIT OBLIGATIONS *(Continued)*

### (b) Retirement benefit scheme contributions

*Hong Kong*

The Group joins a mandatory provident fund scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance. Under the MPF Scheme, the employee contributes 5% of the relevant payroll to the MPF Scheme while the Group contributes from 5% to 10% of the relevant payroll to the MPF Scheme. For those making contributions to the scheme at 5% of the employees' relevant income, it is subject to a cap of monthly relevant income of HK$25,000. Starting from 1 June 2014, the cap is revised to monthly relevant income of HK$30,000. Contributions to the scheme vest immediately.

*The PRC*

The Group also participates in a defined contribution retirement scheme organised by the government in the PRC. All employees of the Group in the PRC are entitled to an annual pension equal to a fixed portion of their individual final basic salaries at their retirement date. The Group is required to contribute a specified percentage of the payroll of its employees to the retirement date. No forfeited contributions may be used by the employers to reduce the existing level of contributions.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 36. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the consolidated financial statements, the Group had the following material transactions with related parties:

**(a)** The following balances were outstanding at the end of the reporting period:

| | Amounts due from related parties | | Amounts due to related parties | |
|---|---|---|---|---|
| | **2015 HK$'000** | 2014 HK$'000 | **2015 HK$'000** | 2014 HK$'000 |
| A joint venture (note) | **–** | 31 | **2,519** | – |
| Directors' emoluments payable (included in other payables) | **–** | – | **1,178** | 1,681 |

Note:

The amount due from/to a joint venture was unsecured, interest-free and repayable on demand. The balance was denominated in HK$ other than the functional currency of the respective reporting entity of the Group.

**(b)** Semtech BVI Group is the registered owner of various trademarks. Those trademarks are provided for the Group's use at nil consideration for both years ended 31 December 2015 and 2014.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 36. RELATED PARTY TRANSACTIONS *(Continued)*

### (c) Compensation of key management personnel

The remuneration of Directors and other members of key management during the year was as follows:

| | 2015<br>HK$'000 | 2014<br>HK$'000 |
|---|---|---|
| Short-term benefits | 9,385 | 10,689 |
| Loss of office compensation | – | 4,119 |
| Post-employment benefits | 478 | 575 |
| | 9,863 | 15,383 |

The remuneration of Directors and key executives was determined by the remuneration committee and the board of Directors having regard to the performance of individuals and market trends.

## 37. CONTINGENT LIABILITIES

On 15 July 2009, one of the subsidiaries of Classic Line International Limited ("Classic Line"), a former subsidiary of the Company, has been and is the subject of a judgement (in the amount of US$13.5 million) obtained in a United States court in an action in respect of damages allegedly arising out of use of fire lighters sold by the subsidiary of Classic Line. The Company is one of the co-defendants in the case. On 28 September 2009, the Company entered into an agreement to dispose of the entire equity interest in Classic Line and the disposal was completed on 31 October 2009.

Based on the legal advice received by the Company, the Directors considered that the Company has valid grounds in opposing the enforcement of any judgement of the said case against the Company, if obtained, in Hong Kong and Bermuda. Accordingly, no provision has been made in the consolidated financial statements.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 38. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31 December 2015 and 2014 are as follows:

| Name | Form of business structure | Place of incorporation/ registration and operations | Issued and paid-up ordinary share/ registered capital | Proportion of ownership interest and voting power held by the Company | | | | Principal activities |
|---|---|---|---|---|---|---|---|---|
| | | | | 2015 | | 2014 | | |
| | | | | Direct % | Indirect % | Direct % | Indirect % | |
| Sino-Tech International (B.V.I.) Limited | Corporation | British Virgin Islands | US$2 | 100 | – | 100 | – | Investment holding |
| Ruixin Universal Limited (formerly known as China LWM Property Limited) | Corporation | Hong Kong | HK$1 | – | 100 | – | 100 | Provision of sub-letting service |
| Fast Harvest Limited | Corporation | Hong Kong | HK$2 | – | 100 | – | 100 | Provision of management service |
| LWM Management Limited | Corporation | Hong Kong | HK$1 | – | 100 | – | 100 | Provision of management service |
| Semtech RFID Limited | Corporation | Hong Kong | HK$100 | – | 100 | – | 100 | Trading of radio-frequency identification tag and antenna |
| Super Victory Enterprises Limited | Corporation | Hong Kong | HK$2 | – | 100 | – | 100 | Manufacture and trading of electronic and electrical parts and components |
| 東莞泰豐射頻識別有限公司 (note) | Corporation | PRC | US$1,500,000 | – | 100 | – | 100 | Manufacture and trading of radio-frequency identification tag and antenna |

Note: The company is a foreign enterprise in the PRC.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 38. PRINCIPAL SUBSIDIARIES *(Continued)*

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

None of the subsidiaries had any debt securities subsisting at the end of both years or at any time during the years.

At the end of the reporting period, the Company has other subsidiaries that are not material to the Group. The principal activities of these subsidiaries are summarised as follows:

| **Principal activities** | **Principal place of business** | **Number of subsidiaries** | |
|---|---|---|---|
| | | **2015** | 2014 |
| Investment holding | British Virgin Islands | **5** | 5 |
| Inactive | British Virgin Islands | **2** | 2 |
| Inactive/not commenced business yet | Hong Kong | **3** | 3 |

# Summary of Financial Information

A summary of the published results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years prepared on the bases set out in the note below is as follows. This summary does not form part of the audited consolidated financial statements.

## RESULTS

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2015** | 2014 | 2013 | 2012 | 2011 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 Restated |
| Revenue | **545,055** | 599,867 | 660,388 | 572,451 | 742,279 |
| Loss before taxation | **(23,211)** | (40,434) | (23,581) | (80,710) | (176,157) |
| Net loss attributable to owners of the Company | **(23,211)** | (40,434) | (24,675) | (339,412) | (934,159) |

## ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | **2015** | 2014 | 2013 | 2012 | 2011 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 Restated |
| Total assets | **408,317** | 399,871 | 469,046 | 662,123 | 1,186,880 |
| Total liabilities | **(327,544)** | (368,373) | (397,136) | (565,509) | (720,952) |
| Non-controlling interests | **–** | – | – | – | (50,953) |
| | **80,773** | 31,498 | 71,910 | 96,614 | 414,975 |

Note: The results of the Group for the years ended 31 December 2015, 31 December 2014, 31 December 2013, 31 December 2012 and 31 December 2011 have been extracted from the audited consolidated financial statements for the years ended 31 December 2015, 31 December 2014, 31 December 2013, 31 December 2012 and 31 December 2011 and restated upon the adoption of the new or amended HKFRSs as appropriate.