# SANDMARTIN INTERNATIONAL HOLDINGS LIMITED
# 聖馬丁國際控股有限公司

## Annual Report 2015
## 2015年年報

Stock Code 股份代號：00482

INCORPORATED IN BERMUDA WITH LIMITED LIABILITY
於百慕達註冊成立之有限公司




Dish Media Network Pvt. Ltd. ("DishHome") of Nepal becomes a well-known brand as well as the only Direct-to-Home satellite television service provider in Nepal

尼泊爾Dish Media Network Pvt. Ltd.（“DishHome”）已成為當地著名的品牌並且成為當地唯一一家衛星電視服務供應商

Stock Code 股份代號 : 00482

# Contents

# Corporate Information

## Board of Directors

### Executive Directors

Mr. Hung Tsung Chin (Chairman)
Ms. Chen Mei Huei (CEO)
Mr. Liao Wen I
Mr. Frank Karl-Heinz Fischer
Mr. Mu Yean Tung*
Mr. Shou Philip Ming-Yung**
Mr. Yip Chung Wai David***
Mr. Chen Wei Chun****

### Independent Non-executive Directors

Mr. Lee Chien Kuo
Mr. Han Chien Shan
Mr. Wu Chia Ming

## Company Secretary

Mr. Young Ho Kee Bernard *ACIS ACS*

## Audit Committee

Mr. Wu Chia Ming (Chairman)
Mr. Lee Chien Kuo
Mr. Han Chien Shan

## Remuneration Committee

Mr. Lee Chien Kuo (Chairman)
Mr. Hung Tsung Chin
Mr. Han Chien Shan
Mr. Wu Chia Ming

## Nomination Committee

Mr. Han Chien Shan (Chairman)
Mr. Hung Tsung Chin
Mr. Wu Chia Ming

## Principal Bankers

Agricultural Bank of China Limited
Bank SinoPac
Industrial and Commercial Bank of China Limited
Taishin International Bank Co., Ltd.

## Legal Advisors

Minter Ellison

## Auditors

BDO Limited
*Certified Public Accountants*

* *Resigned on 10 July 2015*
** *Resigned on 30 April 2015*
*** *Appointed on 9 June 2015*
**** *Appointed on 28 August 2015*

# Milestone

**2011**
Taiwan R&D team formed in July and Invest Dish Home in Nepal in June

**2012**
Transforming as a pay TV operator

**2013**
Acquire Pro Brand International in USA in February

**2014**
Establish Pro Brand Technology in May

**2015**
Dish Home become top 50 pay TV operator in the world

**2009**
TDR listed on Taiwan Stock Exchange

**2008**
Acquire IDS in Germany 100% shareholdings

**2006**
Acquire BCN in Spain 100% shareholdings

**2005**
Shares listed on Hong Kong Stock Exchange

**2001**
Mass production of TV set top box

**1987**
Sandmartin Taipei incorporated

**1992**
Establish Zhongshan Sandmartin in Guangdong China

**1994**
1st phase of Zhongshan factory is completed and produce electronic goods

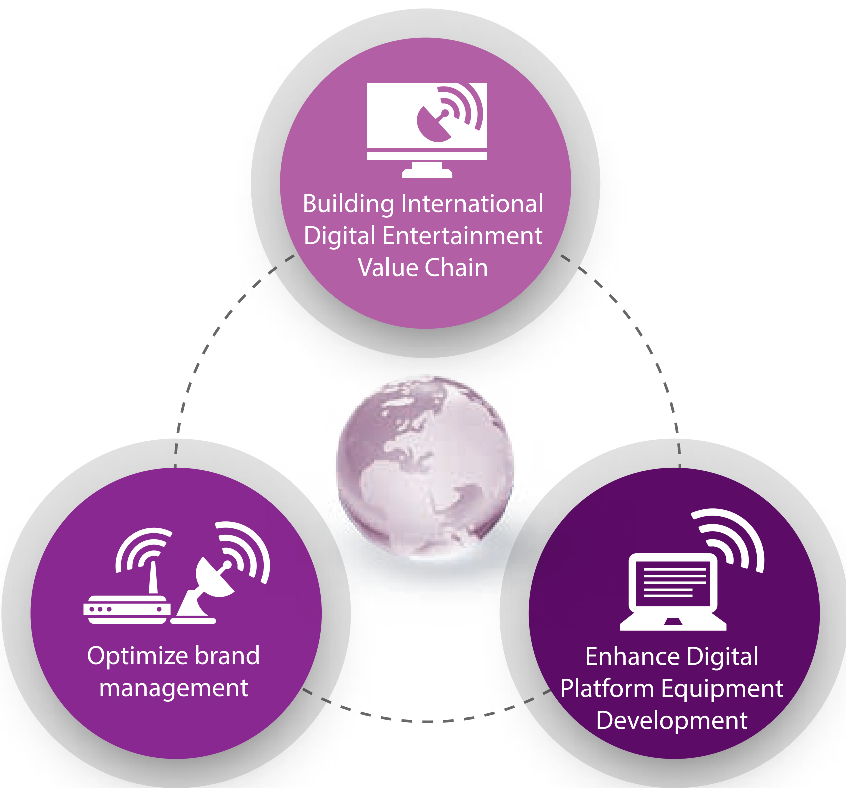
**1996**
2nd phase of Zhongshan factory is completed

**1997**
3rd phase of Zhongshan factory is completed

# Chairman's Letter to Shareholders

# Connect with us

In today's world, the convergence of information and entertainment is very much taken for granted. One of the key catalysts of this phenomenon is the digital TV industry. New trends in broadcasting technology - such as the shift from analogue to digital telecommunications signals - have markedly improved image quality and reliability. And an increasing number of consumers around the world are flocking to take advantage of digital TV .




## Dear Shareholders,

During 2015, it was a challenging year for Sandmartin International Holdings Limited ("SMT" or our "Group"), the overall market remained sluggish in its recovery as the general economy was uncertain, especially in European market and MEMA (Middle East, Mediterranean, and Africa) markets, the Group could not be immune from this macro business environment. Despite this short- term depression in those markets, I am confident in North American market as its economy is being recovered.

Although the total revenue of the Group is increasing due to the economic recovery of North America, especially from one of our major customer, DirecTV, however, as the overall market remained sluggish, our management continues our three strategies during the year for our future growth, which are bottom of pyramid strategy, value chain strategy and brand strategy.

We see other opportunities in the value chain of the digital entertainment business and we have completed the necessary preparations to acquire suitable businesses which have significant growth potential for the Group. We shall target businesses which are correlated to our digital entertainment value chain business.

In terms of brand development which is to secure our long-term value in the midstream business and profit margin, our *Dish Home* has recorded substantial growth during the period through expanding our distribution networks. We are investing further to broaden our product range and extend sales channel penetration for our house brand products.

SMT has established itself as a trustworthy brand which distributes quality products and offers professional services for over 28 years. We will continue to build the reputable SMT brand through enhanced brand management strategies, and become the owner of super brands in Nepal, India and MEMA region.

The Board is pleased to recognize our team of talented colleagues for their dedication and hard work. We look forward to the further growth of SMT under their leadership.

**Hung Tsung Chin**
*Chairman*

# Chief Executive Officer Report

## Review of Operations

### Review of operations

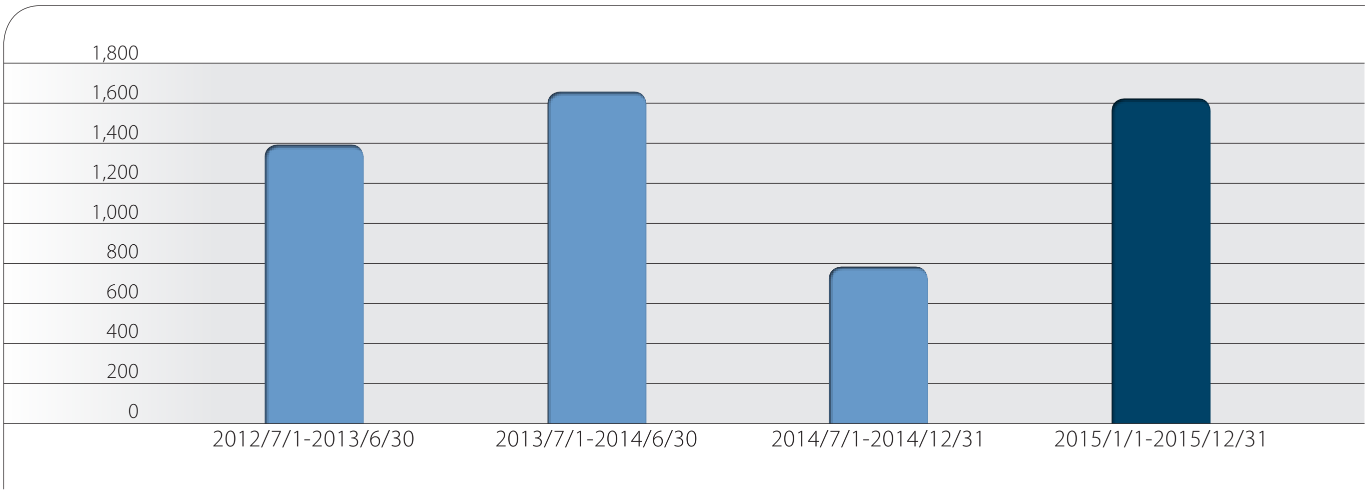
Thanks with our frontline colleagues, the Group amidst achieving a satisfactory results in sales, total revenue of our Group for the year ended December 31, 2015 was amounted to HK$1,627.9 million, for North American market, the revenue for the year ended December 31, 2015 was amounted to HK$953.6 million. However due to sluggish market environment and fierce competition, gross profit margin of the Group decreased to 10.98% from 11.98% for six months ended December 31, 2014.

Therefore we have developed three strategies for our future growth, which are bottom of pyramid strategy, value chain strategy and brand strategy as mentioned by our Chairman in the previous section, and I will elaborate later.

### Group Revenue

| Year/Period | Revenue (HK$ million) |
|---|---|
| 2012/7/1-2013/6/30 (12 months) | 1,399 |
| 2013/7/1-2014/6/30 (12 months) | 1,664 |
| 2014/7/1-2014/12/31 (6 months) | 785 |
| 2015/1/1-2015/12/31 (12 months) | 1,628 |

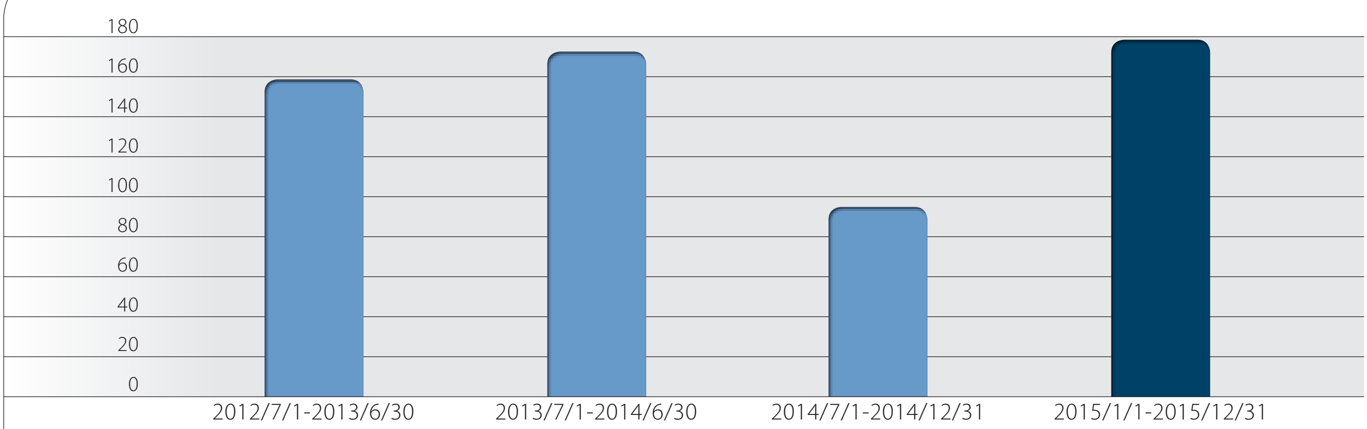
### Group Revenue (HK$ million)



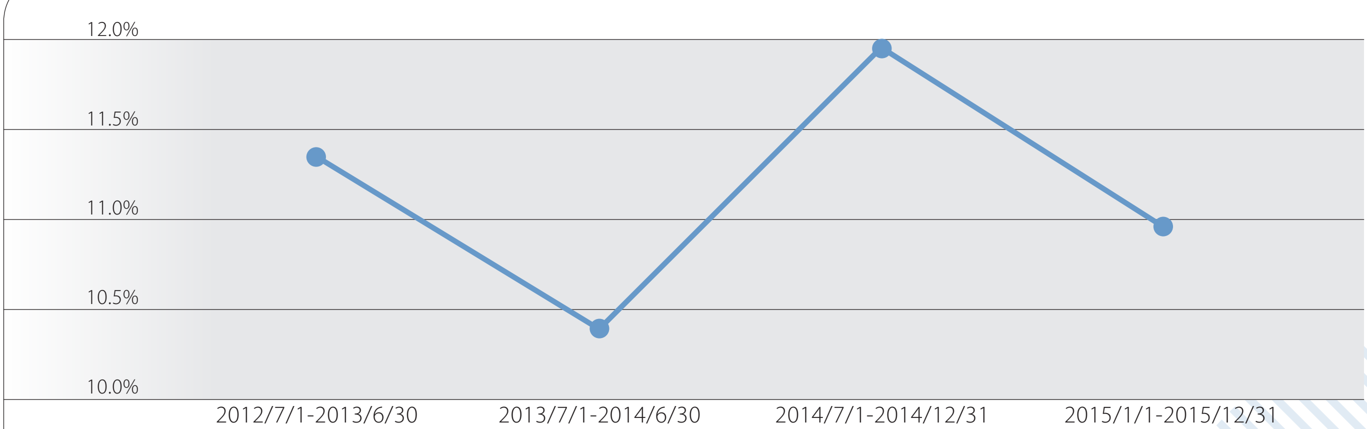
## Group Gross Profit and margin

| Year/Period | Gross Profit (HK$ million) | Gross Profit margin |
|---|---|---|
| 2012/7/1-2013/6/30 (12 months) | 159 | 11.37% |
| 2013/7/1-2014/6/30 (12 months) | 173 | 10.41% |
| 2014/7/1-2014/12/31 (6 months) | 94 | 11.98% |
| 2015/1/1-2015/12/31 (12 months) | 179 | 10.98% |

### Group Gross Profit (HK$ million)




### Gross Profit Margin (%)



# Chief Executive Officer Report

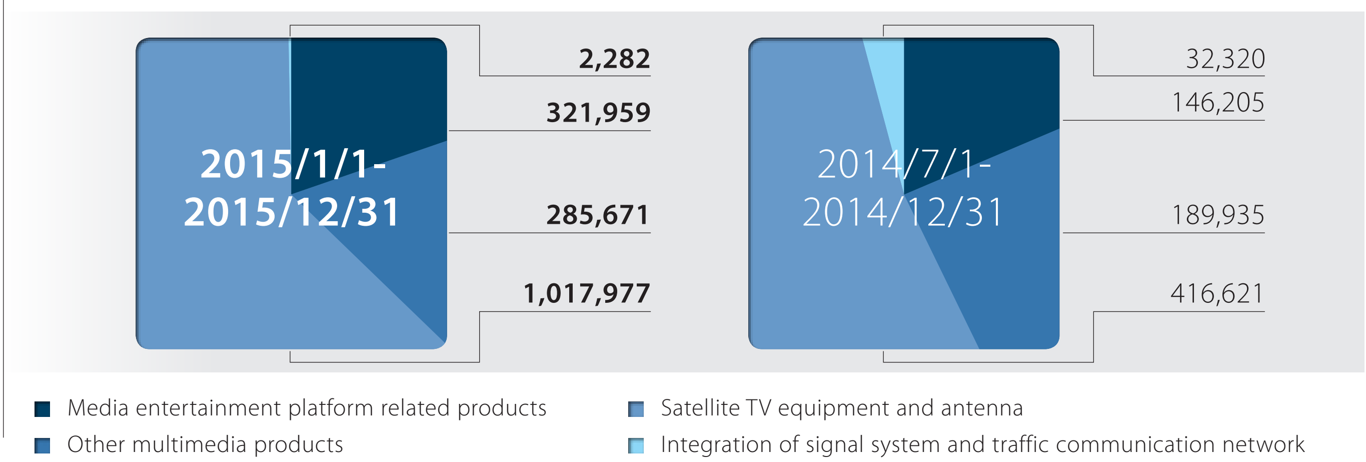
## Segment Results

### Segment

| Segment Revenue (HK$'000) | **2015/1/1 – 2015/12/31 (12 months)** | 2014/7/1 – 2014/12/31 (6 months) |
|---|---|---|
| Media entertainment platform related products | **321,959** | 146,205 |
| Other multimedia products | **285,671** | 189,935 |
| Satellite TV equipment and antenna | **1,017,977** | 416,621 |
| Integration of signal system and traffic communication network | **2,282** | 32,320 |

### Segment Revenue

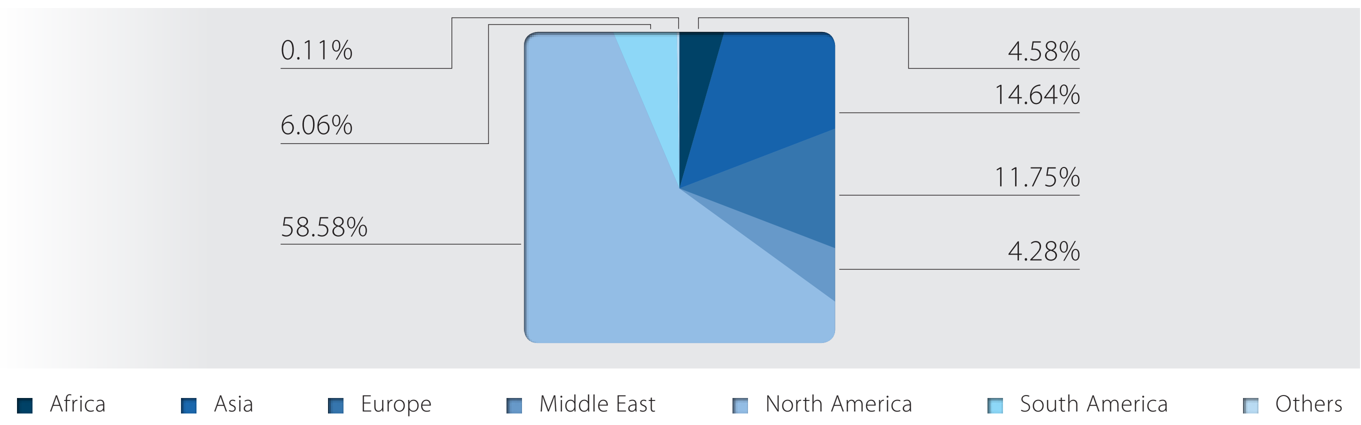
(HK$'000)



## Geographical

| | Revenue (HK$'000) | (%) |
|---|---|---|
| Africa | 74,575 | 4.58% |
| Asia | 238,270 | 14.64% |
| Europe | 191,252 | 11.75% |
| Middle East | 69,755 | 4.28% |
| North America | 953,603 | 58.58% |
| South America | 98,633 | 6.06% |
| Others | 1,801 | 0.11% |

## Revenue – Geographical segment



# Chief Executive Officer Report

## Segment Results


### Sale of media entertainment platform related products

The turnover generated from the sale of media entertainment platform related products for the year ended December 31, 2015 amounted to HK$322.0 million (six months ended December 31, 2014: HK$146.2 million).

The profit generated from the sale of media entertainment platform related products for the year ended December 31, 2015 amounted to HK$13.7 million (loss for the six months ended December 31, 2014: HK$7.1 million).

The reason for such is mainly due to the television digitization for several countries, especially our Television Set-top-box business, now become a popular items.

### Sale of other multimedia products

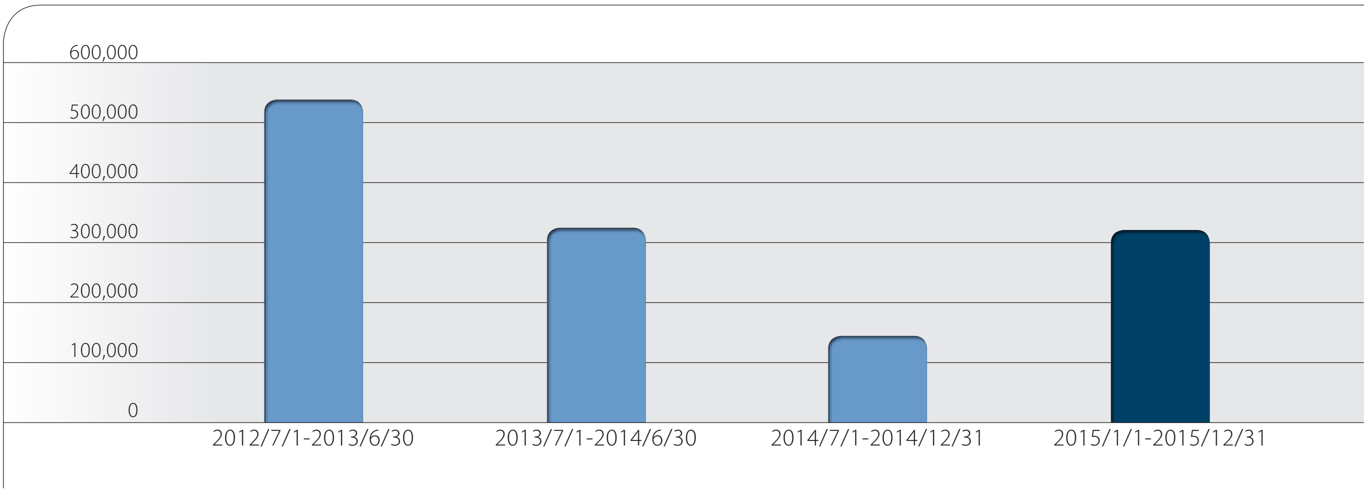
The turnover generated from the sale of other multimedia products for the year ended December 31, 2015 amounted to HK$285.7 million (six months ended December 31, 2014: HK$189.9 million).

The profit generated from the sale of other multimedia products for the year ended December 31, 2015 amounted to HK$29.9 million (profit for the six months ended December 31, 2014: HK$12.0 million).

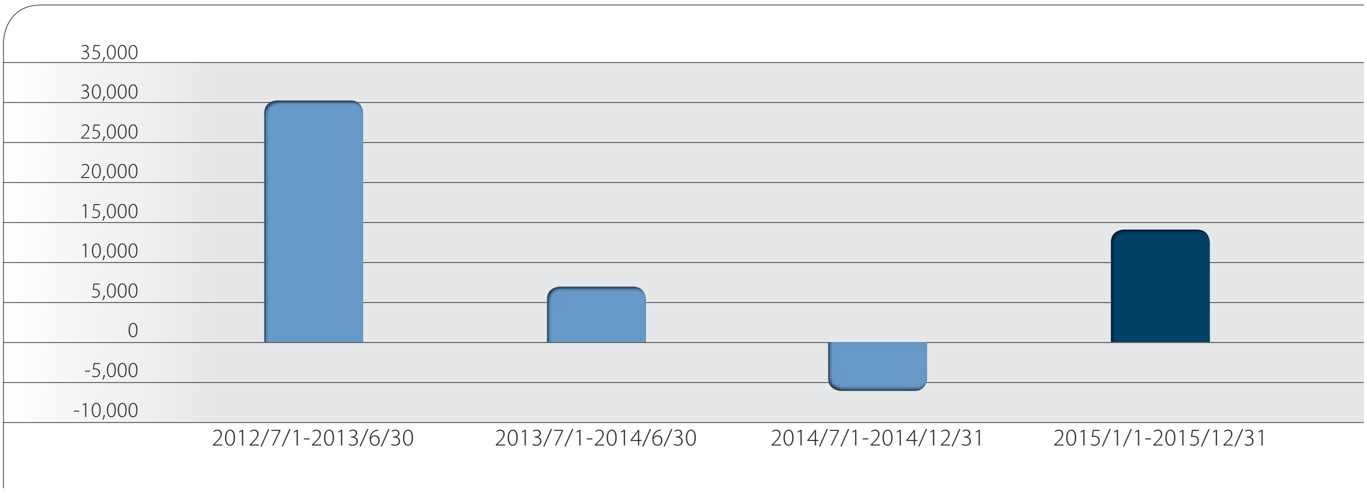
The reason for such is mainly due to the economic recovery of North America, especially our Original Design and Manufacture ("ODM") and Original Equipment Manufacturer ("OEM") business for branded electronic goods.

## Media entertainment platform related products

### Revenue (HK$'000)




### Results (HK$'000)

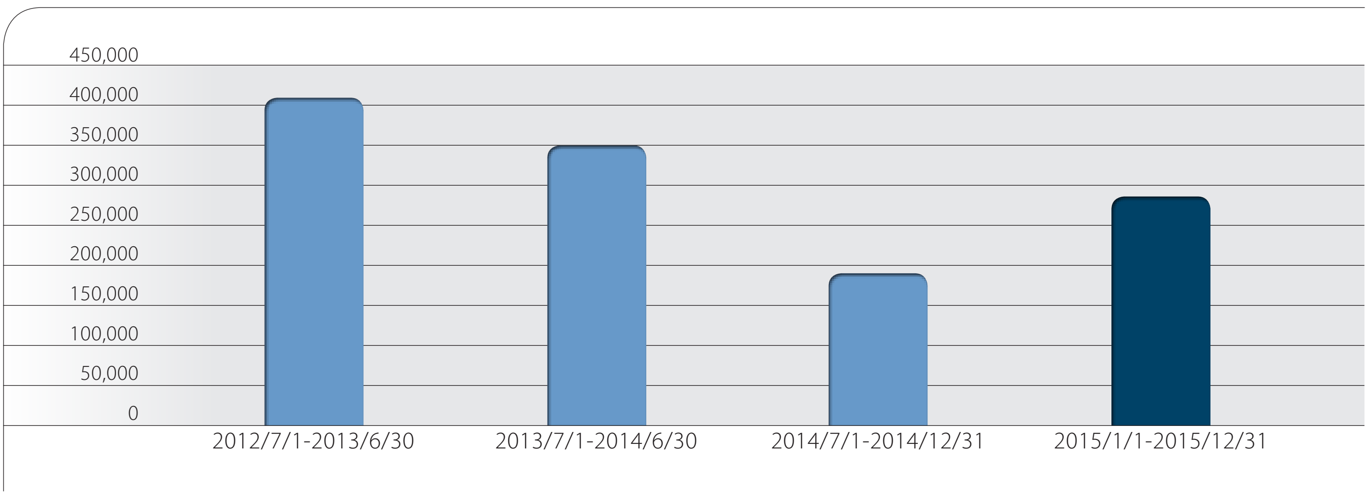


## Chief Executive Officer Report

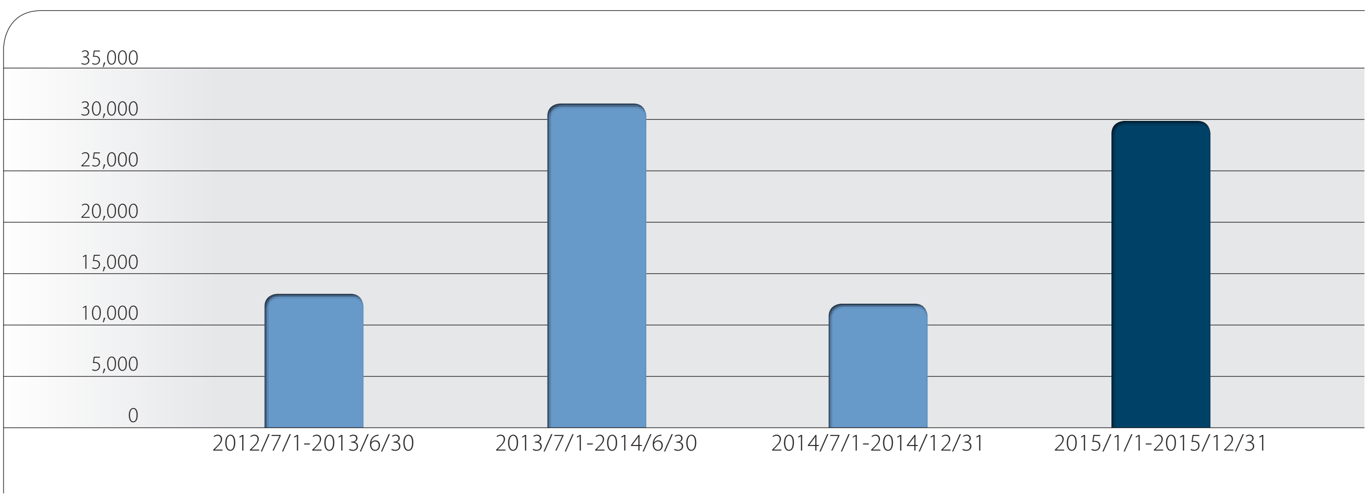
### Segment Results

#### Other multimedia products

**Revenue (HK$'000)**




**Results (HK$'000)**





## Sale of satellite TV equipment and antenna products

The turnover generated from the sale of satellite TV equipment and antenna products for the year ended December 31, 2015 amounted to HK$1,018.0 million (six months ended December 31, 2014: HK$416.6 million).

The profit generated from the sale of satellite TV equipment and antenna products for the year ended December 31, 2015 amounted to HK$39.7 million (profit for the six months ended December 31, 2014: HK$30.2 million).

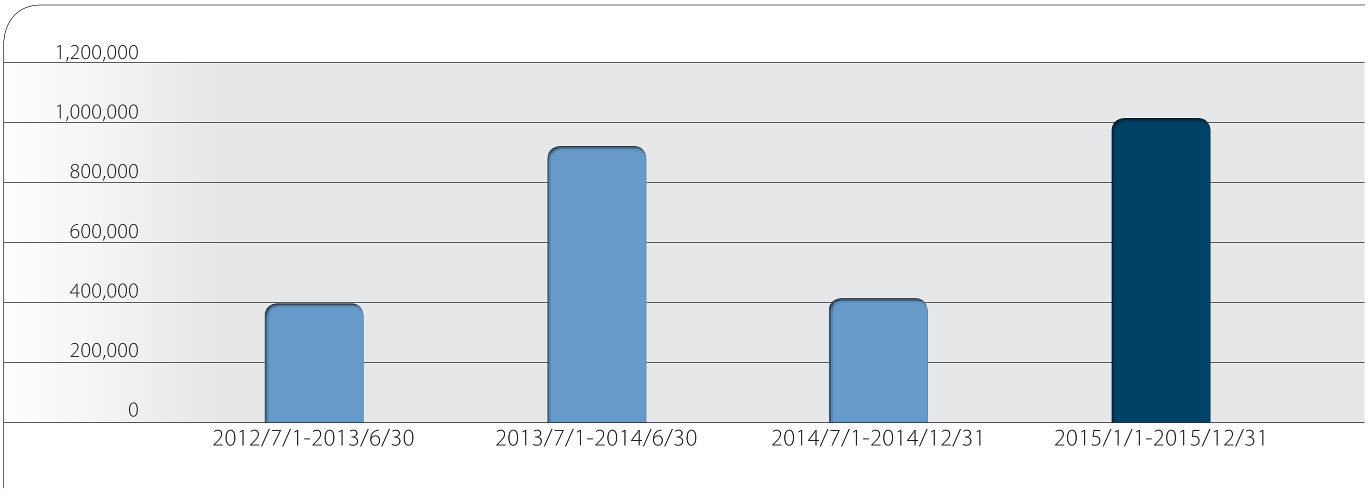
The reason for such is the lower profit margin for our existing products due to fierce competition, however our new product will be launch in 2016 may help the situation.

# Chief Executive Officer Report

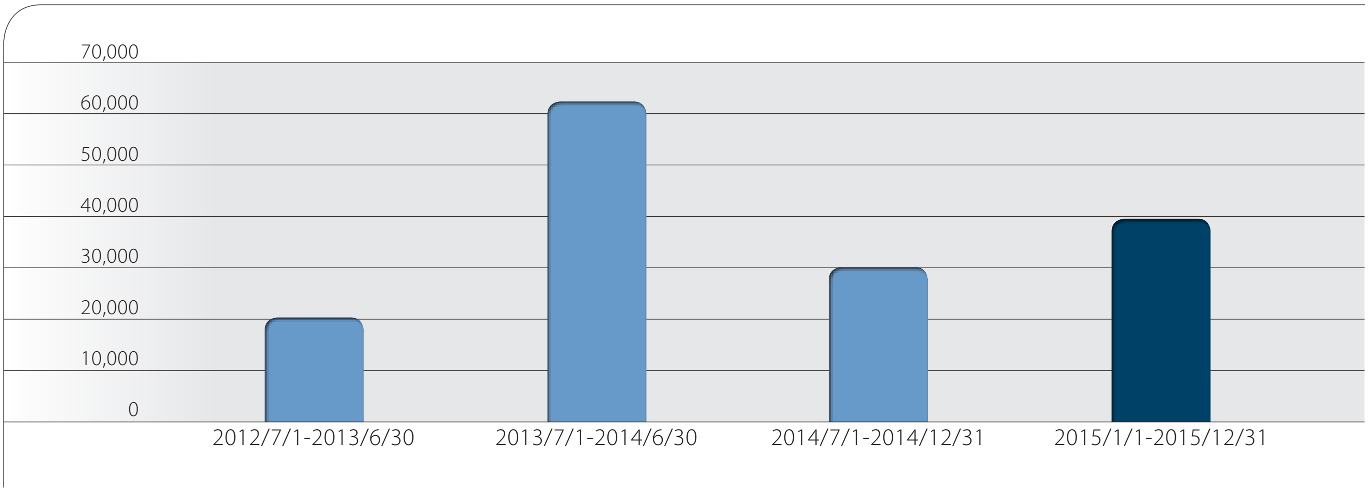
## Segment Results

### Satellite TV equipment and antenna products

#### Revenue (HK$'000)




#### Results (HK$'000)



## Integration of signal system and traffic communication network

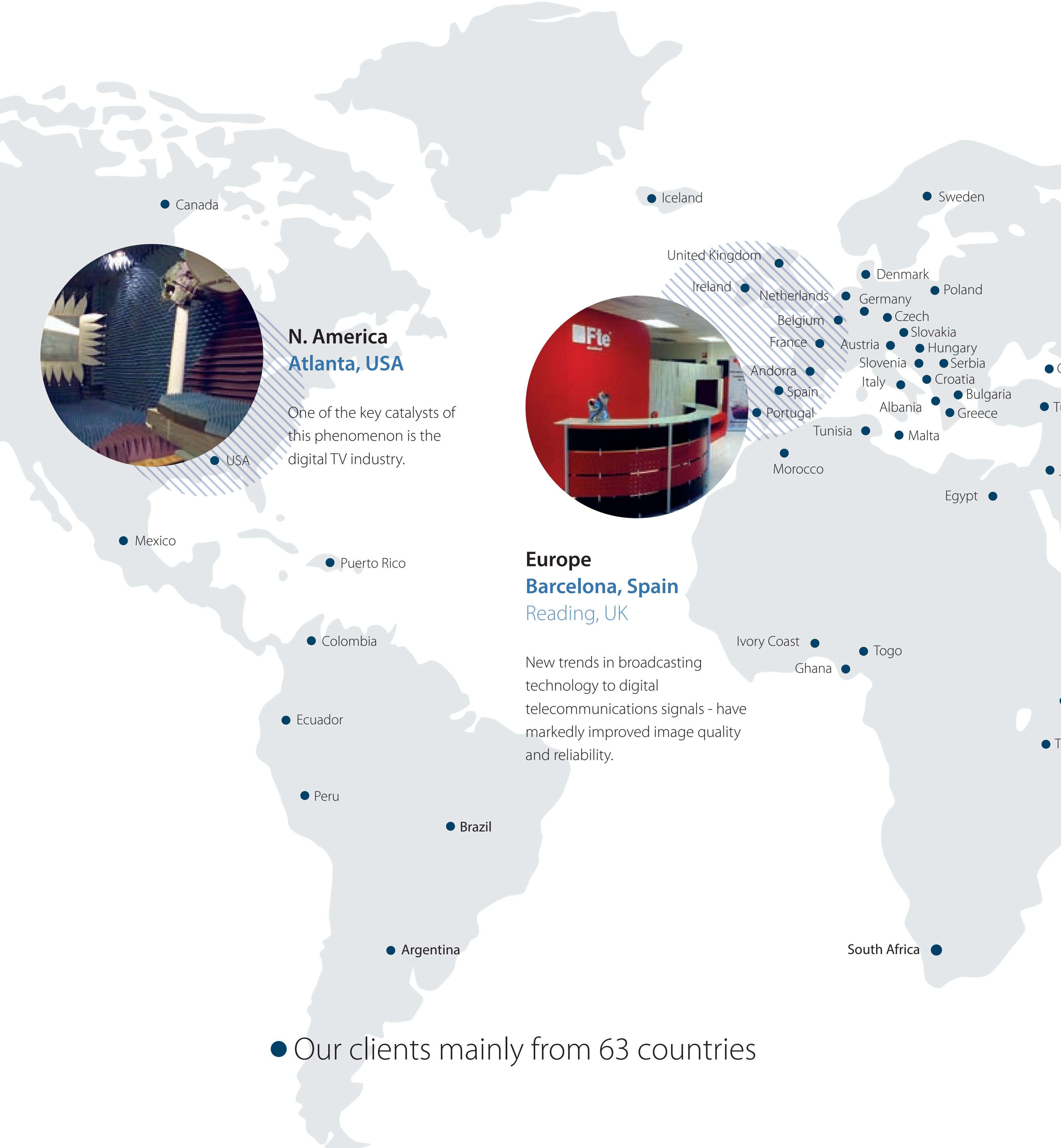
The revenue generated from integration of signal system and traffic communication network for the year ended December 31, 2015 amounted to HK$2.3 million (six months ended December 31, 2014: HK$32.3 million).

The profit generated from integration of signal system and traffic communication network for the year ended December 31, 2015 amounted to HK$126,000 (loss for the six months ended December 31, 2014: HK$63.5 million).

The reason is mainly due to the downsizing of the business segment and the one-off restructuring expenses for the six months ended December 31, 2014.

# Chief Executive Officer Report

## Geographical network – Our worldwide branches




### N. America
**Atlanta, USA**

One of the key catalysts of this phenomenon is the digital TV industry.

### Europe
**Barcelona, Spain**
Reading, UK

New trends in broadcasting technology to digital telecommunications signals - have markedly improved image quality and reliability.

● Our clients mainly from 63 countries

Cyprus
Turkey
Jordan
Kuwait
Bahrain
Qatar
UAE
Oman
Pakistan
Delhi
Nepal
India
Kenya
Tanzania

## Nepal
## Kathmandu

In today's world, the convergence of information and entertainment is very much taken for granted. One of the key catalysts of this phenomenon is the digital TV industry.

Korea
Japan
China
Taiwan
Vietnam
Hong Kong
Malaysia
Singapore

## Asia
## Zhongshan
## Taiwan
## Hong Kong

Increasing number of consumers around the world are flocking to take advantage of digital TV .

Australia

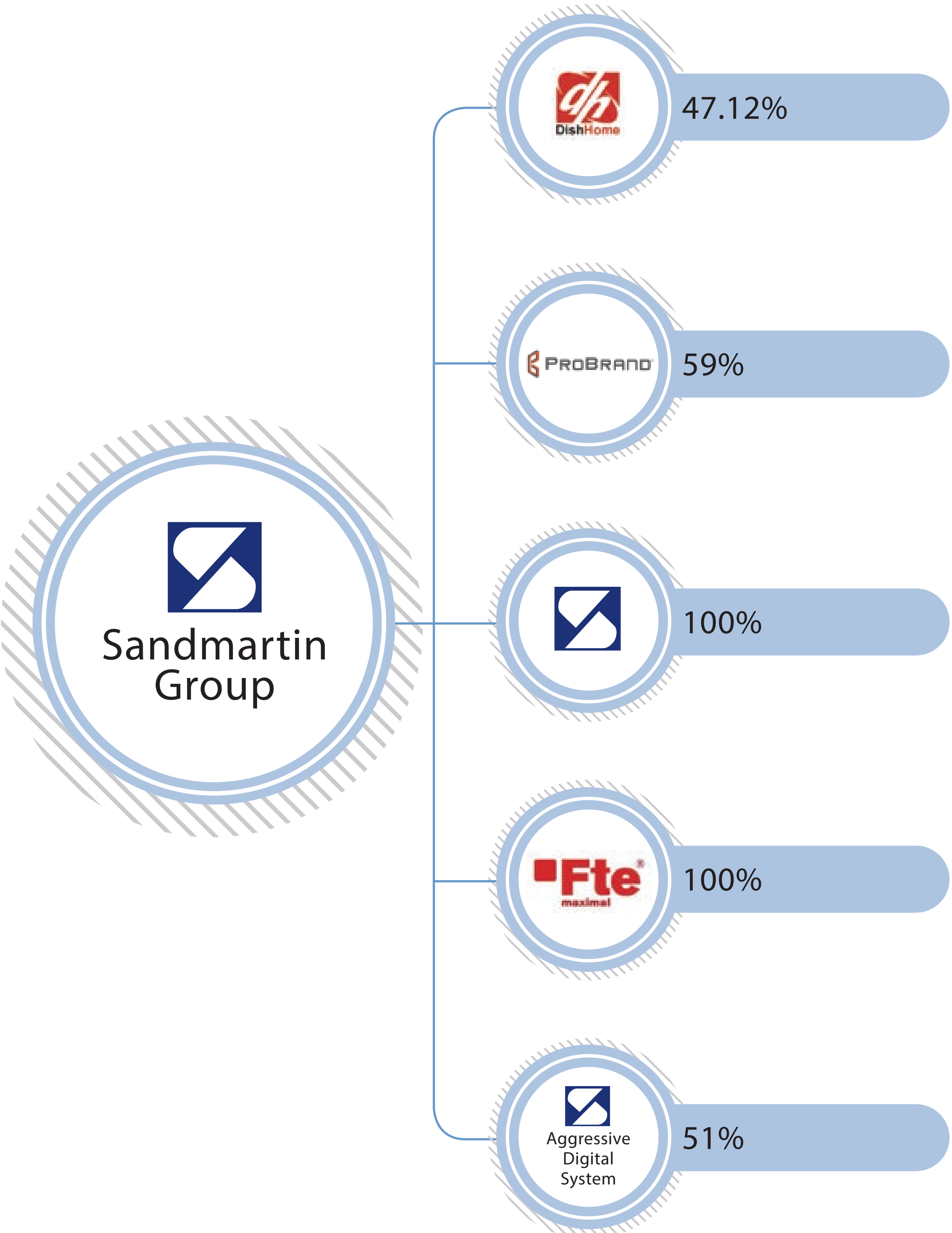
**NEPAL'S BROADCAST FOR DIGITAL TV CHANNELS.**

The company is now active across Nepalese marketplace with operations across all 75 districts.

# Chief Executive Officer Report

## About Sandmartin Business

### Group Chart



# Chief Executive Officer Report

## Our Success Story
## Pro Brand Technology, Inc. (LNB Business)

There are various equipment types for satellite television business, but why we choose LNB as our future star? We have quoted from Wikipedia to show what is LNB and show why we choose LNB is our future star.

*"A low-noise block downconverter (LNB) is the receiving device mounted on satellite dishes used for satellite TV reception, which collects the radio waves from the dish. Also called a low-noise block, low-noise converter (LNC), or even low-noise downconverter (LND), the device is sometimes wrongly called an low-noise amplifier (LNA).*

*The LNB is a combination of low-noise amplifier, frequency mixer, local oscillator and intermediate frequency (IF) amplifier. It receives the microwave signal from the satellite collected by the dish, amplifies it, and downconverts the block of frequencies to a lower block of intermediate frequencies (IF). This downconversion allows the signal to be carried to the indoor satellite TV receiver using relatively cheap coaxial cable; if the signal remained at its original microwave frequency it would require an expensive and impractical waveguide line.*

*The LNB is usually a small box suspended on one or more short booms, or feed arms, in front of the dish reflector, at its focus (although some dish designs have the LNB on or behind the reflector). The microwave signal from the dish is picked up by a feedhorn on the LNB and is fed to a section of waveguide. One or more metal pins, or probes, protrude into the waveguide at right angles to the axis and act as antennas, feeding the signal to a PCB inside the LNB's shielded box for processing. The lower frequency IF output signal emerges from a socket on the box to which the coaxial cable connects.*

*LNBF disassembled (All Parts). The waveguide carrying the microwave radio signal collected by the dish passes through the hole in the center. The pins visible at the top and left side of the hole project into the waveguide and receive the signal, converting it to radio frequency alternating currents which are processed by the circuit board.*

*The LNB gets its power from the receiver or set-top box, using the same coaxial cable that carries signals from the LNB to the receiver. This phantom power travels to the LNB; opposite to the signals from the LNB.*

*A corresponding component, called a block upconverter (BUC), is used at the satellite earth station (uplink) dish to convert the band of television channels to the microwave uplink frequency."*

Compared with TV set-top-box, LNB is an equipment with advanced technology, better profit margin and less fierce competition, besides, we have secured several renowned major payTV operators in the world as our customer, therefore we treat this as our success.

*Source: http://eu.wikipedia.org/wiki/Low-noise_block_downconverter*

# Chief Executive Officer Report

## Our Success Story
## Pro Brand Technology, Inc. (LNB Business)

### The history of Sandmartin in LNB Business

In 2012, the Company entered into a share acquisition agreement with the majority of selling shareholders of Pro Brand International, Inc. ("Pro Brand") and Pro Brand, pursuant to which the Company conditionally agreed to acquire and the majority of selling shareholders of Pro Brand conditionally agreed to sell the entire issued share capital of Pro Brand for a consideration not exceeding US$33.5 million (approximately equivalent to HK$259.6 million).

Pro Brand currently has a product portfolio covering more than 260 items in both antenna and low noise blocks ("LNB") products and it has strong research and development ("R&D") capabilities and in-house facilities in the design and development of advanced satellite and radio frequency ("RF") related equipment as well as next generation new products and solutions for satellite Pay TV system.

Following the acquisition of Pro Brand and integration of its technologies and R&D capabilities, it will strengthen the Group's R&D capabilities and enhance the Group's technological competitiveness to meet customer demands for highend satellite television and RF related equipment.

The long established customer relationships of Pro Brand in North America and Latin America will also strengthen the Group's presence in the North America and Latin America markets with Pro Brand acting as a stronghold for the distribution and marketing of the Group's other media entertainment platform related products and accessories as supplement to existing satellite Pay TV products and equipment. In return, the high-end satellite television and wireless communication products of Pro Brand will enrich the Group's product portfolios and enable the Group to reach potential customer in the rest of the world for high-end satellite television and wireless communication products.

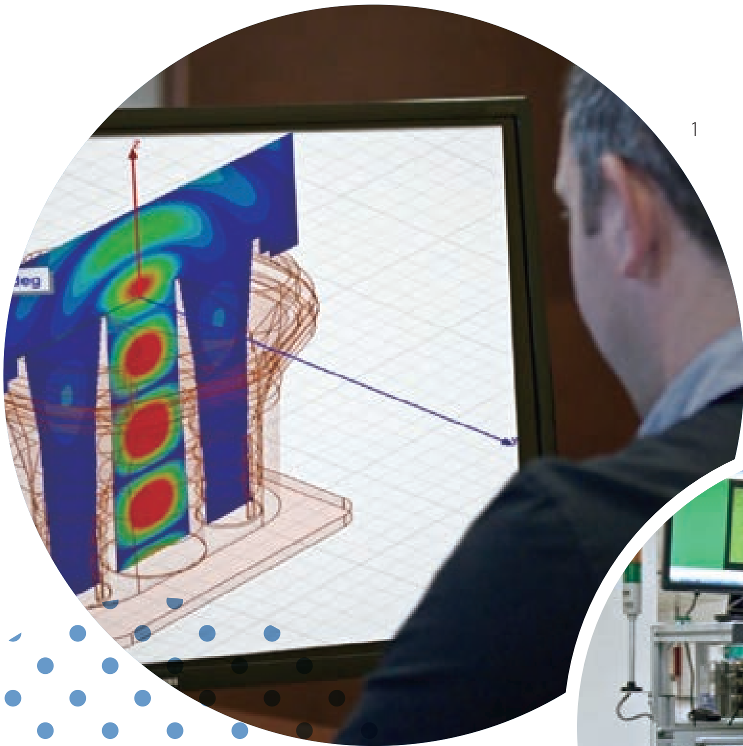
In 2013, the Company entered into the joint venture agreement with Wha Yu Industrial Co., Ltd. ("Whayu"), pursuant to which the Company and Whayu had agreed to establish Pro Brand Technology, Inc., a joint venture company (the "JV Company") as an investment holding company to hold the 100% equity interests of Sksteck Inc. ("SKS") and Pro Brand International, Inc. ("PBI"), the wholly-owned subsidiaries of Whayu and the Company respectively.

After the establishment of the JV Company, each of the Company and Whayu subscribed for shares in the JV Company (the "Subscription") by the injection of their respective 100% equity interest in PBI and SKS. Upon the completion of the Subscription, the Company holds 59.1% equity interest of the JV Company, and the JV Company is a non-wholly owned subsidiary of the Company; and PBI and SKS are wholly owned subsidiaries of the JV Company and indirect non-wholly owned subsidiaries of the Company. PBI continues to be accounted for as a subsidiary of the Company.

The consideration for the Company to obtain the majority shareholding of the JV Company is by the injection of PBI into the JV Company. The consideration of PBI is determined by the net asset value of PBI as at October 31, 2013 plus a premium of NT$300 million (approximately HK$79.2 million), with reference to the premium of US$11 million for the acquisition of PBI by the Company in March 2013.

The formation of JV Company is a strategic alliance between Whayu and the Company. With the efficient production facilities of SKS in the PRC and the long established distribution channels and customers' base of PBI in North America and Latin America, the formation of the JV Company will build up an efficient supply chain that covers the design, manufacture and distribution of low noise blocks ("LNB") products and other equipment to meet different customer demands for high-end satellite television and LNB products.

1



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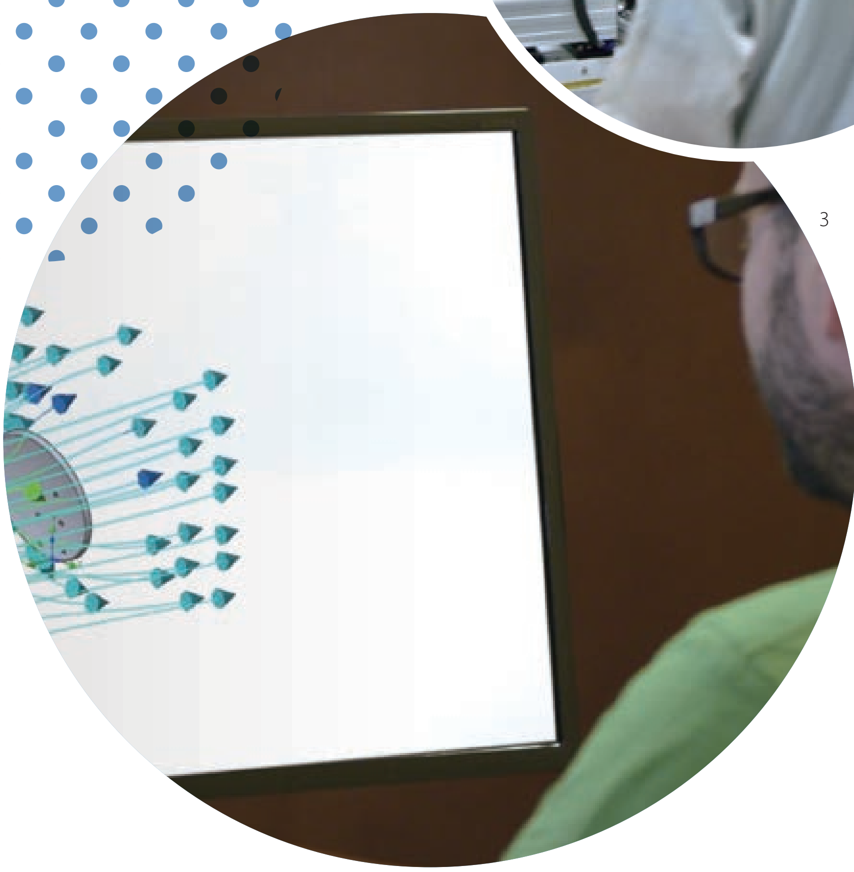

1 Our LNB Research Center in UK
2 Our LNB Manufacturing Plant in China
3 Our LNB Research Center in USA

## Chief Executive Officer Report

### Our Success Story
### Pro Brand Technology, Inc. (LNB Business)

5

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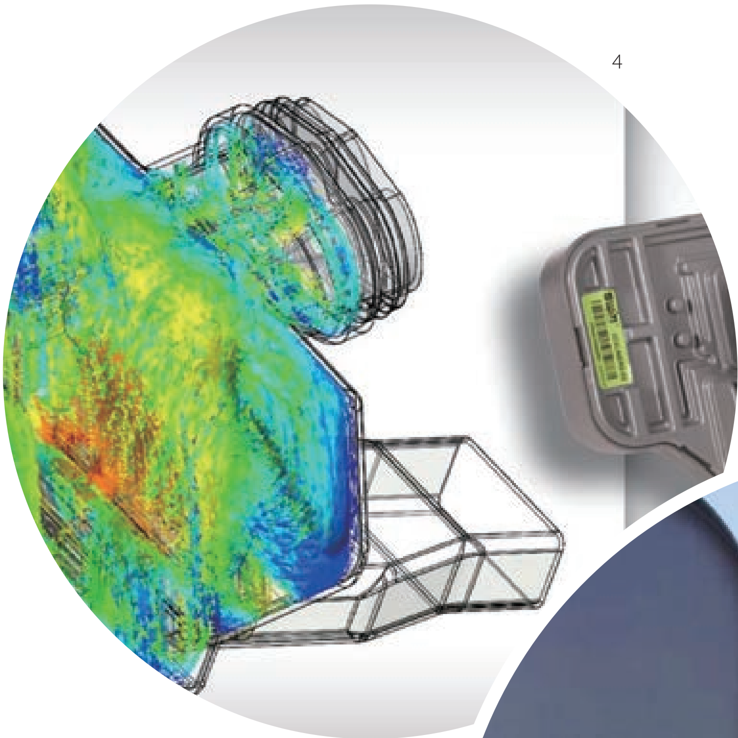


6

4 Our Product Testing
5 UV Test
6 Wind Machine Test


7

7 LNB Surface Accuracy Measurement
8 Salt Spray Test

8

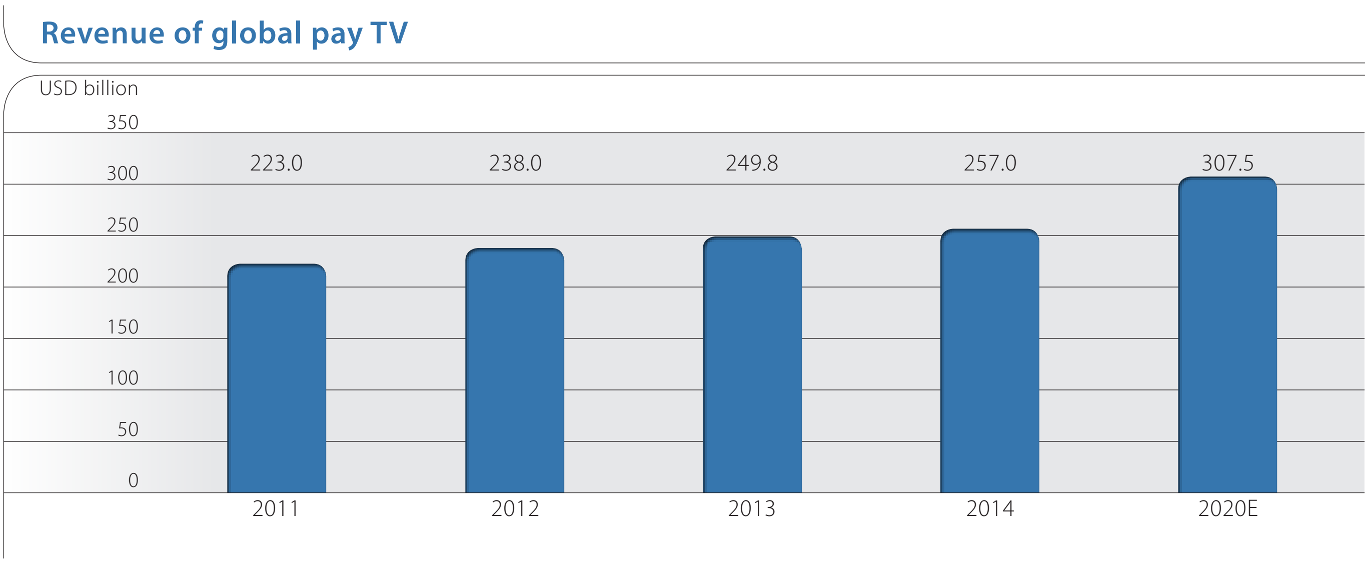
# Chief Executive Officer Report

## Our Success Story
## DishHome Operations (payTV Business)

Why we choose payTV business as our new business direction in 2011? We shall discuss about the payTV business market outlook in the following paragraphs.

### Market outlook of the pay TV industry

Set out below is the revenue of the global pay TV market and the total number of global pay TV subscribers:

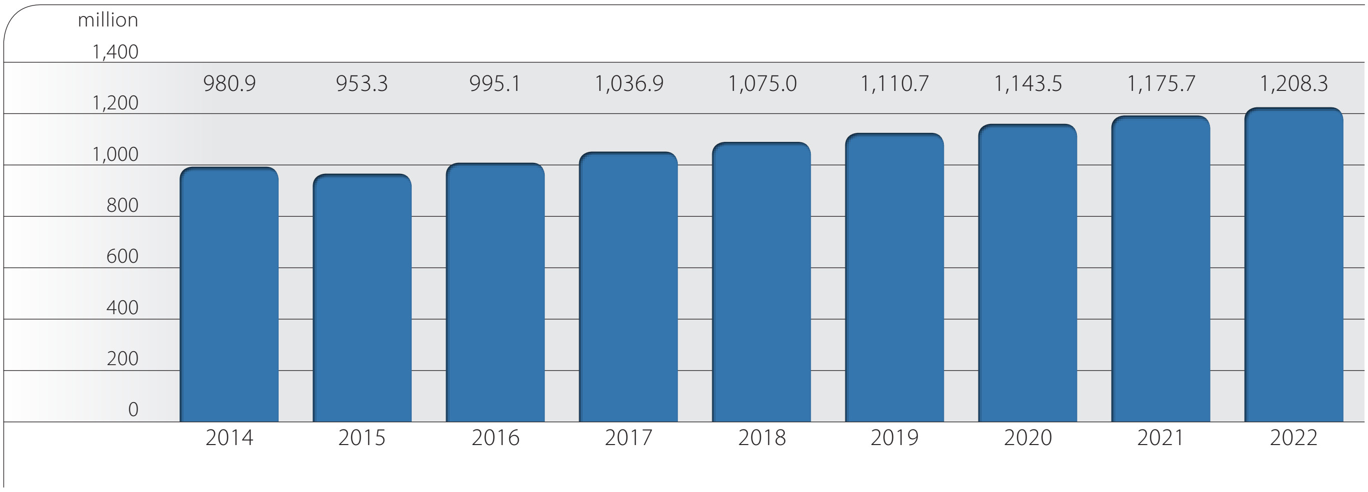



*Source: http://www.statista.com/statistics/251543/global-pay-tv-revenue/category*

*Note: The revenue of the global pay TV market for 2020 is estimated.*

As stated in the chart above, the revenue of the global pay TV market increased from approximately USD223.0 billion in 2011 to approximately USD257.0 billion in 2014, representing a compounded annual growth rate ("CAGR") of approximately 4.84%. The revenue of global pay TV for 2020 is estimated at approximately USD307.5 billion.

## Total number of global TV subscribers




*Source: SNL Kagan*

*Note: The total numbers of global pay TV subscribers for 2014 to 2022 are estimated.*

As stated in the chart above, the total numbers of global pay TV subscribers is projected to grow from approximately 980.9 million in 2014 to approximately 1.21 billion by 2022, representing a CAGR of approximately 2.66%.

The above information is for Global payTV market, however, for South Asia market (including India and Nepal), the growth is better when compared with the Global market, in the following paragraphs we shall choose 3 major payTV operators (Hathway Cable & Datacom Limited, Videocond2h and DishTV) in India to demonstrate the growth in South Asia market

Based on the data above, it demonstrated the potential growth of global pay TV market, especially in South Asia and Middle East and North Africa ("MENA") markets which will provide a stimulating factor for the Group's current and future television satellite related and broadcasting businesses.

To illustrate the growth of South Asia payTV market, we shall use financial performance of Hathway Cable & Datacom Limited, Video2h and DishTV (major payTV operators in India) as examples.

# Chief Executive Officer Report

## Our Success Story
## DishHome Operations (payTV Business)

Hathway Cable & Datacom Limited

| | Revenue (Indian Rupees million) | Growth Rate (YoY) |
|---|---|---|
| 2011 | 88,269 | |
| 2012 | 101,212 | 14.66% |
| 2013 | 113,252 | 11.90% |
| 2014 | 158,325 | 39.80% |
| 2015 | 183,160 | 15.69% |
| Average | | 20.51% |

*Source: http://www.hathway.com/assets/pdf/Annual%20Report/Annual%20Report-2014-15.pdf*

Videocon d2h

| | Revenue (Indian Rupees million) | Growth Rate (YoY) |
|---|---|---|
| 2013 | 11,295.47 | |
| 2014 | 17,644.10 | 56.21% |
| 2015 | 23,377.08 | 32.49% |
| Average | | 44.35% |

*Source: http://www.snl.com/Cache/30458832.pdf*

DishTV

| | Revenue (Indian Rupees million) | Growth Rate (YoY) |
|---|---|---|
| 2014 | 25,750 | |
| 2015 | 28,363 | 10.15% |
| Average | | 10.15% |

*Source: http://www.dishtv.in/App_Documents/Reports/Annual%20Report%202014-15.pdf*

From the above data, we see that the growth in South Asia payTV market is huge, however, why we choose Nepal as our stepping stone? The following chart will demonstrate the difference between India and Nepal.

| | India | Nepal | Global |
|---|---|---|---|
| Population growth rate (2011-2015) | 1.20% | 1.20% | 1.10% |
| Religion & Culture (Hindu) | 79.80% | 81.00% | |
| GDP growth (2011-2015) | 7.30% | 5.40% | 3.00% |
| TV penetration rate | 64.00% | 30.66% | 89.00% |

*Source:*
*https://en.wikipedia.org/wiki/India*
*https://en.wikipedia.org/wiki/Nepal*
*https://data.worldbank.org/indicator/SP.POP.GROW*
*https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG/countries*
*https://en.wikipedia.org/wiki/Television_In_India*
*https://unstats.un.org/unsd/demographic/sources/census/2010_phc/Nepal/Nepal-Census-2011-Vol1.pdf*

From the above chart, we understand India and Nepal have a very similar culture, population growth rate, GDP growth, and two advantages of Nepal are the area of Nepal is very small but hilly, that is suitable for satellite TV business, besides TV penetration rate is still very low when compared with India, therefore the market potential is huge.

## How Sandmartin perform in payTV platform business

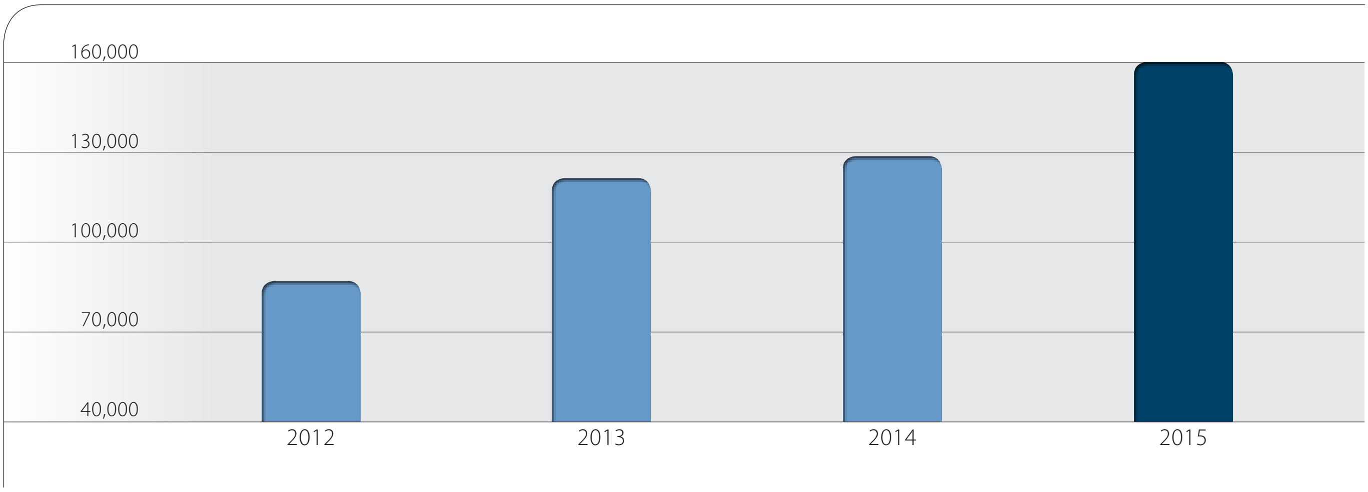
As our stepping stone of payTV operator business, we have delegated our effort for over 4 years, Dish Media Network Pvt. Ltd. ("DishHome") of Nepal now become a well-known brand as well as the only Direct-to-Home satellite television service provider in Nepal, with over 600,000 subscribers, the number of new subscribers is 160,000 from January to December 2015, with strong revenue growth compared with Global market as well as the percentage growth in Average Revenue Per Unit ("ARPU").

Year 2015 is a milestone of DishHome because DishHome become one of the Top 50 pay TV operators in the world.

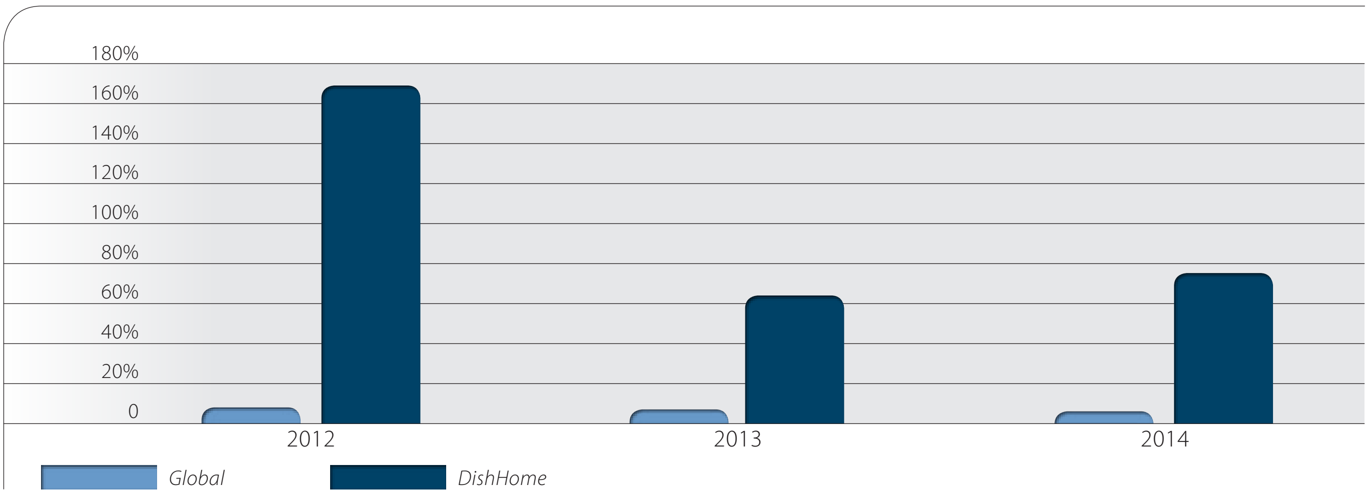
## Chief Executive Officer Report

### Our Success Story
### DishHome Operations (payTV Business)

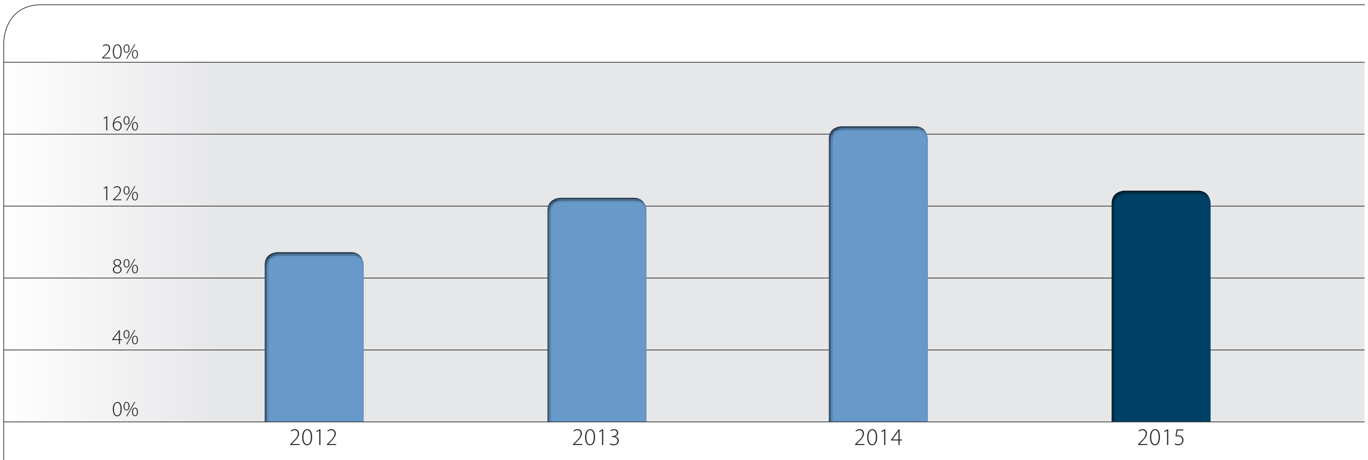
#### No. of Subscriber increase for DishHome



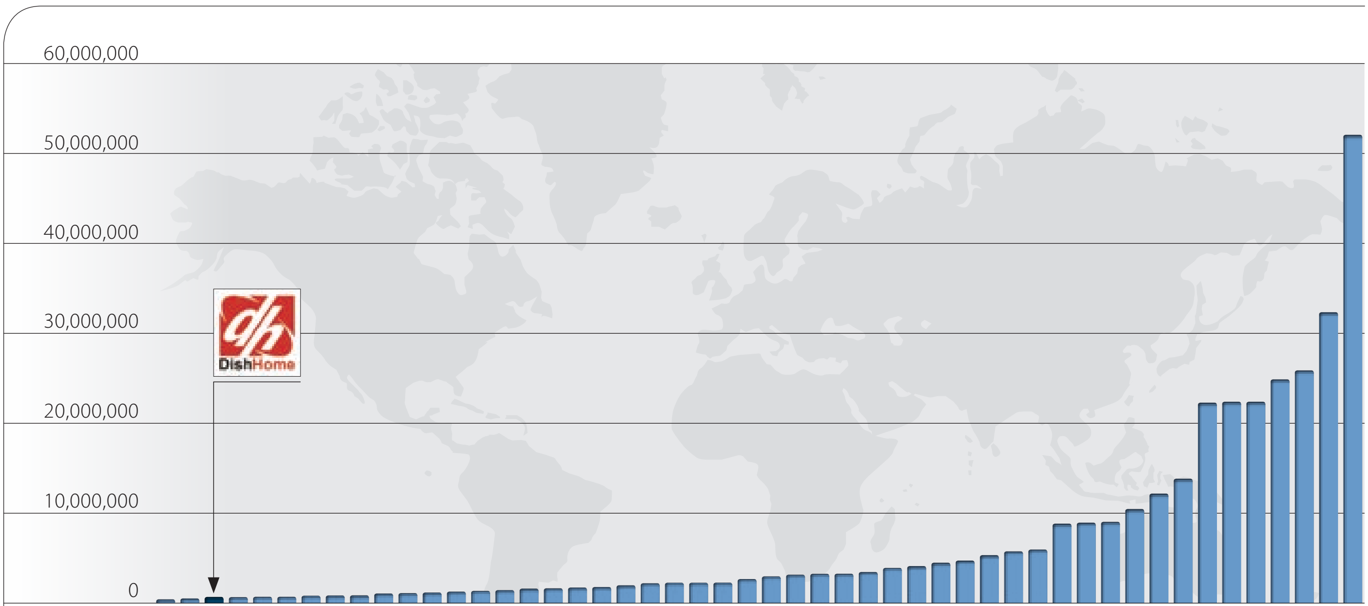

#### PayTV Revenue Growth: Global vs DishHome (2012-2014)



## Percentage Growth in Average Revenue Per Unit (ARPU)




## Number of Subscribers for Top 50 payTV operators




*In 2015, Dish Home become one of the Top 50 payTV operators in the world*

# Chief Executive Officer Report

## Our Success Story
## DishHome Operations (payTV Business)

In 2015, DishHome launched several marketing campaign:

① launch of Star sports HD1 and HD 2 campaign.

② ICC WorldCup Campaign – Mr Paras Khadkha, captain of National Cricket Team was enrolled as brand ambassador for the campaign.

③ HD Campaign "Source Matters" – This campaign is also designed to appeal urban customers with high end television and give them a message that television itself is nothing without high quality service.

④ Regional Dish Home Centers – Five new Dish Home centers have been set up in different cities during the year 2015. Charikot, Dang, Butwol, Janakpur, and Lahan service centers are operational in this year and Mahendranagar and Baglung service centers are under construction.

# Chief Executive Officer Report

## Future Prospects

### LNB Business

Pro Brand principally offers LNB, antennas and two-way broadband antennas. It is a major supplier of the largest satellite television operator in North America, and has recently obtained certification from advanced digital satellite communication and other broadcasting and signal processing equipment manufacturers, leading American telecommunication operators and leading 4G Long Term Evolution (LTE) mobile communication device manufacturers. It has already established footholds in the mainstream two-way broadband and 4G LTE markets. Pro Brand is also one of the major suppliers of satellite receiving products in the United States and Latin America.

Two-way broadband launch – To cope with the rising demand for network bandwidth and mobile data services, satellite communication, particularly two-way satellite communication, has become the most cost-efficient broadband solution owing to its ability to meet the needs for data uploading and downloading at the same time. For instance, the number of its users in the United States has reached 1 million households while the number of potential users in this market is estimated to be approximately 40 million households. Players within the industry believe that the two-way broadband antenna market will sustain constant growth at an annual rate of 5-10% in the next few years.

4G Long Term Evolution – The global sales volume of smartphones has grown from 490 million units in 2011 to the record-breaking 700 million units in 2012. It is expected that by 2016, there will be over 3.5 billion mobile broadband users around the globe. Being the mainstream and leading next-generation mobile broadband solution, 4G LTE has been adopted by many key telecommunication operators in the world. As at the date hereof, telecommunication operators in, among others, the United States, Hong Kong, Japan and Korea have acquired a total of 145 LTE commercial networks, representing an increase of 97 networks as compared with 2012. The current number of 4G LTE users around the world has reached nearly 60 million, showing a resilient growth.

With a leading global satellite equipment manufacturer and distribution channels to the Middle East and North African markets on hand, the Group aims at capitalizing on the 30-year strength of Pro Brand in terms of research and development of microwave and satellite communication technologies and customer base in order to seize the enormous market opportunities brought by the global demand for next-generation 4G and satellite communication technologies.

### Pay television system platform in Nepal and MENA

Dish Media Network Private Limited ("DMN") is the only satellite television operator in Nepal. In 2011, the Group invested in DMN and turned from a hardware manufacturer into a platform owner. After over two years of active market planning and expansion, the pay television system platform in Nepal has turned the corner. The number of subscribers has risen to 600,000 from approximate 40,000 at the start of the Group's investment in March 2011. The Group expects the number of its subscribers will be increased in 2016 so as to broaden its pay television monthly subscription income in the future.

In the past four years, the Group has successfully completed the development and market launch of certain products. It is expected that in tandem with the digitalization and investments in the production and encryption of high-definition programs by producers in the Middle East and North African markets, a DTH subscription fever will sweep through these regions one by one. The fever will also boost the demand for middle-and-high-end products and turn the local entertainment focus from free television services to Pay TV systems.

Leveraging on the vertical integration and diversification of its core business, coupled with the continual efforts of the Group in recruiting able research and development talents from around the world and that of its frontline marketing teams in exploring business opportunities, the Group has already jump-started its integration and is actively planning for and moving forward to a new phase of business development.

# Financial Review

## Introduction

The Group's 2015 Annual Report includes the Chairman's letter to shareholders, the financial statements and other information required by accounting standards, legislation, and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. This Financial Review is designed to assist the reader in understanding the Group's financial information by discussing the contribution of each business segment and the financial position of the Group as a whole.

## Turnover

Turnover for the year ended 31 December 2015 was HK$1,627.9 million, compared with HK$785.1 million for the six months ended 31 December 2014.

## Loss Attributable to Shareholders

Loss attributable to shareholders of the Company was HK$103.2 million, compared with HK$264.5 million for six months ended 31 December 2014. The performance was mainly affected by the decrease of one-off restructuring cost for the Group. On the other hand, the business in North America market achieved encouraging growth with the strong sales growth of satellite TV products.

## Loss Per Share

Calculation of basic loss per share for the year ended 31 December 2015 was based on the loss attributable to shareholders of the Company and the weighted average number of 951,475,865 (six months ended 31 December 2014: 832,228,862) ordinary shares in issue during the year. Basic loss per share was 10.8 HK cents for 2015, as compared with 31.8 HK cents for six months ended 31 December 2014.

## Final Dividend

The Directors do not recommend the payment of a final dividend (six months ended December 31, 2014: Nil) for the year ended December 31, 2015.

## Finance Costs

The Group's finance costs was HK$9,436,000 (six months ended 31 December 2014: HK$4,893,000) mainly due to increase in bank borrowings.

## Income Tax

Income tax is HK$10,976,000 (six months ended 31 December 2014: HK$14,191,000).

## Net Asset Value Per Share

Calculation of net asset value per share was based on the net asset value of the Group of HK$381.7 million (31 December 2014: HK$412.3 million) and the 1,045,862,134 ordinary shares issued at 31 December 2015 (31 December 2014: 832,228,862 ordinary shares). Net asset value per share at 31 December 2015 was HK$0.36 (31 December 2014: HK$0.50).

# Financial Review

## Treasury Policy

The Group remains committed to a high degree of financial control, a prudent risk management and the best utilisation of financial resources.

Due to market limitation and regulatory constraints, operating entities outside Hong Kong are responsible for their own cash management and risk management which are closely monitored by head office. Financing activities outside Hong Kong are reviewed and approved by head office before execution.

## Group Debt and Liquidity

The Group closely monitors its net gearing ratio to optimise its capital structure so as to ensure solvency and the Group's ability to continue as a going concern.

At 31 December 2015, the Group's gearing ratio was 28.3%, compared to 22.9% at 31 December 2014.

## Capital Structure

During the year 2015, and up to the date of this report, the Company has conducted certain fund raising activities by which the Company raised a total of approximately HK$60.1 million. Details of such fund raising activities are as follows:

| Date of announcement of the Company | Fund raising activities | Net proceeds | Intended use of proceeds as announced | Actual use of proceeds |
|---|---|---|---|---|
| 22 April 2015 | Placing of 166,445,772 ordinary shares with nominal value of HK$0.10 each to six placees at the placing price of HK$0.28 each under general mandate | Approximately HK$45.8 million | HK$45.8 million for general working capital of the Group | The Company has fully utilised the net proceeds of HK$45.8 million in the following manner: (1) approximately HK$44 million for repayment of bank loans and other borrowings; and (2) approximately HK$1.8 million for the Group's general working capital |
| 24 July 2015 and 13 August 2015 | Placing of HK$15,100,000 convertible bonds with the conversion price of HK$0.32 each per ordinary share to not less than 6 placees under general mandate | Approximately HK$14.3 million | HK$14.3 million for (1) the funding of the Group's (a) capital expenditure requirements; (b) general corporate purposes; and (c) future expansions; and (2) repayment of the Group's existing debts | The Company has fully utilised the net proceeds of HK$14.3 million for repayment of bank loans |

| Date of announcement of the Company | Fund raising activities | Net proceeds | Intended use of proceeds as announced | Actual use of proceeds |
|---|---|---|---|---|
| 31 December 2015 and 13 January 2016 | Placing of 104,500,000 ordinary shares with nominal value of HK$0.10 each to six placees at the placing price of HK$0.50 each under general mandate | Approximately HK$51.25 million | HK$51.25 million for the funding of the Group's (1) general working capital; and (2) future business expansions | The Company has fully utilised the net proceeds of HK$51.25 million in the following manner: (1) approximately HK$4.19 million for general working capital; (2) approximately HK$11.91 million for repayment of bank loans; and (3) approximately HK$29.95 million for expansion of satellite television service provider business; and (4) approximately HK$5.2 million for expansion of future business operations, including (a) approximately HK$4.68 million for working capital and capital expenditure for the Group's media entertainment products production plant in India ("India Production Plant"); and (b) HK$520,000 for legal and professional fees |
| 4 January 2016 and 21 January 2016 | Subscription of 48,000,000 ordinary shares with nominal value of HK$0.10 each by Mr. Fung Chuen at the subscription price of HK$0.50 each under general mandate | Approximately HK$23.8 million | HK$23.8 million for funding the Group's (1) general working capital, and (2) future business expansions | The Company has fully utilised the net proceeds of HK$23.8 million in the following manner: (i) approximately HK$10.1 million for general working capital; (2) approximately HK$3.7 million for repayment of bank loans; and (3) approximately HK$10.0 million for the expansion of future business operations, including (a) approximately HK$9.36 million for working capital and capital expenditure for the India Production Plant; and (b) approximately HK$640,000 for legal and professional fees. |

# Risk Management

In accordance with the Group's development strategy, the Group has established a risk management system covering all the business segments to monitor, assess and manage various risks in the Group's business activities.

The risk management system of the Group is established in line with the global standard and comprises the "Three Lines of Defence" including the management of each business unit, the risk management function of the Group and the internal audit function.

The Board has identified the top risks of the Group which are summarised in a Risk Appetite Statement and determined how much risk the Board is willing to take to achieve the Group's strategic objectives. The Group has also prepared a Risk Management Policy based on the above risk appetite and conduct regular review of operational and financial risks as reported by each business unit. Each business unit is required to identify risks on a day-to-day basis, to update the Risk Register for any major issues and to report any major risk to the Group.

Based on the risk profile of each business unit, and take into account the management control and corporate oversight at Group's level, the Audit Committee and Internal Audit would map out a risk-based internal audit plan each year.

## Financial Risk

### (1) Currency risk

For bank borrowings, functional currency of each operating entity is generally matched with its liabilities. Given this, management does not expect any significant foreign currency risk associated with the Group's borrowings.

### (2) Counterparty risk

The Group's counterparty risk in treasury primarily related to the deposits placed with banks.

The Group has set up limits for banks in order to ensure the Group to deal with appropriate counterparties which their ability has been evaluated and concentration risk is addressed.

The limits should be correlated to the bank's credit rating, loan limit granted to the Group and business relationship.

## Operational Risk

### (1) Credit Risk

The Group mainly confronted with credit risk resulting from trade debtors that arising from sale of goods and rendering of services to customers. Due to the Group's diversified business nature, the Group maintained relatively low customer concentration risk.

The Group and relevant subsidiaries established credit policies and procedures to analyse and identify the credit risks, set appropriate credit limits and controls, monitor the risks on timely basis by means of reliable management information systems. The Group performs regular updates to enhance the credit policies in order to cope with the changes in markets, products and practice of credit risk management.

Individual credit assessments are performed on customers to determine the applicable credit limits and terms. Regular review on credit limits and terms are performed in order to ensure those are comparable to the credit standing of customers and the latest business environments.

# Environmental, Social and Governance Report

## Human resources

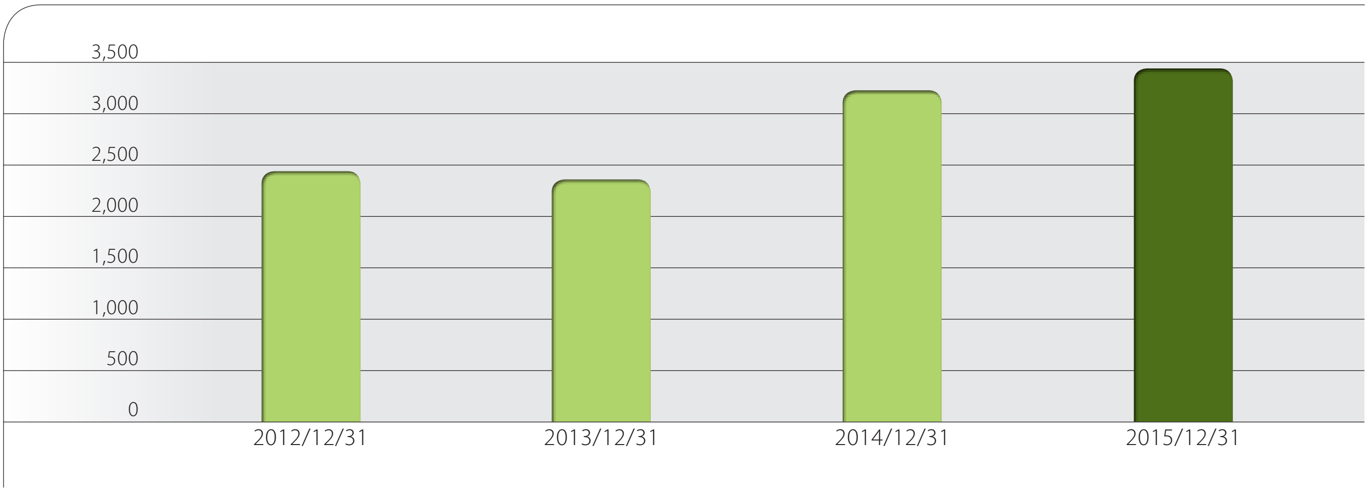
As at December 31, 2015, SMT employed a total of 3,446 (December 31, 2014: 3,230) full-time employees. Employees are remunerated accordingly to their performance and responsibilities.

SMT offers competitive compensation and benefits to attract and retain talents, for which annual review held in June for each year is conducted to maintain their market competitiveness, as well as to motivate employees to attain company goals and objectives.

Employee wellness also contributes to employee engagement. SMT continues our efforts in organizing various social, recreational activities for our colleagues and their family members, including corporate incentive tour to enrich their work and family lives.

SMT is also committed to employee safety and health. Regular safety reviews are performed in accordance with the statutory and industry requirements.

### No. of Full-time Employees




## Community services

As a responsible corporate citizen, SMT has been dedicating its resources in contributing to the community where our business has presence in. In 2015, apart from the usual philanthropic donations to non-governmental organizations such as Orbis and Medecins San Frontieres, we also strived to leverage our business resources to support various charity programs.

### Community Support

In Nepal, after the earthquake incident in April 2015, SMT made donation as well as initiated a fund raising activity among staff. A total of US$20,000 was donated to help the victims on emergency relief.

### Volunteer of Dish Home

Our well-established Dish Home volunteer in Nepal continued to organize regular community services and initiatives for their key service targets, for example Blood Donation. Besides, after the April 2015 earthquake incident in Nepal, Dish Home Volunteer members provide various community services immediately and will continue our efforts in engaging more staff to participate in community services in order to rebuild Nepal.

## Photos of our Nepal Earthquake Relief Campaign


# Environmental, Social and Governance Report

## Photos of our Volunteers in Nepal

# Environmental, Social and Governance Report

## Corporate Governance Practices

SMT is committed to maintaining high standards of corporate governance. The board of directors (the "Board") believes that good corporate governance practices are important to promote investor confidence and protect the interest of our shareholders. We attach importance to our staff, our code of conduct, and our corporate policies and standards, which together form the basis of our governance practices. We respect the laws, rules and regulations of each country and area in which we operate, we strive to ensure a healthy and safe working environment for our staff, which is our paramount concern. We endeavour to contribute to the sustainable development of SMT, with particular focus on our accountability to shareholders and stakeholders. This report describes how SMT has applied its corporate governance practices to its everyday activities.

Throughout the year 2015, SMT has applied the principles and complied with all code provisions of the Corporate Governance Code ("CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Looking ahead, we will keep our governance practices under continual review to ensure their consistent application and will continue to improve our practices.

## Corporate Governance Structure

### Board of directors

*Overall accountability*

The members of the Board are individually and collectively accountable to the shareholders for the success and sustainable development of SMT. The Board provides direction and approval in relation to matters concerning SMT's business strategies, policies and plans whilst the day-to-day business operations are delegated to the executive management. The Board is accountable to the shareholders and in discharging its corporate accountability, directors of SMT are required to pursue excellence in the interests of the shareholders and fulfill their fiduciary duties by applying the required levels of skill, care and diligence to a standard in accordance with the statutory requirements.

During the year, the Board has performed a self-evaluation of its performance and reviewed the contribution required from a director to perform his responsibilities. The Board is of the view that all directors have given sufficient time and attention to the Group's affairs and the Board operates effectively as a whole.

*Board Composition*

The Board currently comprises 6 executive directors and 3 independent non-executive directors. Independent non-executive directors comprise 33% of the Board of which independent non-executive directors make up one-third of the Board. SMT believes that the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirement of SMT's business.

As required under Rule 3.10 of the Listing Rules, at least one of the independent non-executive directors has appropriate professional qualifications or accounting or related financial management expertise. No independent non-executive director has served SMT for more than nine years. SMT has received from each independent non-executive director a confirmation of his independence pursuant to the independence guidelines set out in Rule 3.13 of the Listing Rules and considers that all independent non-executive directors are independent. Brief biographical particulars of the directors, together with information about the relationships among them, are set out on "Directors and Senior Management" of the Annual Report.

All directors, including the independent non-executive directors, have a specific term of appointment which is not more than three years from the date of his re-election by shareholders in general meeting. Each director has entered into an appointment letter with SMT and pursuant to Article 87(1) and 87(2) of SMT's bye-laws, every director, including the non-executive directors, shall be subject to retirement by rotation at least once every three years. Retiring directors are eligible for re-election at the annual general meeting at which they retire. Separate resolutions are proposed for the election of each director. One-third of the directors, or if their number is not a multiple of three, then the number nearest to one-third, must retire from office at each annual general meeting and their re-election is subject to a vote of shareholders.

*Board Responsibilities and Delegation*

The Board collectively determines the overall strategies of SMT, monitors performance and the related risks and controls in pursuit of the strategic objectives of SMT. Day-to-day management of SMT is delegated to the executive director or officer in charge of each business unit and function who reports back to the Board. Every director ensures that he/she gives sufficient time and attention to the affairs of SMT. All Board members have separate and independent access to the management, and are provided with full and timely information about the conduct of the business and development of SMT, including reports and recommendations on significant matters. All Board members are provided with updates of the business operations of SMT. Should separate independent professional advice be considered necessary by the directors, it would be made available to the directors upon request.

The Board has delegated certain functions to Audit Committee, Nomination Committee and Remuneration Committee. Matters specifically reserved for the Board include approval of financial statements, dividend policy, significant changes in accounting policies, material contracts, selection of directors, changes to appointments such as company secretary and external auditor, remuneration policy for directors and senior management, terms of reference of Board committees, as well as major corporate policies such as the code of conduct and whistle blowing policy.

To implement the strategies and plans adopted by the Board effectively, executive directors and senior management meet on a regular basis to review the performance of the business of the Group, co-ordinate overall resources and make financial and operational decisions.

SMT has arranged Directors & Officers Liability and Company Reimbursement Insurance for its directors and officers with a combined aggregate limit of liability of HK$50 million.

# Environmental, Social and Governance Report

## Corporate Governance Practices

The attendance of the Board and the Committees meetings during the year are set out as follow:

| Name of directors | Board | Attendance rate | Audit Committee | Attendance rate | Nomination Committee | Attendance rate | Remuneration Committee | Attendance rate | General meetings |
|---|---|---|---|---|---|---|---|---|---|
| | Number of meetings attended in person/ by proxy | | Number of meetings attended in person/ by proxy | | Number of meetings attended in person/ by proxy | | Number of meetings attended in person/ by proxy | | Attended in person |
| **Executive directors** | | | | | | | | | |
| Mr. Hung Tsung Chin *(Chairman)* | 7/0 | 100% | N/A | N/A | 1/0 | 100% | 1/0 | 100% | 2 |
| Ms. Chen Mei Huei *(Chief Executive Officer)* | 6/1 | 100% | N/A | N/A | N/A | N/A | N/A | N/A | 0 |
| Mr. Liao Wen I | 7/0 | 100% | N/A | N/A | N/A | N/A | N/A | N/A | 0 |
| Frank Karl-Heinz Fischer | 6/1 | 100% | N/A | N/A | N/A | N/A | N/A | N/A | 0 |
| Mr. Mu Yean Tung (resigned on July 10, 2015) *(Note 3)* | 3/0 | 100% | N/A | N/A | N/A | N/A | N/A | N/A | 0 |
| Mr. Shou Philip Ming-Yung (resigned on April 30, 2015) *(Note 1)* | 1/0 | 50% | N/A | N/A | N/A | N/A | N/A | N/A | 0 |
| Mr. Yip Chung Wai David (appointed on June 9, 2015) *(Note 2)* | 5/0 | 100% | N/A | N/A | N/A | N/A | N/A | N/A | 1 |
| Mr. Chen Wei Chun (appointed on August 28, 2015) *(Note 4)* | 4/0 | 100% | N/A | N/A | N/A | N/A | N/A | N/A | 1 |
| **INEDs** | | | | | | | | | |
| Mr. Lee Chien Kuo | 7/0 | 100% | 2/0 | 100% | N/A | N/A | 1/0 | 100% | 0 |
| Mr. Han Chien Shan | 5/1 | 86% | 2/0 | 100% | 1/0 | 100% | 1/0 | 100% | 0 |
| Mr. Wu Chia Ming | 6/0 | 86% | 2/0 | 100% | 1/0 | 100% | 1/0 | 100% | 1 |

*Note 1:* Two Board meetings were held during the period from January 1, 2015 to April 30, 2015.

*Note 2:* Five Board meetings were held during the period from June 9, 2015 to December 31, 2015.

*Note 3:* Three Board meetings were held during the period from January 1, 2015 to July 10, 2015.

*Note 4:* Four Board meetings were held during the period from August 28, 2015 to December 31, 2015.

*Directors' Continuous Professional Development ("CPD") Programme*

SMT has rolled out a CPD Programme for directors with an aim to improve their general understanding of SMT's business, to refresh their knowledge and skills as well as to receive updates on developments in corporate governance practices. In addition, directors may also choose to attend external courses, conferences and luncheons organised by various local organisations.

Reading materials were provided to directors on the latest developments or updates in corporate governance practices and relevant legal and regulatory developments. A record of the directors' participation in the CPD Programme is kept with the company secretary. During the year, SMT has organised for the Directors and senior executives an in-house training session conducted by qualified accounting professionals on the topic of update on Corporate Governance.

# Environmental, Social and Governance Report

Accountability and Audit

## Financial Reporting

The Board recognises the importance of integrity of financial information and acknowledges its responsibility for preparing financial statements that give a true and fair view of the Group's affairs and of its results and cash flows in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), the Companies Ordinance (Chapter 622 of the laws of Hong Kong, which came into effect on 3 March 2014) ("Companies Ordinance") and the applicable disclosure provisions of the Listing Rules. The Board endeavours to present to shareholders a balanced and understandable assessment of the Group's performance, position and prospects. Accordingly, appropriate accounting policies are selected and applied consistently, and judgments and estimates made by the management for financial reporting purpose are prudent and reasonable.

The adoption of relevant new and revised HKFRSs that became effective during the year has no significant impact on the Group's results of operation and financial position as disclosed in note to the financial statements.

The responsibilities of the external auditor with respect to the financial statements for the year ended 31 December 2015 are set out in the Independent Auditor's Report in financial section of the Annual Report.

## External Auditors and their Remuneration

The external auditors perform independent review or audit of the financial statements prepared by the management. BDO Limited ('BDO") has been engaged as SMT's external auditor.

For the year ended December 31, 2015, the fees charged to the financial statements of the Group in respect of BDO's statutory audit amounted to approximately HK$1.22 million. The fees of recurring audit services of subsidiaries performed by other auditors and the fees of provision of other services were approximately HK$1.88 million.

## Internal Controls

The Board has overall responsibility for maintaining a sound and effective system of internal control which is designed and operated to provide reasonable assurance that SMT's business objectives in the following areas are achieved:

- effectiveness and efficiency of operations, including the achievement of performance and operating targets and the safeguarding of assets by the management;
- reliability of financial and operating information provided by the management, including management accounts and statutory financial reports; and
- compliance with applicable laws and regulations by each business unit.

SMT has put and continues to place considerable emphasis on maintaining and enhancing the effectiveness of its system of internal control. Under SMT's internal control framework, risk management and internal control are primarily the collective responsibility of every manager and employee. For consistent compliance by every person in SMT, the following key control policies and measures are implemented in the everyday activities, which are summarised below:

1. Overall control environment, including code of conduct governing staff conduct within the Group, and whistle blowing policy (discussed further on page 48);
2. Management of financial and non-financial risks, including at the company level the risk management functions of the Board; at the business unit level management's ongoing monitoring of operational and other risks; and throughout the Group, submissions and reviews of risk assessment reports, as well as a variety of insurance arrangements to manage insurable risks;
3. Major controls systems and processes, including budgetary and cost controls, financial reporting systems and processes for timely and quality management reporting, and corporate policies and procedures for approvals, reviews and segregation of duties in everyday activities; and

4. Ongoing compliance monitoring and internal control reviews: the company secretary undertakes overall monitoring of compliance with the Listing Rules; Internal Auditor is directly reported to the audit committee and is engaged to conduct independent reviews on the internal controls and risk management.

The audit committee has reviewed the adequacy and effectiveness of SMT's internal controls, including financial, operational and compliance controls and risk management. It has also considered the adequacy of resources, qualifications and experience of staff of the accounting and financial reporting functions and their training programme and budget.

In conducting these reviews, the following reports and activities are considered:

- self-assessments made by management of various business units and subsidiaries of their material controls and risk management activities undertaken with reference to the COSO (The Committee of Sponsoring Organizations of the Treadway Commission) Enterprise Risk Management framework. The documentation supporting the self-assessments is subjected to review by internal audit; and

- self-assessments made by business units and Group Finance of SMT of the resources, qualifications and experience of staff of the accounting and financial reporting functions and their training programmes. The main conclusions are that:

    – the resources in the accounting and finance functions are adequate;

    – the qualifications and experience of the staff of the accounting and finance functions are satisfactory overall; and

    – the training activities and budgets have been continually given considerable attention during the year and are satisfactory.

The Board and management will continue to look into opportunities for further enhancing the effectiveness of the internal control system of SMT in the years ahead.

## Internal Audit

The Group regards internal audit as an important part of the Board and audit committee's oversight function. The principal objective of internal audit, which is set out in an internal audit charter, is to provide the Board and the management with useful information and recommendations on the adequacy and effectiveness of the internal control system of the Group. During the year, the Group has engaged the Internal Auditors ("IA") to perform internal audits for the Group.

## Authority and Accountability

Under the internal audit charter endorsed by the audit committee, the internal audit function is authorised by the Board to have access to all records, people and physical properties relevant to the performance of internal audit. The IA has unrestricted access to the chairman of the audit committee and reports directly to the audit committee for direction and accountability. This reporting relationship enables IA to provide an objective assurance to the effectiveness of the internal control system of the Group.

## Duties

The duties of the IA are described in the internal audit charter. It requires that (a) internal audits are conducted with proficiency, objectively and due professional care in compliance with the standards, guidelines, and the code of ethics of the Institute of Internal Auditors; (b) audit testing and reviews are carried out at all levels of the Group to provide reasonable assurance as to whether the system of internal control is adequate; the assets of the Group are properly safeguarded; the operations are conducted effectively and efficiently in accordance with the Group's policies and procedures as well as relevant laws and regulations; and the accounting records of the audited entities and operations are reliable and (c) special reviews are conducted by IA when required by the management, the audit committee or the Board.

# Accountability and Audit

## Internal Audit Resources and Major Work Done in 2015

The internal audit function at December 31, 2015 who are based in China and Nepal to provide audit services to various business units and functions of the Group.

During the year, IA prepared and submitted the annual internal audit plan to the audit committee for approval, according to a risk-based audit priority weighting policy. Pursuant to the approved annual plan, detailed audit planning for each audit, followed by field visits and discussions with management, was conducted with the use of a risk-based audit methodology. Reports to the management were prepared after completion of the audit work, and were summarised for review at each audit committee meeting. Continual follow-up work was undertaken by IA to establish the extent of completion of remedial actions taken by the management, with follow-up results, audit progress and available resources reviewed by the audit committee at each committee meeting.

## Business Ethics

### Code of conduct

At SMT, we consider ethical corporate culture and employees' honesty and integrity to be important assets. We endeavour to comply with the laws and regulations of the countries in which we operate, and all directors and employees are required to act responsibly to ensure that the reputation of SMT is not tarnished. To uphold a high standard of integrity in all aspects of everyday activities, SMT has adopted a code of conduct which provides employees with a set of defined ethical standards for adherence. The code of conduct is posted on SMT's intranet for reference by all staff.

### Whistle blowing policy

SMT considers the whistle blowing channels as useful means of identifying possible misconduct or fraud risks of a particular operation or function by encouraging employees to raise concerns in good faith. SMT has established a whistle blowing policy setting out principles and procedures for guiding the employees of the Group in reporting cases of fraud, corruption or misconduct in a fair and proper manner.

### Inside information/price sensitive information disclosure policy

The Board has adopted an inside information/price sensitive information disclosure policy setting out the practices and procedures to (a) monitor business and corporate developments and events so that any potential inside information/price sensitive information is promptly identified and relayed to the Board to enable it to make timely decisions on disclosure, if necessary; and (b) take appropriate measures to preserve confidentiality of inside information/price sensitive information until proper dissemination of the inside information/price sensitive information via the electronic publication system operated by the Stock Exchange.

### Directors' and relevant employees' securities transactions

SMT has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 of the Listing Rules. All directors confirmed that they have complied with the required standard set out in the Model Code throughout 2015. The interests held by individual directors in SMT's securities as at 31 December 2015 are set out in the section headed "Directors' and Chief Executives' Interest and Short Positions in Shares, Underlying Shares and Debentures of the Company or its Associated Corporation" in the Director's Report.

In addition to the requirements set out in SMT's code of conduct, the company secretary regularly writes to executive management and other relevant employees who are privy to unpublished price sensitive information, as reminders of their responsibilities to comply with the provisions of the Model Code and keep the matter confidential until announced. They are also specifically reminded not to engage in any insider dealings as stipulated under Section 270 of the Securities and Futures Ordinance.

## Communication with Shareholders

SMT considers effective communication with shareholders essential to enable them to have a clear assessment of the enterprise performance as well as accountability of the Board. Major means of communication with shareholders of SMT are as follows:

### Information disclosure on corporate website

SMT endeavours to disclose all material information about the Group to all interested parties as widely and as timely as possible. SMT maintains a corporate website at http://www.sandmartin.com.hk where important information about SMT's activities and corporate matters such as annual reports and interim reports to shareholders, announcements is available for review by shareholders and other stakeholders.

When announcements are made through the Stock Exchange, the same information will be made available on SMT's website.

During 2015, SMT issued various announcements in respect of financing and inside information, which can be reviewed on SMT's website.

### General meetings with shareholders

SMT's annual general meeting provides a useful platform for direct communication between the Board and shareholders. Separate resolutions are proposed on each substantially separate issue at the general meetings.

### Voting by poll

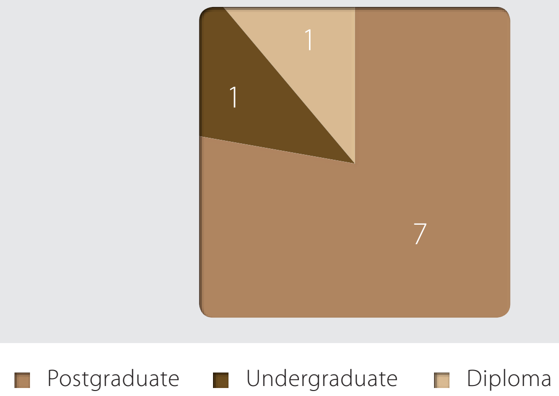
Resolutions put to vote at the general meetings of SMT (other than on procedure matters) are taken by poll. Procedures regarding the conduct of the poll are explained to the shareholders at the commencement of each general meeting, and questions from shareholders regarding the voting procedures are answered. The poll results are posted on the websites of the Stock Exchange and SMT respectively on the same day as the poll.

### Investor relations

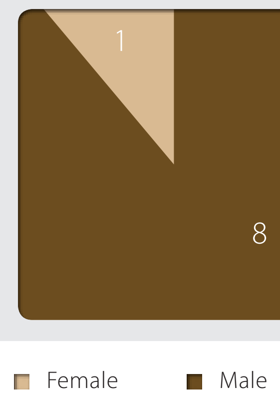
SMT recognises its responsibility to explain its activities to those with a legitimate interest and to respond to their questions. Investors are regularly received and visited to explain the Group's businesses. In addition, questions received from the general public and individual shareholders are answered promptly. In all cases, great care is taken to ensure that no price sensitive information is disclosed selectively. When announcements are made through the Stock Exchange, the same information will be made available on SMT's website.

# Directors and Senior Management

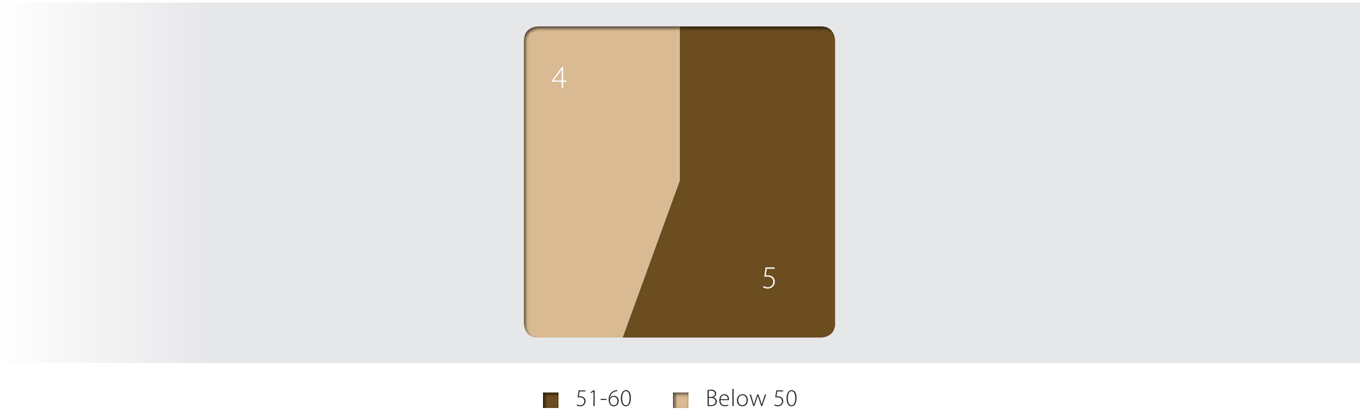
## Board Members Qualifications



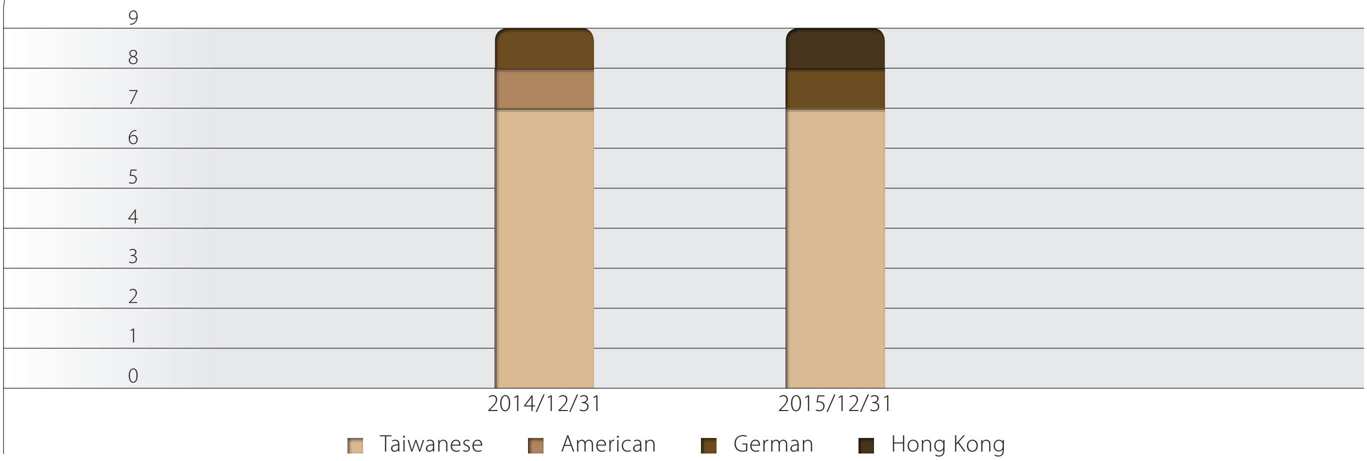

## Board Members Gender



## Board Members Age




## Board Members Nationality



# Directors and Senior Management

## Mr. Hung Tsung Chin, aged 55 ED, Group Chairman, RC, NC

the husband of Ms. Chen Mei Huei, is the founder and the Chairman of the Group. Mr. Hung founded the Group in November 1989 and is responsible for the Group's overall management, strategic planning and development, and formulation of company policies and business strategy. Mr. Hung has over 26 years of management experience in the electronics manufacturing industry. Mr. Hung graduated from the National Chengchi University in Taiwan, with a bachelor's degree in business administration. He also completed the executives programme from the Graduate School of Business Administration, National Chengchi University.

## Ms. Chen Mei Huei, aged 54 ED, CEO

the wife of Mr. Hung Tsung Chin, is a co-founder of the Group since November 1989. Ms. Chen is the Chief Executive Officer of the Group, responsible for the overall management of the Group including all overseas offices. Ms. Chen has been actively engaged in the sales and marketing development of the Group in Taiwan and the international markets for more than 26 years and has particular focus on new customers and new market development in recent years. Ms. Chen graduated from Tamkang University in Taiwan with a dual bachelor degree in Spanish Literature and International Trade.

## Mr. Liao Wen I, aged 48 ED

is a co-founder of the Group since November 1989. Mr. Liao has over 25 years of experience in the cable and connector industries, including 20 years of management experience in the manufacturing operations in the People's Republic of China (the "PRC"). Mr. Liao studied electronic device maintenance in a technical college in Taiwan.

## Mr. Frank Karl-Heinz Fischer, aged 56 ED

is the Vice President of the Group. Mr. Fischer joined the Group in January 2008 and is responsible for the global marketing strategy of the Group. Mr. Fischer has more than 28 years of experience in hardware and software development for consumer electronic products in Europe and has been involved in Digital TV technologies since the beginning of Digital Video Broadcasting Project (DVB) in 1994. He graduated as diploma degree engineer for automation technology and cybernetics from the Technical University Leipzig in Germany.

## Mr. Yip Chung Wai David, aged 52 ED

graduated from the University of Hull with a Master of Business Administration degree. He is well experienced in finance and banking industries. From September 2009 to October 2013, he was an executive director and chief executive officer of China Bullion Resources Limited (Stock code: 274), the shares of which are listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). From July to November 2014, Mr. Yip was also an executive director of Legend Strategy International Holdings Group Company Limited (Stock code: 1355), the shares of which are listed on the Stock Exchange. From July 2014, Mr Yip was also an independent non-executive director of GreaterChina Professional Services Limited (Stock code: 8193), the shares of which are listed on the Growth Enterprise Market of the Stock Exchange and re-designated as an executive director from November 2014.

## Mr. Chen Wei Chun, aged 38 ED

graduated from National Chengchi University with a master degree in finance. He is well experienced in accounting and finance industries. Mr. Chen currently is the Chief Financial Officer of Pro Brand Technology, Inc., a non-wholly owned subsidiary of the Company.

### Mr. Lee Chien Kuo (also known as Thomas Lee), aged 52
INED, AC, RC Chairman

is an independent non-executive director of the Company since February 2009. Mr. Lee has over 21 years of experience in the private equity industry. He graduated with a degree of Industrial Management from the National Taiwan University of Science and Technology (formerly known as National Taiwan Institute of Technology) and a Master of Business Administration degree from the National Sun Yat-Sen University in Taiwan. Mr. Lee is a managing director of Sinovo Growth Capital Management Co. Ltd., and a vice president of Chinalliance Holding Ltd., both are venture capital companies. Prior to that, Mr. Lee worked as an associate vice president with China Development Industrial Bank, a direct investment bank in Taiwan, where he had gained nearly 14 years of direct investment and corporate finance related experience.

### Mr. Wu Chia Ming, aged 47
INED, RC, NC, AC Chairman

is an independent non-executive director of the Company since December 2014. He has a master's degree in business administration from the Institute of International Business, National Cheng-kung University and a bachelor's degree in electronic engineering from Chung Yuan Christian University in Taiwan. Mr. Wu has nearly 21 years of experience in financial analysis and fund management. Currently, he is the Chairman of Fortune-Future Investment Co., Ltd. Prior to that, Mr. Wu was a fund manager of KGI Securities Investment Trust Co., Ltd.

### Mr. Hsiao Yu Jung, aged 51
Deputy General Manager of the Group's cable division

He is responsible for the procurement, manufacturing and development of the Group's cable products. Mr. Hsiao obtained a diploma in mechanical design engineering from the National Formosa University in Taiwan. Mr. Hsiao joined the Group in July 2002.

### Mr. Han Chien Shan, aged 50
INED, AC, RC, NC Chairman

is an independent non-executive director of the Company since February 2013. He graduated from the National Chengchi University with a bachelor's degree and a master's degree in international trade. He also holds the doctoral degree in finance from the National Taiwan University. Mr. Han has extensive finance and teaching experience. He is currently the associate professor and the department head of the Department of Finance and International Business, Fu Jen Catholics University.

### Mr. Su Jow Shi, aged 53
Deputy General Manager of the Group's digital TV division

He is responsible for manufacturing operations. Mr. Su graduated from the San Diego State University where he earned a Master of Public Administration degree. Mr. Su joined the Group in September 1995.

### Mr. Sven Willig, aged 43
General Manager of Intelligent Digital Services GmbH ("IDS")

Mr. Willig has joined the Group since 2005 and is currently responsible for hardware and software development and sales of Digital Video Broadcasting Products. He has over 16 years of management experience in the development and quality control of digital television technologies.

## Directors and Senior Management

### Ms. Su Wan Ling (also named Ms. Julia Swen), aged 51
Director of Pro Brand

Ms. Su has been working in our Group since 2007 and is responsible for promoting the cable products and digital television products in the market of the United States. She graduated from the University of California, with a bachelor's degree in Biochemistry; a master's degree in Environmental Science and a master's degree of Business Administration. Ms. Su has over 21 years of experience in research of biotechnology field and business management.

ED – Executive Director
INED – Independent Non-executive Director
AC – Audit Committee Member
RC – Remuneration Committee Member
NC – Nomination Committee Member
Chairman – Chairmanship for each Committee

### Mr. James Crownover, aged 56
Chief Executive Officer of Pro Brand

Mr. Crownover has been working in Pro Brand since 2001. Prior to joining Pro Brand, he was a sales account manager of DIRECTV since its inception in 1994. He graduated from Old Dominion University with a bachelor's degree in science.

# Director's Report

The Directors present their annual report and the audited consolidated financial statements of the Group for the year ended December 31, 2015.

## Principal Activities

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 48 to the consolidated financial statements.

## Results and Appropriations

The results of the Group for the year ended December 31, 2015 are set out in the consolidated statement of profit or loss and other comprehensive income in Part 2 of this annual report.

The Directors do not recommend the payment of a final dividend for the year ended December 31, 2015 (for the six months ended December 31, 2014: Nil).

## Financial Summary

A summary of results and assets and liabilities of the Group for the last five financial years is set out in Part 2 of this annual report.

## Property, Plant and Equipment

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

## Investment Properties

Details of movements in the investment properties of the Group during the year are set out in note 17 to the consolidated financial statements.

## Share Capital

Details of the share capital of the Company are set out in note 35 to the consolidated financial statements.

## Distributable Reserves of the Company

The Company's reserves available for distribution to shareholders as at December 31, 2015 were as follows:

| | **December 31, 2015 HK$'000** | December 31, 2014 HK$'000 |
|---|---|---|
| Contributed surplus | **181,788** | 181,788 |
| Accumulated losses | **(190,669)** | (171,110) |
| | **(8,881)** | 10,678 |

# Director's Report

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

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

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

## Subsidiaries

Particular of the Company's principal subsidiaries are set out in note 48 to the consolidated financial statements.

## Purchase, Sale or Redemption of the Company's Listed Securities

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company during the year ended December 31, 2015.

## Borrowings

Details of the borrowings of the Group are set out in note 32 to the consolidated financial statements.

## Directors

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

### Executive directors

Mr. Hung Tsung Chin (Chairman)
Ms. Chen Mei Huei (Chief Executive Officer)
Mr. Liao Wen I
Mr. Frank Karl-Heinz Fischer
Mr. Mu Yean Tung (resigned on July 10, 2015)
Mr. Shou Philip Ming-Yung (resigned April 30, 2015)
Mr. Yip Chung Wai David (appointed on June 9, 2015)
Mr. Chen Wei Chun (appointed on August 28, 2015)

### Independent non-executive directors

Mr. Lee Chien Kuo
Mr. Han Chien Shan
Mr. Wu Chia Ming

In accordance with the Company's Bye-laws 87(1) and 87(2), Mr. Liao Wen I, Mr. Frank Karl-Heinz Fischer, Mr. Yip Chung Wai David, Mr. Chen Wei Chun and Mr. Han Chien Shan shall retire by rotation and, being eligible, offer themselves for re-election at the forthcoming AGM.

## Directors' Service Contracts

Mr. Hung Tsung Chin, Ms. Chen Mei Huei and Mr. Liao Wen I, the executive directors of the Company, each has entered into a service contract with the Company for a term of three years commencing from April 1, 2005 and will continue thereafter unless and until terminated by either party by three months' prior notice in writing.

Mr. Frank Karl-Heinz Fischer, the executive director of the Company, has entered into a service contract with the Company and for a term of three years commencing from June 24, 2011 and will expire on the earlier of the date of the Company's AGM in 2014 and the third anniversary of the date of the service contract. The service contract may be terminated by either party by giving to the other three months' prior notice in writing.

Mr. Yip Chung Wai, David, the executive director of the Company, has entered into a service contract with the Company and for a term of three years commencing from June 9, 2015 and will expire on the earlier of the date of the Company's AGM in 2016 and the third anniversary of the date of the service contract. The service contract may be terminated by either party by giving to the other three months' prior notice in writing.

Mr. Chen Wei Chun, the executive director of the Company, has entered into a service contract with the Company and for a term of three years commencing from August 28, 2015 and will expire on the earlier of the date of the Company's AGM in 2016 and the third anniversary of the date of the service contract. The service contract may be terminated by either party by giving to the other three months' prior notice in writing.

Mr. Lee Chien Kuo, Mr. Han Chien Shan and Mr. Wu Chia Ming, the independent non-executive directors of the Company, have entered into letters of appointment with the Company and have been appointed for a period of one year commencing from February 2, 2015, February 28, 2015 and December 1, 2014, respectively. The appointment is subject to the retirement and re-election provisions in the Bye-laws of the Company and may be terminated by either party giving to the other three months' prior notice in writing.

Save as disclosed above, none of the Directors has entered into any service contract which is not determinable by the Company and any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

## Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company or its Associated Corporation

As at December 31, 2015, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the laws the "SFO") which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions in which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), to be notified to the Company and the Stock Exchange were as follows:

### (i) Ordinary shares of HK$0.10 each of the Company

| Name of director | Capacity and nature of interests | Number of the Company's shares held | Percentage of interests |
|---|---|---|---|
| Mr. Hung Tsung Chin | Beneficial owner | 162,275,437 (Note 1) | 15.52% |
| | Personal | 2 | 0.00% |
| Ms. Chen Mei Huei | Beneficial owner | 162,275,437 (Note 1) | 15.52% |
| | Personal | 2,000,000 (Note 3) | 0.19% |
| Mr. Liao Wen I | Beneficial owner | 15,174,812 (Note 2) | 1.45% |
| Mr. Frank Karl-Heinz Fischer | Personal | 500,000 (Note 3) | 0.06% |

*Notes:*

1. Metroasset Investments Limited is held as to 45.09% by Mr. Hung Tsung Chin, an executive Director, as to 44.38% by his wife, Ms. Chen Mei Huei, also an executive Director, and as to 10.53% by Mr. Hung Chih Chun, a son of Mr. Hung Tsung Chin and Ms. Chen Mei Huei. Mr. Hung Tsung Chin is also a director of Metroasset investments Limited.

2. Wellever Investments Limited is held as to 86.14% by Mr. Liao Wen I, an executive Director, and as to 13.86% by his wife, Ms. Lin Hsiu Ling. Mr. Liao Wen I is also a director of Wellever Investments Limited.

3. This represents the ordinary shares of the Company to be allotted and issued upon exercise of the share options granted to Ms. Chen Mei Huei and Mr. Frank Karl-Heinz Fischer under the share option scheme of the Company pursuant to a written resolution passed by the shareholders of the Company on March 17, 2005.

All interests in the Company's shares stated above represent long position.

## (ii) Share options

Pursuant to a share option scheme approved by a written resolution passed by the shareholders of the Company on March 17, 2005 (the "Option Scheme") for a period of ten years, the Company may grant options to the directors or employees, any business consultants, business partners, suppliers, customers, agents or financial or legal advisers of the Company or any of its subsidiaries, for the recognition of their contributions, to subscribe for shares in the Company with a payment of HK$1.00 upon each grant of options offered.

The exercise price of the share option will be determined at the highest of:

(i) the closing price of the Company's shares on the Stock Exchange on the date of grant;

(ii) the average of closing prices of shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the option; and

(iii) the nominal value of the shares.

The share options are exercisable at any time during a period of not more than 10 years from the date of grant, subject to the terms and conditions of the Option Scheme, or any conditions stipulated by the board of directors.

The maximum number of shares in respect of which options may be granted shall not exceed 10% of the number of shares of the Company in issue from time to time. Unless further shareholders' approval has been obtained pursuant to the conditions set out in the Option Scheme, no person shall be granted an option which, if all the options granted to the person (including both exercised and outstanding options) in any 12 month period up to the date of grant are exercised in full, would result in such person's maximum entitlement exceeding 1% of the number of issued shares of the Company.

As at December 31, 2015, the number of shares in respect of which options under the Option Scheme had been granted and remained outstanding was 2,700,000, representing 0.26% of the shares of the Company in issue as at December 31, 2015.

The following table discloses movements in the Company's share options during the year:

| | | | | Number of share options | | | |
|---|---|---|---|---|---|---|---|
| Type of grantee | Date of grant | Closing price per share immediately prior to the grant date (HK$) | Exercise price (HK$) | Outstanding at January 1, 2015 | Exercised during the year | Lapsed during the year | Outstanding at December 31, 2015 |
| Director | | | | | | | |
| Ms. Chen Mei Huei | 2005/07/30 | 1.02 | 1.02 | 500,000 | – | 500,000 | – |
| | 2010/10/22 | 2.05 | 2.05 | 2,000,000 | – | – | 2,000,000 |
| Mr. Frank Karl-Heinz Fischer | 2010/10/22 | 2.05 | 2.05 | 500,000 | – | – | 500,000 |
| | | | | 3,000,000 | | | 2,500,000 |
| Employees | 2005/07/30 | 1.02 | 1.02 | 2,340,000 | – | 2,340,000 | – |
| | 2007/12/27 | 1.76 | 1.76 | 100,000 | | | 100,000 |
| | 2009/04/01 | 1.10 | 1.114 | 100,000 | | | 100,000 |
| Total | | | | 5,540,000 | – | 2,840,000 | 2,700,000 |

*Note:*

The share options are vested in stages as follows:

| | |
|---|---|
| On or after the second anniversary of the date of grant | 50% |
| On or after the third anniversary of the date of grant | remaining 50% |

Options granted on July 30, 2005 are exercisable until July 29, 2015, options granted on December 16, 2006 are exercisable until December 15, 2016, options granted on December 27, 2007 are exercisable until December 26, 2017, options granted on April 1, 2009 are exercisable until March 31, 2019 and options granted on October 22, 2010 are exercisable until October 21, 2020.

Save as disclosed above, as at December 31, 2015, none of the directors and chief executives of the Company had or were deemed to have any interest, or short positions in the shares or underlying shares of the Company and its associated corporations (within the meaning of Part XV of the SFO), which has been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which has been notified to the Company pursuant to the Model Code of the Listing Rules.

## Substantial Shareholders' Interest and Short Positions in Shares and Underlying Shares of the Company

As at December 31, 2015, the interests or short position of the following substantial shareholders in the shares or underlying shares of the Company which have been disclosed to the Company pursuant to Division 2 and 3 of Part XV of the SFO have been recorded in the register kept by the Company pursuant to section 336 of the SFO were as follows:

| Name of shareholder | Capacity and nature of interests | Number of the Company's shares held | Percentage of interests |
|---|---|---|---|
| Metroasset Investments Limited | Beneficial owner | 162,275,437 | 15.52% (Note 1) |
| Success Power Investments Limited | Beneficial owner | 99,587,500 | 9.52% |

*Note:*

1. Metroasset Investments Limited is held as to 45.09% by Mr. Hung Tsung Chin, an executive Director, as to 44.38% by his wife, Ms. Chen Mei Huei, also an executive Director and as to 10.53% by Mr. Hung Chih Chun, a son of Mr. Hung Tsung Chin and Ms. Chen Mei Huei.

All the interests in the Company's shares stated above represent long position.

Save as disclosed above, so far as is known to the directors, as at December 31, 2015, there was no person (other than a director or chief executive of the Company) who had an interest in the shares or underlying shares in the Company which would fall to be disclosed to the Company pursuant to section 336 of the SFO.

## Confirmation of Independent Non-executive Directors

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent.

## Directors' Rights to Purchase Shares or Debentures

Other than the Option Scheme as disclosed under directors' and chief executives' interests and short positions in shares, underlying shares and debentures of the Company of its associated corporation at no time during the year was the Company, or any of its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## Directors' Interests in Contracts of Significance

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

## Related Party Transactions

Detailed of the related party transactions are set out in note 31 to the consolidated financial statements of this annual report. These related transactions either did not constitute connected transactions/continuing connected transactions or constituted connected transactions/continuing connected transactions but were exempt from all disclosure and independent shareholders' approval requirements under the Listing Rules.

## Emolument Policy

The emolument policy for the employees of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

Other employee benefits included insurance and medical cover, subsidised training programme as well as the share option scheme that is set out in note 41 to the consolidated financial statements.

## Pre-emptive Rights

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

## Major Customers and Suppliers

During the year, the aggregate sales attributable to the Group's five largest customers comprised approximately 48% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 33% of the Group's total sales.

The aggregate purchases attributable to the Group's five largest suppliers during the year were approximately 48% of the total purchases.

None of the directors, their associates or any shareholders which, to the knowledge of the directors, own more than 5% of the Company's issued share capital had any interest in the share capital of any of the Group's five largest customers.

## Sufficiency of Public Float

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

## Auditor

A resolution will be submitted at the forthcoming annual general meeting to re-appoint BDO Limited as auditor of the Company.

On behalf of the Board

**Hung Tsung Chin**
*Chairman*

Hong Kong, April 8, 2016

# Part 2 – Financial Information

**SANDMARTIN INTERNATIONAL HOLDINGS LIMITED**

(incorporated in Bermuda with limited liability)

Stock code: 482

# Report and Financial Statements
# For the year ended December 31, 2015

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF
SANDMARTIN INTERNATIONAL HOLDINGS LIMITED
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Sandmartin International Holdings Limited (the "Company") and its subsidiaries (hereafter referred to as the "Group") set out on pages 3 to 111, which comprise the consolidated statement of financial position as at December 31, 2015, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the presentation 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. This report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, 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.

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

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

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF
SANDMARTIN INTERNATIONAL HOLDINGS LIMITED
(incorporated in Bermuda with limited liability)

## Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at December 31, 2015 and of its 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.

## Emphasis of matter

Without qualifying our opinion, we draw attention to note 3(b) to the consolidated financial statements, which indicates that the Group incurred a net loss of HK$108,912,000 during the year ended December 31, 2015 and, as of that date, the Group's current liabilities exceeded its current assets by HK$29,137,000. These conditions, along with other matters as set forth in note 3(b), indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

BDO Limited
Certified Public Accountants
Lam Pik Wah
Practising Certificate Number P05325
25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong

Hong Kong, April 8, 2016

## SANDMARTIN INTERNATIONAL HOLDINGS LIMITED

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2015

| | Notes | (Twelve months) 1.1.2015 to 12.31.2015 HK$'000 | (Six months) 7.1.2014 to 12.31.2014 HK$'000 |
|---|---|---|---|
| Revenue | 6 | 1,627,889 | 785,081 |
| Cost of sales | | (1,449,177) | (691,037) |
| Gross profit | | 178,712 | 94,044 |
| Other income, gains and losses | | (7,551) | (202,944) |
| (Decrease)/Increase in fair value of investment properties | 17 | (2,447) | 4,441 |
| Distribution and selling costs | | (38,414) | (21,862) |
| Administrative and other expenses | | (172,665) | (99,980) |
| Research and development costs | | (46,135) | (25,209) |
| Finance costs | 8 | (9,436) | (4,893) |
| **Loss before income tax expense** | | (97,936) | (256,403) |
| Income tax expense | 9 | (10,976) | (14,191) |
| **Loss for the year/period** | 10 | (108,912) | (270,594) |
| **Other comprehensive income** | | | |
| *Item that will not be reclassified subsequently to profit or loss:* | | | |
| - Gain on revaluation of properties | | 22,523 | - |
| *Item that may be reclassified subsequently to profit or loss:* | | | |
| - Release of exchange reserve upon disposal of subsidiaries | | 4,462 | - |
| - Exchange differences on translation of foreign operations | | (14,370) | (25,922) |
| **Other comprehensive income for the year/ period** | | 12,615 | (25,922) |
| **Total comprehensive income for the year/ period** | | (96,297) | (296,516) |
| **Loss for the year/ period attributable to:** | | | |
| - Owners of the Company | | (103,162) | (264,543) |
| - Non-controlling interests | | (5,750) | (6,051) |
| | | (108,912) | (270,594) |
| **Total comprehensive income attributable to:** | | | |
| - Owners of the Company | | (89,670) | (290,419) |
| - Non-controlling interests | | (6,627) | (6,097) |
| | | (96,297) | (296,516) |
| **Loss per share** | 13 | HK cents | HK cents |
| - Basic | | (10.8) | (31.8) |
| - Diluted | | (10.8) | (31.8) |

## SANDMARTIN INTERNATIONAL HOLDINGS LIMITED

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION
## AS AT DECEMBER 31, 2015

| | Notes | 12.31.2015 HK$'000 | 12.31.2014 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 14 | 157,046 | 184,787 |
| Deposit paid for acquisition of a subsidiary | 15 | 46,306 | 37,005 |
| Prepaid lease payments | 16 | 5,350 | 8,592 |
| Investment properties | 17 | 124,241 | 105,446 |
| Goodwill | 18 | 8,523 | 25,053 |
| Intangible assets | 19 | 26,469 | 31,488 |
| Interest in an associate | 20 | - | - |
| Available-for-sale investments | 21 | - | - |
| Loan to an associate | 20 | 23,269 | 23,269 |
| Amount due from an associate | 22 | 14,685 | 16,194 |
| Loan receivables | 23 | 56,423 | 27,959 |
| Deferred tax assets | 24 | 2,263 | 1,669 |
| Total non-current assets | | 464,575 | 461,462 |
| **Current assets** | | | |
| Inventories | 25 | 284,778 | 230,243 |
| Trade, bills and other receivables | 26 | 308,912 | 369,760 |
| Prepaid lease payments | 16 | 162 | 243 |
| Amount due from an associate | 22 | 53,201 | 52,905 |
| Bond receivables | 27 | 59,971 | 75,242 |
| Pledged bank deposits | 28 | 18,022 | 117,264 |
| Bank balances and cash | 29 | 93,236 | 55,883 |
| | | 818,282 | 901,540 |
| Assets classified as held for sale | 30 | - | 39,279 |
| | | 818,282 | 940,819 |
| **Current liabilities** | | | |
| Trade, bills and other payables | 31 | 483,438 | 612,442 |
| Tax liabilities | | 13,402 | 23,055 |
| Bank and other borrowings | 32 | 348,739 | 299,064 |
| Convertible bonds | 33 | - | - |
| Obligations under finance leases | 34 | 1,840 | 1,826 |
| Total current liabilities | | 847,419 | 936,387 |
| **Net current (liabilities)/ assets** | | (29,137) | 4,432 |
| **Total assets less current liabilities** | | 435,438 | 465,894 |
| **Non-current liabilities** | | | |
| Bank and other borrowings | 32 | 1,699 | 7,864 |
| Deferred tax liabilities | 24 | 40,998 | 32,823 |
| Obligations under finance leases | 34 | 11,036 | 12,884 |
| Total non-current liabilities | | 53,733 | 53,571 |
| **Total liabilities** | | 901,152 | 989,958 |
| **NET ASSETS** | | 381,705 | 412,323 |

## SANDMARTIN INTERNATIONAL HOLDINGS LIMITED

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION
## AS AT DECEMBER 31, 2015

| | Notes | 12.31.2015 HK$'000 | 12.31.2014 HK$'000 |
|---|---|---|---|
| **Capital and reserves attributable to owners of the Company** | | | |
| Share capital | 35 | 104,586 | 83,223 |
| Reserves | | 242,044 | 289,091 |
| Equity attributable to owners of the Company | | 346,630 | 372,314 |
| Non-controlling interests | 48 | 35,075 | 40,009 |
| **TOTAL EQUITY** | | 381,705 | 412,323 |

On behalf of the directors

| | |
|---|---|
| **Hung Tsung Chin** | **Chen Mei Huei** |
| Director | Director |

# SANDMARTIN INTERNATIONAL HOLDINGS LIMITED

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED DECEMBER 31, 2015

| | Share capital HK$'000 | Share premium HK$'000 | Share option reserve HK$'000 | Statutory reserve (note a) HK$'000 | Special Reserve (note b) HK$'000 | Property revaluation reserve (note c) HK$'000 | Currency translation reserve HK$'000 | Accumulated losses HK$'000 | Total HK$'000 | Non-controlling interests HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at July 1, 2014** | 83,223 | 349,246 | 7,960 | 30,036 | 90,037 | 57,054 | 59,735 | (13,696) | 663,595 | 53,573 | 717,168 |
| Loss for the period | - | - | - | - | - | - | - | (264,543) | (264,543) | (6,051) | (270,594) |
| Other comprehensive income | | | | | | | | | | | |
| - Exchange differences on translation of foreign operations | - | - | - | - | - | - | (25,876) | - | (25,876) | (46) | (25,922) |
| **Total comprehensive income for the period** | - | - | - | - | - | - | (25,876) | (264,543) | (290,419) | (6,097) | (296,516) |
| Acquisition of additional interest in a subsidiary (note 45) | - | - | - | - | (862) | - | - | - | (862) | (7,467) | (8,329) |
| Transfer between reserves | - | - | - | 975 | - | - | - | (975) | - | - | - |
| **Balance at December 31, 2014 and January 1, 2015** | 83,223 | 349,246 | 7,960 | 31,011 | 89,175 | 57,054 | 33,859 | (279,214) | 372,314 | 40,009 | 412,323 |
| Loss for the year | - | - | - | - | - | - | - | (103,162) | (103,162) | (5,750) | (108,912) |
| Other comprehensive income | | | | | | | | | | | |
| - Revaluation of properties | - | - | - | - | - | 22,523 | - | - | 22,523 | - | 22,523 |
| - Release of exchange reserve upon disposal of subsidiaries (note 36) | - | - | - | - | - | - | 4,462 | - | 4,462 | - | 4,462 |
| - Exchange differences on translation of foreign operations | - | - | - | - | - | - | (13,493) | - | (13,493) | (877) | (14,370) |
| **Total comprehensive income for the year** | - | - | - | - | - | 22,523 | (9,031) | (103,162) | (89,670) | (6,627) | (96,297) |
| Issue and conversion of convertible bonds (note 35) | 4,719 | 13,365 | - | - | - | - | - | - | 18,084 | - | 18,084 |
| Issue of ordinary shares (note 33 anc 35) | 16,644 | 29,258 | - | - | - | - | - | - | 45,902 | - | 45,902 |
| Contribution for non-controlling interest of subsidiary | - | - | - | - | - | - | - | - | - | 1,693 | 1,693 |
| **Balance at December 31, 2015** | 104,586 | 391,869 | 7,960 | 31,011 | 89,175 | 79,577 | 24,828 | (382,376) | 346,630 | 35,075 | 381,705 |

**SANDMARTIN INTERNATIONAL HOLDINGS LIMITED**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**
**FOR THE YEAR ENDED DECEMBER 31, 2015**

Notes:

(a) The statutory reserve is required by the relevant law of The People's Republic of China (the "PRC") applicable to the subsidiaries in the PRC. The statutory reserve can be applied in conversion into PRC subsidiaries' capital by means of a capitalisation issue.

(b) The special reserve represents:

(i) the difference between the nominal value of the shares of the acquired subsidiaries and the nominal value of the Company's shares issued for the acquisition at the time of a group reorganisation prior to the listing of the Company's shares and the surplus arising pursuant to a capitalisation of advances from shareholders as part of the group reorganisation;

(ii) the difference between the consideration for acquisition of a subsidiary satisfied by way of partial interest of a subsidiary without the overall gain or loss of control in the partial disposed subsidiary and the fair value of net asset acquired;

(iii) the acquisition of additional interest in a subsidiary without the overall gain or loss of control in that subsidiary; and

(iv) amount in six months ended December 31, 2014 represents the difference between the consideration paid for acquisition of additional interest in a subsidiary and the carrying amount of non-controlling interest being acquired of.

(c) The property revaluation reserve is frozen upon the transfer of properties from property, plant and equipment to investment properties and will be transferred to accumulated losses when the relevant properties are disposed of.

# SANDMARTIN INTERNATIONAL HOLDINGS LIMITED

## CONSOLIDATED STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED DECEMBER 31, 2015

| | Notes | (Twelve months) 1.1.2015 to 31.12.2015 HK$'000 | (Six months) 1.7.2014 to 31.12.2014 HK$'000 (Restated) |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Loss before income tax expense | | (97,936) | (256,403) |
| Adjustments for: | | | |
| Amortisation of intangible assets | | 6,371 | 5,505 |
| Depreciation of property, plant and equipment | | 29,118 | 12,271 |
| Finance cost | | 9,436 | 4,893 |
| (Gain)/ loss on disposal of property, plant and equipment | | (2,042) | 3,460 |
| Fair value loss of bond receivables | | 4,758 | - |
| Impairment loss on trade and other receivables | | 39,063 | 41,159 |
| Impairment loss on goodwill | | 14,917 | - |
| Impairment loss on inventory | | 2,801 | - |
| (Reversal of)/impairment loss on bond receivable | | (24,758) | 24,758 |
| Impairment loss on loan receivables | | 48,828 | 60,687 |
| Loss on changes in fair value of convertible bonds | | 2,393 | - |
| Interest income | | (5,146) | (3,569) |
| Impairment loss on available-for-sale investments | | - | 40,573 |
| Effective interest income on bond receivables | | (7,992) | (4,499) |
| Release of prepaid lease payments | | 219 | 190 |
| Decrease/ (Increase) in fair value of investment properties | | 2,447 | (4,441) |
| Interest income from an associate | | (2,136) | (505) |
| Gain on disposal of subsidiaries | | (5,241) | - |
| Operating cash flows before working capital changes | | 15,100 | (75,921) |
| (Increase)/decrease in inventories | | (57,336) | 37,044 |
| Decrease in trade, bills and other receivables | | 21,535 | 16,330 |
| Increase in amount due from an associate | | - | (17,432) |
| (Decrease)/ increase in trade, bills and other payables | | (127,742) | 177,507 |
| Cash (used in)/ generated from operations | | (148,443) | 137,528 |
| Taxation in other jurisdictions paid | | (17,255) | (2,167) |
| Interest received | | 9,017 | 5,069 |
| Interest paid | | (8,845) | (4,893) |
| *Net cash (used in)/ from operating activities* | | (165,526) | 135,537 |
| **Cash flows from investing activities** | | | |
| Deemed capital injection | | 1,693 | - |
| Decrease/(increase) in pledged bank deposits | | 99,242 | (63,513) |
| Proceeds from disposal of property, plant and equipment | | 10,399 | 6,182 |
| Proceeds from disposal of assets held for sale | | 32,958 | 2,807 |
| Net proceeds for disposal of subsidiaries | 36 | 33,441 | - |
| Purchase of property, plant and equipment | | (30,418) | (31,387) |
| Addition to intangible assets | | (1,137) | - |
| Repayment from an associate | | 3,349 | 23,647 |
| Addition to loan receivables | | (81,402) | (26,796) |
| Repayment of loan receivable | | 4,110 | - |
| Receipts from the maturity of bond receivables | | 90,000 | - |
| Subscription of bond receivables | | (50,000) | - |
| Deposit paid for acquisition of a subsidiary | | (9,301) | (9,521) |
| *Net cash from/(used in) investing activities* | | 102,934 | (98,581) |
| **Cash flows from financing activities** | | | |
| New bank and other loans raised | | 676,645 | 151,285 |
| Repayment of borrowings | | (633,135) | (196,036) |
| Repayment of obligations under finance leases | | (1,834) | (896) |
| Acquisition of additional interest in a subsidiary | | - | (8,329) |
| Proceeds from issue of ordinary shares | | 45,902 | - |
| Proceeds from issue of convertible bonds | | 15,100 | - |
| *Net cash from/(used in) financing activities* | | 102,678 | (53,976) |
| **Net increase/ (decrease) in cash and cash equivalents** | | 40,086 | (17,020) |
| Cash and cash equivalents at beginning of the year/period | | 55,883 | 74,562 |
| Effect of foreign exchange rate changes | | (2,733) | (1,659) |
| Cash and cash equivalents at end of the year/period | | 93,236 | 55,883 |
| **Analysis of the balances of cash and cash equivalents:** | | | |
| Bank balances and cash | | 93,236 | 55,883 |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2015

## 1. GENERAL INFORMATION

The Company is incorporated in Bermuda 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 and principal place of business of the Company are disclosed in the corporate information section to the annual report.

The Company and its subsidiaries (hereafter referred to as the "Group") principally engages in manufacturing and trading of satellite TV equipment products and other electronic goods. The details of principal activities of its subsidiaries are set out in note 48 to the consolidated financial statements.

The financial year end date of the Group was changed from June 30 to December 31 in the financial period ended December 31, 2014 because the directors of the Company determined to bring the annual financial year end date of the Group in line with the major subsidiary incorporated in the United States of America. Such alignment facilitated the preparation and reporting of the Group's consolidated financial statements. Accordingly, the current financial period covers a twelve-month period from January 1, 2015 to December 31, 2015. The comparative figures (which cover a period of a six-month period from July 1, 2014 to December 31, 2014) for the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and related notes are not entirely comparable with those of the current year.

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

### (a) Adoption of new/ revised HKFRSs – effective January 1,2015

| | |
|---|---|
| HKFRSs (Amendments) | Annual improvements 2010-2012 Cycle |
| HKFRSs (Amendments) | Annual improvements 2011-2013 Cycle |
| Amendments to HKAS 19 (2011) | Defined Benefit Plans - Employee Contributions |

The adoption of these amendments has no material impact on the Group's consolidated financial statements.

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") - Continued

### (b) New/revised HKFRSs that have been issued but are not yet effective

The following new/revised HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group.

| | |
|---|---|
| HKFRSs (Amendments) | Annual Improvements 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 27 | Equity Method in Separate Financial Statements [1] |
| HKFRS 9 (2014) | Financial Instruments[2] |
| 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] |
| HKFRS 15 | Revenue from Contracts with Customers[2] |

[1] Effective for annual periods beginning on or after January 1,2016
[2] Effective for annual periods beginning on or after January 1,2018
[3] Effective for annual periods beginning on or after a date to be determined

**Annual Improvements 2012-2014 Cycle**

The amendments issued under the annual improvements process make small, non-urgent changes to a number of standards where they are currently unclear.

**Amendments to HKAS 1 "Disclosure initiative"**

The amendments to HKAS 1 are designed to further encourage companies to apply professional judgement in determining what information to disclose in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendments clarify that companies should use professional judgement in determining where and in what order information is presented in the financial disclosures.

The directors of the Company do not anticipate that the application of these amendments will have a material effect on the Group's consolidated financial statements.

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) - Continued

### (b) New/revised HKFRSs that have been issued but are not yet effective - Continued

**Amendments to HKAS 16 and HKAS 38 "Clarification of acceptable methods of depreciation and amortisation"**

The amendments to HKAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to HKAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

(a) when the intangible asset is expressed as a measure of revenue; or
(b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after January 1, 2016. Currently, the Group uses the straight-line method for depreciation and amortisation for its property, plant and equipment, and intangible assets respectively. The directors of the Company believe that the straight-line method is the most appropriate method to reflect the consumption of economic benefits inherent in the respective assets and accordingly, the directors of the Company do not anticipate that the application of these 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 allow an entity to account for investments in subsidiaries, joint ventures and associates in its separate financial statements:

- at cost
- in accordance with HKFRS 9 "Financial instruments" (or HKAS 39 "Financial instruments: Recognition and measurement" for entities that have not yet adopted HKFRS 9), or
- using the equity method as described in HKAS 28 "Investments in associates and joint ventures".

The accounting option must be applied by category of investments.

The amendments also clarify that when a parent ceases to be an investment entity, or becomes an investment entity, it shall account for the change from the date when the change in status occurred.

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") - Continued

### (b) New/revised HKFRSs that have been issued but are not yet effective - Continued

In addition to the amendments to HKAS 27, there are consequential amendments to HKAS 28 to avoid a potential conflict with HKFRS 10 "Consolidated financial statements" and to HKFRS 1 "First-time adoption of Hong Kong Financial Reporting Standards".

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

**HKFRS 9 "Financial instruments"**

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' ("FVTOCI") measurement category for certain simple debt Instruments.

Key requirements of HKFRS 9 are described below:

- All recognised financial assets that are within the scope of HKAS 39 "Financial instruments: Recognition and measurement" are 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, 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.

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") - Continued

### (b) New/revised HKFRSs that have been issued but are not yet effective - Continued

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 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 fair value through profit or loss was presented in profit or loss.

- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

- The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

  The directors of the Company anticipate that the application of HKFRS 9 in the future may have a material impact on amounts reported in respect of the Group's financial assets and financial liabilities, however, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") - Continued

### (b) New/revised HKFRSs that have been issued but are not yet effective - Continued

**Amendments to HKFRS 10 and HKAS 28 - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**

The amendments clarify the extent of gains or losses to be recognised when an entity sells or contributes assets to its associate or joint venture. When the transaction involves a business the gain or loss is recognised in full, conversely when the transaction involves assets that do not constitute a business the gain or loss is recognised only to the extent of the unrelated investors' interests in the joint venture or associate.

**Amendments to HKFRS 10, HKFRS 12 and HKAS 28 "Investment entities: Applying the consolidation exception"**

The narrow-scope amendments to HKFRS 10, HKFRS 12 and HKAS 28 introduce clarifications to the requirements when accounting for investment entities. The amendments also provide relief in particular circumstances, which will reduce the costs of applying the Standards.

The directors of the Company do not anticipate that the application of these amendments will have a material effect on the Group's consolidated financial statements.

**HKFRS 15 "Revenue from contracts with customers"**

In July 2014, HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. 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.

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") - Continued

### (b) New/revised HKFRSs that have been issued but are not yet effective - Continued

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. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The directors of the Company anticipate that the application of HKFRS 15 in the future may have 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.

### (c) New Hong Kong Companies Ordinance provisions relating to the preparation of financial statements

The provisions of the new Hong Kong Companies Ordinance, Cap. 622, in relation to the preparation of financial statements apply to the Company in this financial year.

The directors consider that there is no impact on the Group's financial position or performance, however the new Companies Ordinance, Cap. 622, impacts on the presentation and disclosures in the consolidated financial statements. The statement of financial position of the Company is now presented in the notes to the financial statements rather than as a primary statement and related notes to the statement of financial position of the Company are generally no longer presented.

## 3. BASIS OF PREPARATION

### (a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRS") and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange.

### (b) Basis of measurement and going concern assumption

The consolidated financial statements have been prepared on the historical cost basis except for investment properties and certain financial instruments which are measured at fair value, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

During the year, the Group incurred a net loss of HK$108,912,000 (Six months ended December 31, 2014: net loss of HK$270,594,000) and at the end of reporting period, the Group had net current liabilities of approximately HK$29,137,000 (2014: net current assets HK$4,432,000). These conditions indicate the existence of a material uncertainty which may cast doubt on the Group's ability to continue as a going concern.

In view of these circumstances, the directors of the Company have given consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern. In particular, the directors of the Company have considered the following measures: (1) As of December 31, 2015, the Group has unutilised bank loan facilities totalling HK$191,002,000 available to finance its future operations; and (2) subsequent to the end of reporting period, the Group received additional funding of HK$51,250,000 through placing of new shares arrangement to finance its operation.

In the opinion of the directors of the Company, the Group's forecast and projections, after taking into account of financial performance, operation as well as capital expenditure and available bank facilities and fund raising of the Group, the Group is expected to have sufficient liquidity to finance its operations for the next twelve months subsequent to end of reporting period. Therefore, the consolidated financial statements of the Group have been prepared on a going concern basis.

## 3. BASIS OF PREPARATION - Continued

### (b) Basis of measurement and going concern assumption - Continued

Should the Group be unable to continue in business as a going concern, adjustments would have to be made to adjust the value of assets to their estimated realisable values, to reclassify non-current assets and liabilities as current assets and liabilities respectively, and to provide for any further liabilities which may arise. The effects of these potential adjustments have not been reflected in the consolidated financial statements.

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 "Share-based payment", leasing transactions that are within the scope of HKAS 17 "Leases", and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of assets".

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.

### (c) Functional and presentation currency

The functional currency of the Company is United States dollars (“USD”), while the consolidated financial statements are presented in Hong Kong dollars (“HKD”). As the Company is listed on the Main Board of The Stock Exchange, the directors consider that it will be more appropriate to adopt HKD as the Group’s and the Company’s presentation currency.

## 4. SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of consolidation and business combinations

#### (i) 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 power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its 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 a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

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.

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

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

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

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

## 4. SIGNIFICANT ACCOUNTING POLICIES - Continued

### (a) Basis of consolidation and business combinations - Continued

#### (ii) Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets and liabilities assumed are recognised at their fair values, except that:

- deferred tax assets or liabilities, and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income taxes" and HKAS 19 "Employee benefits" respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 "Share-based payment" at the acquisition date (see the accounting policy below); and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current assets held for sale and discontinued operations" are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another standard.

## 4. SIGNIFICANT ACCOUNTING POLICIES - Continued

### (a) Basis of consolidation and business combinations - Continued

#### (ii) Business combinations -Continued

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments made against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 "Provisions, contingent liabilities and contingent assets", as appropriate, with the corresponding gain or loss being recognised in profit or loss.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

## 4. SIGNIFICANT ACCOUNTING POLICIES - Continued

### (b) Associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associate are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associate 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, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), 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 associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, 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 an associate. 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.

## 4. SIGNIFICANT ACCOUNTING POLICIES - Continued

### (b) Associates - Continued

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate, or when the investment (or a portion thereof) is classified as held for sale. When the Group retains an interest in the former associate and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with HKAS 39. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

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

## 4. SIGNIFICANT ACCOUNTING POLICIES - Continued

### (c) Goodwill

Goodwill is initially recognised at cost being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests in the acquiree and the acquisition date fair value of the acquirer's previously held equity interest in the acquire over the fair value of identifiable assets and liabilities acquired.

Where the fair value of identifiable assets and liabilities exceed the aggregate of the fair value of consideration paid, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of the acquirer's previously held equity interest in the acquiree, the excess is recognised in profit or loss on the acquisition date, after re-assessment.

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units that are expected to benefit from the synergies of the acquisition. A cash-generating unit ("CGU") is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. A CGU to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired, by comparing its carrying amount with its recoverable amount, and whenever there is an indication that the unit may be impaired.

For goodwill arising on an acquisition in a financial year, the CGU to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount to each asset in the unit. However, the loss allocated to each asset will not reduce the individual asset's carrying amount to below its fair value less cost of disposal (if measurable) or its value in use (if determinable), whichever is the higher. Any impairment loss for goodwill is recognised in profit or loss and is not reversed in subsequent periods.

On disposal of the relevant CGU, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

## 4. SIGNIFICANT ACCOUNTING POLICIES - Continued

### (d) Non-current assets held for sale

Non-current assets and disposal entity are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal entity) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal entity) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal entity) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs of disposal.

### (e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of estimated customer returns, rebates, discounts and sales related taxes.

Revenue from the sale of goods is recognised when the goods are delivered and titles have 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.

Service income is recognised when services are provided.

## 4. SIGNIFICANT ACCOUNTING POLICIES - Continued

### (e) Revenue recognition - Continued

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.

The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy for leasing below.

### (f) Property, plant and equipment

Property, plant and equipment including land and buildings held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and amortisation and accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than properties under construction 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.

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item at the date of transfer is recognised in other comprehensive income and accumulated in property revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to retained profits.

## 4. SIGNIFICANT ACCOUNTING POLICIES - Continued

### (f) Property, plant and equipment - Continued

Freehold land is stated at cost less accumulated impairment losses.

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 the disposals or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

### (g) Investment properties

Investment properties are properties held to earn rentals or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the item is derecognised.

### (h) 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.

#### (i) The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

## 4. SIGNIFICANT ACCOUNTING POLICIES - Continued

### (h) Leasing - Continued

#### (ii) 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 immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see the accounting policy below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

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

#### (iii) Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

## 4. SIGNIFICANT ACCOUNTING POLICIES - Continued

### (i) 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 recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of 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 except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the foreign operation.

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. Hong Kong dollars) using exchange rates prevailing at the end of the reporting period. Income and expenses items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

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), 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 re-attributed to non-controlling interests and are not recognised in profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired and liabilities assumed through acquisition of a foreign operation on or after July 1, 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences are recognised in other comprehensive income.

## 4. SIGNIFICANT ACCOUNTING POLICIES - Continued

### (j) Borrowing costs

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

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

### (k) Retirement benefit costs

Payments to defined contribution retirement benefit plans, Hong Kong Mandatory Provident Fund Scheme (the "MPF Scheme") and the state-managed retirement benefit schemes are recognised as expense when employees have rendered service entitling them to the contributions.

### (l) 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 'profit before taxation' as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base 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.

## 4. SIGNIFICANT ACCOUNTING POLICIES - Continued

### (l) Taxation - Continued

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and interests in an associate, 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 interests 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.

The carrying amount of deferred tax assets is reviewed at the end of the 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 the 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.

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. If the presumption is rebutted, deferred tax liabilities and deferred tax assets for such investment properties are measured in accordance with the above general principles set out in HKAS 12 (i.e. based on the expected manner as to how the properties will be recovered).

Current and deferred tax is recognised in profit or loss. 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.

## 4. SIGNIFICANT ACCOUNTING POLICIES - Continued

### (m) Intangible assets

#### (i) Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of the reporting period, with the effect of any changes in estimate being accounted for on a prospective basis (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

#### (ii) Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

## 4. SIGNIFICANT ACCOUNTING POLICIES - Continued

### (m) Intangible assets -Continued

#### (ii) Research and development expenditure - Continued

The amount initially recognised for an internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

#### (iii) Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at the fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at costs less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

#### (iv) Derecognition intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

### (n) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories is determined on a 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.

## 4. SIGNIFICANT ACCOUNTING POLICIES - Continued

### (o) 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 and 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.

#### (i) Financial assets

The Group's financial assets comprise loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets 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.

## 4. SIGNIFICANT ACCOUNTING POLICIES - Continued

### (o) Financial instruments - Continued

#### (i) 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, bills, and other receivables, loan receivables, bond receivables, loan to an associate, amount due from an associate, pledged bank deposits and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

***Available-for-sale financial assets***

Available-for-sales financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Equity and debt securities held by the Group that are classified as available-for-sales financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of available-for-sales monetary financial assets relating to interest income calculated using the effective interest method and dividends on available-for-sales equity investments are recognised in profit or loss. Other changes in the carrying amount of available-for-sales financial assets are recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

Dividends on available-for-sales equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

## 4. SIGNIFICANT ACCOUNTING POLICIES - Continued

### (o) Financial instruments - Continued

#### (i) Financial assets - Continued

**Available-for-sale financial assets - Continued**

Available-for-sales equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period (see the accounting policy in respect of impairment loss on financial assets below).

#### (ii) 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 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 debt instrument, 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.

#### (iii) Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired when 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 available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

## 4. SIGNIFICANT ACCOUNTING POLICIES - Continued

### (o) Financial instruments - Continued

#### (ii) Impairment of financial assets - Continued

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade 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 60 to 120 days, and observable changes in national or local economic conditions that correlate with default on receivables.

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.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods (see the accounting policy below).

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

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

## 4. SIGNIFICANT ACCOUNTING POLICIES - Continued

### (o) Financial instruments - Continued

#### (iii) Impairment of financial assets - Continued

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 losses were 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.

In respect of available-for-sales equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve. In respect of available-for-sales debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

#### (iv) Financial liabilities and equity

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 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 an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

**Financial liabilities**

Financial liabilities including trade, bills and other payables and bank and other borrowings are subsequently measured at amortised cost, using the effective interest method.

## 4. SIGNIFICANT ACCOUNTING POLICIES - Continued

### (o) Financial instruments - Continued

#### (v) Convertible loan notes

Convertible loan notes issued by the Group that contain both liability and conversion option components are classified separately into their respective items on initial recognition. Conversion option that will be settled other than 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 a conversion option derivative. At the date of issue, the conversion option derivative is recognised at fair value. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as liability.

In subsequent periods, the liability component of the convertible loan notes is carried at amortised cost using the effective interest method, until extinguished on conversion or maturity. The conversion option derivative is measured at fair value with changes in fair value recognised in profit or loss.

When the notes are converted, the carrying amount of the liability portion together with the fair value of the conversion derivative at the time of conversion are transferred to share capital and share premium as consideration for the shares issued. When the notes are redeemed, and difference between the redemption amount and the carrying amounts of both components is recognised in profit or loss.

Transaction costs that relate to the issue of the convertible loan notes are allocated to the liability and conversion option components in proportion to the allocation of the proceeds. Transaction costs relating to the conversion option derivative is recognised in profit or loss immediately. 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

#### (vi) 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 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.

## 4. SIGNIFICANT ACCOUNTING POLICIES - Continued

### (o) Financial instruments - Continued

#### (vii) Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the 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 continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. 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.

On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

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

## 4. SIGNIFICANT ACCOUNTING POLICIES - Continued

### (p) Equity-settled share-based payment transactions

***Share options granted to employees***

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option 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 estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share option reserve.

At the time when the share options are exercised, the amount previously recognised in the share option 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 the share option reserve will continue to be held in the share option reserve.

### (q) Impairment on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

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

## 4. SIGNIFICANT ACCOUNTING POLICIES - Continued

### (q) Impairment on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above) - Continued

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 a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

### (r) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which it is probable will result in an outflow of economic benefits that can be reliably estimated.

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

### (s) Related parties

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

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of key management personnel of the Group or the Company's parent.

## 4. SIGNIFICANT ACCOUNTING POLICIES - Continued

### (s) Related parties - Continued

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

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
(iii) Both entities are joint ventures of the same third party;
(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;
(v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group;
(vi) The entity is controlled or jointly controlled by a person identified in (a);
(vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity); or
(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;
(ii) children of that person's spouse or domestic partner; and
(iii) dependents of that person or that person's spouse or domestic partner.

## 5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, the directors are required to make judgments, 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 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.

## 5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY - Continued

### Critical judgements in applying accounting policies

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

***Deferred taxation on investment properties***

For the purposes of measuring deferred tax liabilities or deferred tax assets arising from investment properties that are measured using the fair value model, the directors of the Company have reviewed the Group's investment property portfolios and concluded that the Group's investment properties situated in the PRC with carrying amount of HK$61,841,000 as at December 31, 2015 (December 31, 2014: HK$44,546,000) are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale; therefore, the directors of the Company have determined that the presumption that the carrying amounts of such investment properties are recovered through sale is rebutted. As a result, the Group has not recognised any deferred taxes on land appreciation tax on changes in fair value of these investment properties but has only recognised deferred taxes on enterprise income tax.

The remaining investment properties located in Hong Kong with carrying amount of HK$62,400,000 as at December 31, 2015 (December 31, 2014: HK$60,900,000) are held under a business model whose objective is to recover entirely through sale, rather than to consume substantially all of the economic benefits embodied in the investment properties over time. Therefore, in measuring the Group's deferred taxation on such investment properties, the directors have determined that the presumption that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale is not rebutted. As a result, the Group has not recognised any deferred taxes on changes in fair value of investment properties as the Group is not subject to any income taxes on disposal of its investment properties in Hong Kong.

### Key sources of estimation uncertainty

The following 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 within the next financial year.

## 5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY - Continued

### *Impairment loss on bond receivables*

The assessments of the impairment loss on bond receivables are based on the evaluation of collectability and on management's estimate. In determining whether impairment is required, the Group takes into consideration the creditworthiness, past collection history and the subsequent settlement from the bond issuer.

Impairment loss on bond receivables is made if objective evidence of impairment exists and is recognised as the difference between the estimated future cash flow expected to receive discounted by using the effective interest rate and the carrying value.

If the financial conditions of the bond issuer were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

As at December 31, 2015, the carrying value of bond receivable was HK$59,971,000 (December 31, 2014: HK$75,242,000).(note 27).

### *Impairment loss on receivables, deposit and advance*

The assessment of the impairment loss on trade receivables, loan receivables, loan to an associate and amount due from an associate of the Group is based on the evaluation of collectability and aging analysis of accounts and on management's estimate. In determining whether impairment is required, the Group takes into consideration the aging status, creditworthiness and the past collection history of each counterparty. Specific allowance is made for receivables if objective evidence of impairment exists and is recognised as the difference between the estimated future cash flow expected to receive discounted using the original effective interest rate and the carrying value. If no objective evidence exists that receivables are impaired on an individual basis, trade receivables are included in a collective assessment of impairment. If the financial conditions of counterparties of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. As at December 31, 2015, the carrying value of trade receivables, loan receivables, loan to an associate and amount due from an associate were HK$248,930,000, HK$56,423,000, HK$23,269,000 and HK$67,886,000, respectively (December 31, 2014: HK$290,939,000, HK$27,959,000, HK$23,269,000 and HK$69,099,000, respectively) (net of allowance for doubtful debts of HK$102,293,000 (December 31, 2014: HK$147,376,000) and impairment of loan receivable of HK$109,515,000 (December 31, 2014: HK$60,687,000)). Details of the movement of allowance for doubtful debts are disclosed in note 26. No impairment loss has been recognised for loan to an associate and amount due from an associate in the year/period as the directors of the Company considered the carrying amounts still recoverable.

## 5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY - Continued

### Estimated impairment of goodwill, intangible assets, and property, plant and equipment

Determining whether goodwill, intangible assets and property, plant and equipment are impaired requires an estimation of the value in use of the CGU of the business of media entertainment platform related products conducted by Intelligent Digital Service GmbH ("IDS") and estimation of the value in use of the CGU of the business of satellite TV equipment and antenna conducted by Pro Brand Technology, Inc. ("PBT") to which goodwill, intangible asset, and property, plant and equipment have been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGUs and a suitable discount rate in order to calculate the present value. The discount rate represents rate that reflects current market assessments of the value of money and the risks specific to the assets for which future cash flows estimates have not been adjusted. Where the future cash flows are less than expected, a material impairment loss may arise. As at December 31, 2015, the carrying amount of goodwill was HK$8,523,000 (December 31, 2014: HK$25,053,000), net of accumulated impairment loss of HK$83,744,000 (December 2014: HK$68,827,000) and impairment loss of HK$14,917,000 is recognised during the year ended December 31, 2015 (six months ended December 31, 2014: nil), and the carrying amount of related intangible asset and property, plant and equipment for the CGU of the business of satellite TV equipment and antenna and for the CGU of the business of media entertainment platform related products were HK$106,370,000 (December 31, 2014: HK$111,251,000) and HK$63,000 (December 31, 2014: HK$81,000), respectively. Details of the recoverable amount calculation are disclosed in note 18.

### Estimated impairment of interest in an associate and deposit paid for acquisition of a subsidiary

In determining impairment of interest in an associate and deposit paid for acquisition of a subsidiary, the Group estimate its share of the present value of the estimated future cash flows expected to be generated by the associate. Any impairment loss is recognised by write down of the investment to its estimated recoverable amount. After making such assessment, the directors of the Company are of the view that no impairment loss of interest in an associate and deposit paid for acquisition of a subsidiary was necessary during the year. Details are disclosed in note 20.

## 5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY - Continued

### Write-down of inventories

Provision for slow-moving inventories is made based on estimated net realisable value of inventories. The assessment of the provision amount required involves management judgment and estimates in identifying obsolete and slow-moving inventories and estimate relevant market values for those inventories identified. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of inventories and provision charge/written back in the period in which the estimate has been changed. As at December 31, 2015, the carrying amount of inventories was HK$284,778,000 (December 31, 2014: HK$230,243,000), and accumulated allowance of inventories of HK$28,111,000 (December 31, 2014: HK$37,746,000) was recognised as at December 31, 2015.

### Income taxes

Determining income tax provisions involves significant judgement in determining the amount of the provision and the timing of payment. There are many transactions and calculations for which the ultimate tax expense is uncertain during the ordinary course of business. The Group recognises taxes based on estimates of the likely outcome with reference to current tax laws and practices. Where the final tax outcome of these transactions is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provisions in the year in which such determination is made. Deferred tax assets relating to certain deductible temporary differences and tax losses will be recognised when management considers it is probable that future taxable profit will be available against which the deductible temporary differences or tax losses can be utilised. Where the expectation is different from the originally estimate, such differences will impact the recognition of deferred tax assets and income tax expense in the period in which such estimate is changed.

## 6. REVENUE

Revenue represents the amounts received and receivable for goods sold, less returns and discounts, and services provided by the Group to outside customers during the period/year. An analysis of the Group's revenue is as follows:

| | Twelve months 1.1.2015 to 12.31.2015 HK$'000 | Six months 7.1.2014 to 12.31.2014 HK$'000 |
|---|---|---|
| Sales of goods | 1,625,608 | 752,761 |
| Service income | 2,281 | 32,320 |
| | 1,627,889 | 785,081 |

## 7. SEGMENT INFORMATION

The segment information reported externally was analysed on the basis of their goods and services delivered or provided by the Group's operating divisions which is consistent with the internal information that are regularly reviewed by the executive directors of the Company, the chief operating decision maker, for the purposes of resource allocation and assessment of performance. This is also the basis of organisation in the Group, whereby the management has chosen to organise the Group around different products and services.

Specifically, the Group's operating segments under HKFRS 8 are as follows:

### (i) Media entertainment platform related products

Trading and manufacturing of media entertainment platform related products

- which mainly used for satellite products equipment.

### (ii) Other multimedia products

Trading and manufacturing of other multimedia products

- components of audio and video electronic products such as cable lines.

### (iii) Integration of signal system and traffic communication network

Integration of signal system and traffic communication network

- provide installation and integration of signal system and traffic communication network.

### (iv) Satellite TV equipment and antenna

Trading of satellite TV and antenna.

## 7. SEGMENT INFORMATION - Continued

### SEGMENT REVENUE AND RESULTS

The following is an analysis of the Group's revenue and results by reportable and operating segments:

Year ended December 31, 2015

| | Media entertainment platform related products HK'000 | Other multimedia Products HK'000 | Integration of signal system and traffic communication network HK'000 | Satellite TV equipment and antenna HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| Revenue | | | | | |
| External sales | 321,959 | 285,671 | 2,282 | 1,017,977 | 1,627,889 |
| Results | | | | | |
| Segment results | 13,669 | 29,870 | 126 | 39,658 | 83,323 |
| Other income, gains and losses | | | | | 49,424 |
| Decrease in fair value of investment properties | | | | | (2,447) |
| Research and development costs | | | | | (46,135) |
| Administrative and other expenses | | | | | (172,665) |
| Finance costs | | | | | (9,436) |
| Loss before income tax expense | | | | | (97,936) |

## 7. SEGMENT INFORMATION - Continued

### SEGMENT REVENUE AND RESULTS - Continued

Six months ended December 31, 2014

| | Media entertainment platform related products HK'000 | Other multimedia Products HK'000 | Integration of signal system and traffic communication network HK'000 | Satellite TV equipment and antenna HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| Revenue External sales | 146,205 | 189,935 | 32,320 | 416,621 | 785,081 |
| Results Segment results | (7,058) | 12,015 | (63,517) | 30,182 | (28,378) |
| Other income, gains and losses | | | | | (102,384) |
| Increase in fair value of investment properties | | | | | 4,441 |
| Research and Development costs | | | | | (25,209) |
| Administrative and other expenses | | | | | (99,980) |
| Finance costs | | | | | (4,893) |
| Loss before income tax expense | | | | | (256,403) |

The accounting policies of the operating segments are the same as the accounting policies of the Group described in note 4. Segment results represent the profit earned by each segment without allocation of administrative and other expenses, research and development costs, other income, gains and losses (except impairment loss on trade and other receivables and loss recognised on projects in respect of integration of signal system and traffic communication network, changes in fair value of investment properties and finance costs. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

## 7. SEGMENT INFORMATION - Continued

### SEGMENT ASSETS AND LIABILITIES

The following is an analysis of the Group's assets and liabilities by reportable and operating segments:

At December 31, 2015

| | Media entertainment platform related products HK'000 | Other multimedia Products HK'000 | Integration of signal system and traffic communication network HK'000 | Satellite TV equipment and antenna HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| Assets | | | | | |
| Segment assets | 221,906 | 115,414 | 3,284 | 435,897 | 776,501 |
| Bank balances and cash | | | | | 93,236 |
| Pledged bank deposits | | | | | 18,022 |
| Unallocated corporate assets | | | | | 395,098 |
| Consolidated assets | | | | | 1,282,857 |
| Liabilities | | | | | |
| Segment liabilities | 113,992 | 92,425 | 9,175 | 233,061 | 448,653 |
| Bank and other borrowings | | | | | 350,438 |
| Obligations under finance leases | | | | | 12,876 |
| Unallocated corporate liabilities | | | | | 89,185 |
| Consolidated liabilities | | | | | 901,152 |

## 7. SEGMENT INFORMATION - Continued

### SEGMENT ASSETS AND LIABILITIES - Continued

At December 31, 2014

| | Media entertainment platform related products HK'000 | Other multimedia Products HK'000 | Integration of signal system and traffic communication network HK'000 | Satellite TV equipment and antenna HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| Assets | | | | | |
| Segment assets | 278,158 | 163,655 | 13,328 | 366,006 | 821,147 |
| Bank balances and cash | | | | | 55,883 |
| Pledged bank deposits | | | | | 117,264 |
| Unallocated Corporate assets | | | | | 407,987 |
| Consolidated assets | | | | | 1,402,281 |
| Liabilities | | | | | |
| Segment liabilities | 185,736 | 133,360 | 18,853 | 172,482 | 510,431 |
| Bank and other borrowings | | | | | 306,928 |
| Obligations under finance leases | | | | | 14,710 |
| Unallocated corporate liabilities | | | | | 157,889 |
| Consolidated liabilities | | | | | 989,958 |

## 7. SEGMENT INFORMATION - Continued

### SEGMENT ASSETS AND LIABILITIES - Continued

For the purpose of monitoring segment performances and allocating resources between segments:

- all assets are allocated to operating segments other than certain property, plant and equipment, deposit paid for acquisition of a subsidiary, available-for-sale investments, bond receivables, investment properties, loan to an associate, amount due from an associate, interest in an associate, deferred tax assets, loan receivables, other receivables, bank balances and cash, pledged deposits and assets classified as held for sale; and

- all liabilities are allocated to operating segments other than certain other payables, tax liabilities, deferred tax liabilities, bank and other borrowings and obligations under finance leases.

### OTHER SEGMENT INFORMATION

Amounts included in the measure of segment profit or loss or segment assets:

Year ended December 31, 2015

| | Media entertainment platform related products HK'000 | Other multimedia products HK'000 | Integration of signal system and traffic communication network HK'000 | Satellite TV equipment and antenna HK$'000 | Unallocated HKS'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| Addition to non-current assets | 2,608 | 9,146 | - | 19,612 | 189 | 31,555 |
| Depreciation and amortisation | 10,819 | 1,133 | 301 | 22,583 | 653 | 35,489 |
| Release of prepaid lease payments | 219 | - | - | - | - | 219 |
| Impairment loss on trade receivables | 39,063 | - | - | - | - | 39,063 |
| Write-down of inventories | - | - | - | 2,801 | - | 2,801 |

## 7. SEGMENT INFORMATION - Continued

### OTHER SEGMENT INFORMATION - Continued

Six months ended December 31, 2014

| | Media entertainment platform related products | Other multimedia Products | Integration of signal system and traffic communication network | Satellite TV equipment and antenna | Unallocated | Total |
|---|---|---|---|---|---|---|
| | HK'000 | HK'000 | HK'000 | HK$'000 | HK$'000 | HK$'000 |
| Addition to non-current assets | 1,958 | 736 | - | 28,679 | 14 | 31,387 |
| Depreciation and amortisation | 5,253 | 1,214 | 200 | 4,010 | 7,099 | 17,776 |
| Release of prepaid lease payments | 156 | 34 | - | - | - | 190 |
| Impairment loss on trade receivables | 32,515 | 2,555 | - | - | - | 35,070 |
| Impairment loss on other receivables | 3,013 | - | 3,076 | - | - | 6,089 |
| Loss recognised on projects in respect of integration of signal system and traffic communication network | - | - | 59,401 | - | - | 59,401 |

## 7. SEGMENT INFORMATION - Continued

### GEOGRAPHICAL INFORMATION

The Group's operations are mainly located in the PRC (country of domicile), Taiwan, Europe, North America, Middle East, Africa and South America.

The Group's revenue from external customers, based on location of customers, and information about its non-current assets by geographical location of the assets are detailed below:

| | Revenue from external customers | | Non-current assets (Note) | |
|---|---|---|---|---|
| | 1.1.2015 to 12.31.2015 HK$'000 | 7.1.2014 to 12.31.2014 HK$'000 | 12.31.2015 HK$'000 | 12.31.2014 HK$'000 |
| Asia | | | | |
| - Taiwan | 31,286 | 48,469 | 1,981 | 4,444 |
| - Nepal | 90,327 | 22,133 | - | - |
| - PRC (country of domicile) | 27,992 | 10,233 | 209,456 | 221,126 |
| - India | 37,920 | 421 | - | - |
| -Singapore | 31,787 | 14,813 | - | - |
| - Others | 18,960 | 5,387 | 63,598 | 60,951 |
| Europe | | | | |
| - Germany | 41,504 | 29,313 | 64 | 14,998 |
| - Italy | 30,540 | 15,582 | - | - |
| - Spain | 67,624 | 40,026 | 12,065 | 14,255 |
| - Portugal | 1,999 | 1,023 | - | - |
| - France | 7,037 | 3,947 | - | - |
| -Poland | 13,096 | 8,216 | - | - |
| -Denmark | 11,541 | 6,025 | - | - |
| - Others | 17,909 | 9,801 | - | - |
| North America | | | | |
| - United States of America ("USA") | 881,726 | 322,554 | 34,465 | 39,592 |
| - Canada | 28,060 | 33,418 | - | - |
| - Mexico | 38,646 | 31,883 | - | - |
| - Others | 5,171 | 4,452 | - | - |
| Middle East | | | | |
| - United Arab Emirates("UAE") | 54,908 | 56,370 | - | - |
| - Others | 14,847 | 6,376 | - | - |
| Africa | | | | |
| - Algeria | 21,900 | 22,645 | - | - |
| - Morocco | 42,630 | 24,528 | - | - |
| - Others | 10,047 | 4,998 | - | - |
| South America | | | | |
| - Brazil | 15,979 | 28,406 | - | - |
| - Chile | - | 3,958 | - | - |
| - Argentina | 14,766 | 4,694 | - | - |
| - Columbia | 34,777 | 12,665 | - | - |
| - Ecuador | 12,085 | 3,388 | - | - |
| - Others | 21,024 | 7,761 | - | - |
| Other regions | 1,801 | 1,596 | - | - |
| | 1,627,889 | 785,081 | 321,629 | 355,366 |

Note: Non-current assets exclude interest in an associate, deferred tax assets, deposit paid for acquisition of a subsidiary and financial instruments.

## 7. SEGMENT INFORMATION - Continued

### INFORMATION ABOUT MAJOR CUSTOMERS

Revenue from customer in the corresponding year/period contributing over 10% of the total sales of the Group are as follows:

| | Twelve months 1.1.2015 to 12.31.2015 HK$'000 | Six months 7.1.2014 to 12.31.2014 HK$'000 |
|---|---|---|
| Customer A | 532,694 | 144,270 |

Note: Revenue from the above customer is from the satellite TV equipment and antenna segment.

## 8. FINANCE COSTS

| | Twelve months 1.1.2015 to 12.31.2015 HK$'000 | Six months 7.1.2014 to 12.31.2014 HK$'000 |
|---|---|---|
| Interest on bank and other borrowings | 8,733 | 4,885 |
| Finance leases | 113 | 8 |
| Interest on host debt liabilities of the Convertible Bonds (note 33) | 590 | - |
| | 9,436 | 4,893 |

## 9. INCOME TAX EXPENSE

| | Twelve months 1.1.2015 to 12.31.2015 HK$'000 | Six months 7.1.2014 to 12.31.2014 HK$'000 |
|---|---|---|
| The tax charge comprises: | | |
| Current tax: | | |
| PRC | 1,774 | 1,919 |
| Jurisdictions other than the PRC and Hong Kong | 5,688 | 1,988 |
| | 7,462 | 3,907 |
| Under-provision in prior years: | | |
| PRC | 28 | - |
| Jurisdictions other than the PRC and Hong Kong | 112 | 3,880 |
| | 140 | 3,880 |
| Deferred taxation: | | |
| Current year/period | 2,962 | 5,943 |
| Provision for withholding tax | 412 | 461 |
| | 3,374 | 6,404 |
| | 10,976 | 14,191 |

The tax rates applicable to the Group's principal operating subsidiaries are as follows:

(i) **PRC**

The applicable PRC enterprise income tax rate of the PRC subsidiaries is 25% in accordance with the relevant income tax law and regulations in the PRC.

(ii) **Hong Kong**

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits.

No tax is payable on the profit arising in Hong Kong as the entity operating in Hong Kong incurred tax losses for the year/period.

## 9. INCOME TAX EXPENSE - Continued

### (iii) United States of America

The Group's subsidiaries in USA are subject to United States Federal Income Tax at 34% and States Income Tax at 6%.

### (iv) Europe

The Group's European subsidiaries are subject to profit tax rates at a range of 21% to 33%.

### (v) Macau

As stated in the Decree Law No. 58/99/M, Chapter 2, Article 12, dated October 18, 1999, the Macau subsidiary is exempted from Macao Complementary Tax since its income is generated from business outside Macau.

### (vi) Others

Other subsidiaries operating in other jurisdictions are subject to applicable tax rates in the relevant jurisdictions.

## 9. INCOME TAX EXPENSE - Continued

The tax charge for the year/period can be reconciled to the loss before income tax expense per the consolidated statement of profit or loss and other comprehensive income as follows:

| | Twelve months 1.1.2015 to 12.31.2015 HK$'000 | Six months 7.1.2014 to 12.31.2014 HK$'000 |
|---|---|---|
| Loss before taxation | (97,936) | (256,403) |
| Tax at the applicable rate of 25% (six months ended December 31, 2014: 25%) | (24,484) | (64,101) |
| Tax effect of expenses not deductible for tax purpose | 45,763 | 58,307 |
| Tax effect of income not taxable for tax purpose | (20,682) | (2,313) |
| Tax effect of deductible temporary differences not recognised | 1,749 | 11,315 |
| Tax effect of different tax rates of subsidiaries operating in other jurisdictions | 7,347 | 3,547 |
| Tax effect of tax loss not recognised | 731 | 3,095 |
| Deferred taxation arising from dividend withholding tax | 412 | 461 |
| Under-provision in prior years | 140 | 3,880 |
| Tax charge for the year/period | 10,976 | 14,191 |

Details of deferred taxation for the year/ period are set out in note 24.

## 10. LOSS FOR THE YEAR/PERIOD

| | Twelve months 1.1.2015 to 12.31.2015 HK$'000 | Six months 7.1.2014 to 12.31.2014 HK$'000 |
|---|---|---|
| Loss for the year/period has been arrived at after charging/ (crediting): | | |
| Directors' emoluments (note 11) | 4,829 | 2,995 |
| Other staff costs | 209,227 | 78,092 |
| Retirement benefit scheme contributions, excluding directors | 7,701 | 3,751 |
| Total employee benefit expenses | 221,757 | 84,838 |
| Auditor's remuneration | 3,104 | 2,200 |
| Depreciation of property, plant and equipment | 29,118 | 12,271 |
| Amortisation of intangible assets (note i) | 6,371 | 5,505 |
| Release of prepaid lease payments | 219 | 190 |
| Carrying amount of inventories sold | 1,446,376 | 691,037 |
| Write-down of inventories (note i) | 2,801 | - |
| Cost of inventories recognised as expenses | 1,449,177 | 691,037 |
| (Gain)/loss on disposal of property, plant and equipment (note ii) | (2,042) | 3,460 |
| Impairment loss on trade and other receivables (note ii) | 39,063 | 41,159 |
| (Reversal of)/impairment loss on bonds receivables (note ii) | (24,758) | 24,758 |
| Impairment loss on loan receivables (note ii) | 48,828 | 60,687 |
| Impairment loss on available for sales investments (note ii) | - | 40,573 |
| Impairment loss on goodwill (note ii) | 14,917 | - |
| Gain on disposal on subsidiaries (note ii) | (5,241) | - |
| (Reversal of)/ loss recognised on projects in respect of integration of signal system and traffic communication network (note ii) | (1,787) | 59,401 |
| Interest income (note ii) | (5,146) | (3,569) |
| Interest income from an associate (note ii) | (2,136) | (505) |
| Effective interest income on bond receivables (note ii) | (7,992) | (4,499) |
| Property rental income (note ii) | (8,925) | (5,216) |
| Scrap and sample sales (note ii) | (1,460) | (32) |
| Net foreign exchange gain (note ii) | (2,997) | (5,090) |

Note i: Included in cost of sales

Note ii: Included in other income, gain and losses

## 10. LOSS FOR THE YEAR/PERIOD - Continued

Included in the total employee benefit expenses is an aggregate amount of HK$7,730,000(six months ended December 31, 2014: HK$3,766,000) in respect of contributions of retirement benefits schemes made by the Group.

## 11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' and chief executive's emoluments

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

Year ended December 31, 2015

| | Director | | | | | | | | | | Chief Executive | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Mr. Hung Tsung Chin | Mr. Liao Wen I | Mr. Frank Karl-Heinz Fischer | Mr. Mu Yean Tung | Mr. Shou Philip Ming-Yung | Mr. Chen Wei Chun | Mr. Yip Chung Wai David | Mr. Lee Chien Kuo | Mr. Han Chien Shan | Mr. Wu Chia Ming | Ms. Chen Mei Huei | Total |
| | HK$000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| | | | | (note i) | (note ii) | (note iii) | (note iv) | | | | | |
| Fees | 60 | 60 | 60 | 31 | - | 21 | 30 | 60 | 60 | 60 | 60 | 502 |
| Other emoluments: | | | | | | | | | | | | |
| - Salaries and other benefits | 1,321 | 28 | 1,255 | - | - | 165 | 224 | - | - | - | 1,305 | 4,298 |
| - retirement benefits schemes contributions | 12 | 8 | - | - | - | - | - | - | - | - | 9 | 29 |
| Share-based payment expense | - | - | - | - | - | - | - | - | - | - | - | - |
| Total emoluments | 1,393 | 96 | 1,315 | 31 | - | 186 | 254 | 60 | 60 | 60 | 1,374 | 4,829 |

## 11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS - Continued

### (a) Directors' and chief executive's emoluments - Continued

Six months ended December 31, 2014

| | Directors | | | | | | | | | Chief Executive | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Mr. Hung Tsung Chin | Mr. Liao Wen I | Mr. Frank Karl-Heinz Fischer | Mr. Mu Yean Tung | Mr. Shou Philip Ming-Yung | Mr. Hsu Chun Yi | Mr. Lee Chien Kuo | Mr. Han Chien Shan | Mr. Wu Chia Ming | Ms. Chen Mei Huei | Total |
| | HK$000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| | | | | | | (note v) | | | (note vi) | | |
| Fees | 60 | 60 | 60 | 60 | 60 | 50 | 60 | 60 | 10 | 60 | 540 |
| Other emoluments: | | | | | | | | | | | |
| - Salaries and other benefits | 616 | 14 | 664 | - | 537 | - | - | - | - | 609 | 2,440 |
| - retirement benefits schemes contributions | 6 | 4 | - | - | - | - | - | - | - | 5 | 15 |
| Total emoluments | 682 | 78 | 724 | 60 | 597 | 50 | 60 | 60 | 10 | 674 | 2,995 |

Notes:

(i) Mr. Mu Yean Tung resigned as executive director of the Company on July 10, 2015.

(ii) Mr. Shou Philip Ming Yung resigned as executive director of the Company on April 30, 2015.

(iii) Mr. Chen Wei Chun was appointed as executive director of the Company on August 28, 2015.

(iv) Mr. Yip Chung Wai, David was appointed as executive director of the Company on June 9, 2015.

(v) Mr. Hsu Chun Yi resigned as an independent non-executive director of the Company on December 1, 2014.

(vi) Mr. Wu Chia Ming was appointed as an independent non-executive director of the Company on December 1, 2014.

Ms. Chen Mei Huei is a director and also the Chief Executive of the Company and her emoluments disclosed above include those for services rendered by her as the Chief Executive.

## 11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS - Continued

### (b) FIVE HIGHEST PAID INDIVIDUALS

Of the five individuals with the highest emoluments in the Group, two (six months ended December 31, 2014: two) were directors and the chief executive of the Company whose emoluments are included in the disclosure set out above. The emoluments of the remaining three (six months ended December 31, 2014: three) individuals are as follow:

| | Twelve months 1.1.2015 to 12.31.2015 HK$'000 | Six months 7.1.2014 to 12.31.2014 HK$'000 |
|---|---|---|
| Salaries and other benefits | 5,812 | 2,844 |
| Retirement benefit schemes contributions | 207 | 99 |
| Total emoluments | 6,019 | 2,943 |

The emoluments were within the following bands

| | Twelve months 1.1.2015 to 12.31.2015 HK$'000 | Six months 7.1.2014 to 12.31.2014 HK$'000 |
|---|---|---|
| | No. of employees | No. of employees |
| Nil to HK$1,000,000 | - | 2 |
| HK$1,000,000 to HK$1,500,000 | - | 1 |
| HK$1,500,001 to HK$2,000,000 | 3 | - |

During each of the year ended December 31, 2015 and six months ended December 31, 2014, no emoluments were paid by the Group to any of the directors and top paid employee as an inducement to join or upon joining the Group or as compensation for loss of office. No director waived any emoluments for each of the year ended December 31, 2015 and six months ended December 31, 2014.

## 12. DIVIDENDS

The directors do not recommend the payment of a dividend for the twelve months ended December 31, 2015 (Six months ended December 31, 2014: nil).

## 13. LOSS PER SHARE

The calculation of the basic and diluted loss per share attributable to the owners of the Company is based on the following data:

| | Twelve months 1.1.2015 to 12.31.2015 HK$'000 | Six months 7.1.2014 to 12.31.2014 HK$'000 |
|---|---|---|
| Loss for the purposes of basic and diluted loss per share | | |
| Loss for the year/ period attributable to owners of the Company | (103,162) | (264,543) |

| | Number of Shares | |
|---|---|---|
| | 12.31.2015 | 12.31.2014 |
| Weighted average number of ordinary shares | 951,475,865 | 832,228,862 |
| Effect of dilutive potential ordinary shares (Note i) | - | - |
| Weighted average number of ordinary shares for the purpose of diluted loss per share | 951,475,865 | 832,228,862 |

Note i: The computation of diluted loss per share does not assume the exercise of the Company's outstanding share options and conversion of convertible bonds as the exercise price of those options is higher than the average market price for shares and conversion impact of convertible bonds has anti-dilutive impact.

## 14. PROPERTY, PLANT AND EQUIPMENT

| | Freehold land outside Hong Kong | Leasehold Land outside Hong Kong | Building | Leasehold Improvements | Plant and machinery | Furniture Fixtures and equipment | Motor Vehicles | Computer equipment | Construction in progress | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | HK$000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Cost** | | | | | | | | | | |
| At July 1, 2014 | 3,542 | 3,396 | 133,407 | 19,050 | 250,810 | 32,516 | 5,524 | 26,100 | 2,498 | 476,843 |
| Exchange adjustments | 3 | 2 | (3,398) | (555) | (903) | (760) | (28) | (141) | (22) | (5,802) |
| Additions | - | - | - | - | 22,866 | 4,396 | | 4,040 | 85 | 31,387 |
| Reclassified as held for sale | | | | | | | | | | |
| (note 30) | - | - | (8,627) | - | (2,183) | - | - | - | | (10,810) |
| Disposals | - | - | - | (3,402) | (6,616) | (2,666) | (171) | (450) | (39) | (13,344) |
| At December 31, 2014 | 3,545 | 3,398 | 121,382 | 15,093 | 263,974 | 33,486 | 5,325 | 29,549 | 2,522 | 478,274 |
| Exchange adjustments | (2) | (2) | (7,054) | (445) | (8,054) | (2,593) | (283) | (1,708) | - | (20,141) |
| Additions | - | - | - | - | 27,117 | 1,470 | 304 | 1,527 | - | 30,418 |
| Transfer to investment | | | | | | | | | | |
| properties (note 17) | - | - | (15,080) | - | - | - | - | - | - | (15,080) |
| Transfer from Construction in Progress | - | - | - | - | 2,522 | - | - | - | (2,522) | - |
| Disposals | - | - | - | (2,742) | (57,453) | (7,519) | (1,610) | (10,812) | - | (80,136) |
| At December 31, 2015 | 3,543 | 3,396 | 99,248 | 11,906 | 228,106 | 24,844 | 3,736 | 18,556 | - | 393,335 |
| **Depreciation and amortisation** | | | | | | | | | | |
| At July 1, 2014 | - | - | 38,493 | 12,372 | 193,799 | 25,856 | 4,963 | 20,750 | - | 296,233 |
| Exchange adjustments | - | - | (2,576) | (531) | (424) | (704) | (23) | (99) | - | (4,357) |
| Provided for the period | - | - | 2,923 | 192 | 4,543 | 2,967 | 105 | 1,541 | - | 12,271 |
| Reclassified as held for sales | | | | | | | | | | |
| (note 30) | - | - | (4,993) | - | (1,965) | - | - | - | - | (6,958) |
| Eliminated on disposals | - | - | - | (284) | (1,552) | (1,728) | (51) | (87) | - | (3.702) |
| At December 31, 2014 | - | - | 33,847 | 11,749 | 194,401 | 26,391 | 4,994 | 22,105 | - | 293,487 |
| Exchange adjustments | - | - | (2,669) | (1,162) | (2,704) | (2,348) | (192) | (1,486) | - | (10,561) |
| Provided for the year | - | - | 6,192 | 252 | 18,401 | 2,374 | 204 | 1,695 | - | 29,118 |
| Eliminated on transfer to | | | | | | | | | | |
| investment properties (note 17) | - | - | (3,976) | - | - | - | - | - | - | (3,976) |
| Eliminated on disposal | - | - | - | (2,742) | (51,172) | (7,351) | (1,581) | (8,933) | - | (71,779) |
| At December 31, 2015 | - | - | 33,394 | 8,097 | 158,926 | 19,066 | 3,425 | 13,381 | - | 236,289 |
| **Carrying Values** | | | | | | | | | | |
| At December 31, 2015 | 3,543 | 3,396 | 65,854 | 3,809 | 69,180 | 5,778 | 311 | 5,175 | - | 157,046 |
| At December 31,2014 | 3,545 | 3,398 | 87,535 | 3,344 | 69,573 | 7,095 | 331 | 7,444 | 2,522 | 184,787 |

## 14. PROPERTY, PLANT AND EQUIPMENT - Continued

The above items of property, plant and equipment, except for construction in progress, are depreciated on a straight-line basis at the following rates per annum:

| | |
|---|---|
| Freehold land outside Hong Kong | Nil |
| Leasehold land in Hong Kong | 2% |
| Leasehold land outside Hong Kong | Over the term of finance lease |
| Buildings | 50 years or over the term of lease or land use rights, whichever is shorter |
| Leasehold improvements | 20% or over the term of lease, whichever is shorter |
| Plant and machinery | 10% - 33⅓% |
| Furniture, fixtures and equipment | 20% |
| Motor vehicles | 20% - 33⅓% |
| Computer equipment | 20% - 33⅓% |

The carrying values of leasehold land outside Hong Kong and buildings include amounts of HK$3,397,000 (December 31, 2014: HK$3,398,000) and HK$9,368,000 (December 31, 2014: HK$9,375,000) respectively in respect of assets held under finance leases. Certain leasehold land and building is pledged to a bank to secure a mortgage loan and general banking facilities granted to the Group (note 44).

## 15. DEPOSIT PAID FOR ACQUISITION OF A SUBSIDIARY

On May 10, 2013, the Group entered into a conditional agreement in respect of the subscription of 6,195,652 new shares in Dish Media Network Private Limited ("Dish Media"), an associate of the Group, for a subscription price of US$7,289,002 (equivalent to HK$56,489,765) (the “Share Subscription”). Dish Media is principally engaged in the provision of Direct-To-Home service for satellite TV broadcasting. Details of the transaction are set out in the announcement of the Company dated May 10, 2013.

Upon completion of the subscription, the Group interest in Dish Media will increase from 47.12% to 60% and Dish Media will become a non-wholly owned subsidiary of the Group accordingly. As at December 31, 2015, a deposit of US$5,972,000 (equivalent to HK$46,306,000) (December 31, 2014: US$4,772,000 (equivalent to HK$37,005,000)) has been paid by the Group.

Pursuant to announcement dated November 13, 2015, the Company has also initiated preliminary negotiation in relation to a potential transaction (the “Potential Transaction”) which may involve further acquisition of shareholding of Dish Media. The Company will increase its interest in Dish Media from its original shareholding of 47.12%(without taking into accounting the additional shared under the Share Subscription) to more than 50% and Dish Media will become a non-wholly owned subsidiary of the Company if the Potential Transaction materialise.

Up to the date of approval of this report, the Share Subscription has not yet been completed due to the condition of the Share Subscription is still in process and pending the appropriate consents from the Department of Industries and the Ministry of Finance of Nepal. The Company and the shareholders of Dish Media are also still at the preliminary stage of negotiation of the Potential Transaction and no definitive agreement has been entered into by the Company as at date of this report.

## 16. PREPAID LEASE PAYMENTS

| | 12.31.2015 HK$'000 | 12.31.2014 HK$'000 |
|---|---|---|
| At beginning of the year/period | 8,835 | 11,425 |
| Exchange adjustment | (386) | 69 |
| Released to profit or loss | (219) | (190) |
| Transfer to assets classified as held for sale (note 30) | - | (2,469) |
| Transfer to investment properties (note 17) | (2,718) | - |
| At the end of the year/period | 5,512 | 8,835 |
| Analysed for reporting purposes as: | | |
| Current asset | 162 | 243 |
| Non-current asset | 5,350 | 8,592 |
| | 5,512 | 8,835 |

## 17. INVESTMENT PROPERTIES

| | HK$'000 |
|---|---|
| At July 1, 2014 | 100,731 |
| Exchange adjustments | 274 |
| Changes in fair value recognised in profit or loss | 4,441 |
| At December 31, 2014 | 105,446 |
| Exchange adjustments | (1,832) |
| Transfer from prepaid lease payments and property, plant and equipment (note 14 and 16) | 43,853 |
| Disposal of subsidiaries (note 36) | (20,779) |
| Changes in fair value recognised in profit or loss | (2,447) |
| At December 31, 2015 | 124,241 |

## 17. INVESTMENT PROPERTIES - Continued

Note:

Upon transfer of properties from property, plant and equipment to investment properties, the properties were revaluated to fair value and a revaluation surplus amounted to HK$22,523,000 was credited to property revaluation reserve during the year ended December 31, 2015.

The fair values of the Group's investment properties at December 31, 2015 have been arrived at on the basis of valuations carried out by Valor Appraisal & Advisory Limited, an independent qualified professional valuers not connected to the Group and possess appropriate qualifications and experience in the valuation of properties in the relevant locations. All of the Group's investment properties were valued with reference to valuation by the valuer considering the market evidence of transaction prices for similar properties in similar locations and conditions, or on the basis of income approach where appropriate.

In arriving at the valuation on the basis of income approach, the fair value is determined by capitalising the net rental income derived from the existing tenancies with due allowance or provision for the reversionary potential of the properties.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

Following are the key inputs used in valuing the investment properties as at December 31, 2015:

| Category | Fair value hierarchy HK$000 | Fair value at December 31, 2015 HK$'000 | Fair value at December 31, 2014 HK$'000 | Valuation techniques | Key unobservable inputs HK$'000 | Range or weighted average | Relationship of unobservable inputs to fair value |
|---|---|---|---|---|---|---|---|
| Office Properties in Hong Kong | Level 3 | 62,400 | 60,900 | Comparison | Adjusted transaction price (to reflect location, size, age and maintenance) | 2.5% | The higher the adjusting factor, the lower the fair value |
| Industrial Properties in the PRC | Level 3 | 61,841 | 44,546 | Income | Reversionary yield (derived from monthly market rent) | 6% (2014: 6%) | The higher the reversionary yield, the lower the fair value |

## 17. INVESTMENT PROPERTIES – Continued

The fair value of investment properties is a level 3 recurring fair value measurement. A reconciliation of the opening and closing fair value balance is provided below:

| | 12.31.2015<br>HK'000 |
|---|---|
| Opening balance | 44,546 |
| Exchange adjustments | (1,832) |
| Reclassification* | 60,900 |
| Transfer from prepaid lease payments and property, plant and equipment (Note 14 and 16) | 43,853 |
| Disposal of subsidiaries | (20,779) |
| Changes in fair value recognised in profit or loss | (2,447) |
| Closing balance (level 3 recurring fair value) | 124,241 |

* There was transfer from level 2 to level 3 for office properties in Hong Kong due to decrease in market transactions with key unobservable inputs during the year ended December 31, 2015. The transfer between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period.

Investment property is pledged to a bank to secure a mortgage loan and general banking facilities granted to the Group (note 44).

## 18. GOODWILL

| | 12.31.2015 HK$'000 | 12.31.2014 HK$'000 |
|---|---|---|
| **COST** | | |
| At beginning of the year/period | 93,880 | 95,333 |
| Exchange adjustments | (1,613) | (1,453) |
| At the end of the year/period | 92,267 | 93,880 |
| **IMPAIRMENT** | | |
| At beginning of the year/period | 68,827 | 68,827 |
| Provision for impairment loss | 14,917 | - |
| At the end of the year/ period | 83,744 | 68,827 |
| **CARRYING AMOUNTS** | | |
| At the end of the year/period | 8,523 | 25,053 |

For the purposes of impairment testing, goodwill has been allocated to two (December 31, 2014: two) CGUs in media entertainment platform related products segment and satellite TV equipment and antenna segment. The carrying amounts of goodwill allocated to these CGUs are as follow:

| | 12.31.2015 HK$'000 | 12.31.2014 HK$'000 |
|---|---|---|
| Media entertainment platform related products - IDS | - | 14,917 |
| Satellite TV equipment and antenna - PBT | 8,523 | 10,136 |
| | 8,523 | 25,053 |

During the year ended December 31, 2015, the management assessed the expected recoverable amount based on the higher of value in use and fair value and determined that the higher amount would be based on the cash flow projections of the CGU engaged in media entertainment platform related products ("IDS CGU") and CGU engaged in satellite TV equipment and antenna ("PBT CGU"). As at December 31, 2015, the carrying amount of property, plant and equipment included in IDS CGU and PBT CGU were HK$63,000 and HK$80,104,000 (December 31, 2014: HK$81,000 and HK$81,796,000) respectively. As at December 31, 2015, the carrying amount of intangible assets included in PBT CGU was HK$26,266,000 (December 31, 2014: HK$29,455,000) respectively. During the year ended December 31, 2015, impairment loss of HK$14,917,000 (six months ended December 31, 2014: Nil) had been made for IDS CGU with decrease in operating profits generated during the year ended December 31, 2015. No impairment loss is recognised for PBT CGU for the year ended December 31, 2015 and six months ended December 31, 2014 as the recoverable amounts of PBT CGU based on value in use calculations are higher than their carrying amounts.

## 18. GOODWILL - Continued

The recoverable amount of these units has been determined based on the value in use calculations.

The calculations for the CGU engaged in trading and manufacturing of media entertainment platform related products use cash flow projections covering a four-year period and adopted discount rate of 11% (December 31, 2014: 10%). Cash flow beyond the four-year period are extrapolated with no growth (December 31, 2014: 0%). The cash flow projections are from the most recent financial budget that covers a four-year period approved by the management. The key assumptions for the value in use calculations are budgeted gross margin and budgeted revenue, which are determined based on the unit's past performance and management's expectations regarding market development.

The calculation for the CGU engaged in trading of satellite TV equipment and antenna use cash flow projection covering a five-year period and adopted discounted rate of 17% (December 31, 2014: 17%). Cash flow beyond five-year period is extrapolated for with a constant growth rate of 2% (December 31, 2014: 2%). This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. The cash flow projections are from the most recent financial budget that covers a five-year period approved by the management. The key assumptions for the value in use calculation are budgeted gross margin and budgeted revenue, which are determined based on the unit's past performance and management's expectations regarding market development.

## 19. INTANGIBLE ASSETS

| | Product technology HK$'000 (Note a) | Customer relationship HK$'000 (Note b) | Others HK$'000 (Note c) | Total HK$'000 |
|---|---|---|---|---|
| Cost | | | | |
| At July 1, 2014 | 29,999 | 35,222 | 5,726 | 70,947 |
| Exchange adjustments | (1,158) | 25 | 2 | (1,131) |
| At December 31, 2014 | 28,841 | 35,247 | 5,728 | 69,816 |
| Addition | 1,137 | - | - | 1,137 |
| Exchange adjustments | (491) | (24) | (1) | (516) |
| At December 31, 2015 | 29,487 | 35,223 | 5,727 | 70,437 |
| Amortisation and impairment | | | | |
| At July 1, 2014 | 24,189 | 6,156 | 3,497 | 33,842 |
| Exchange adjustments | (1,032) | 12 | 1 | (1,019) |
| Provided for the period | 2,304 | 3,103 | 98 | 5,505 |
| At December 31, 2014 | 25,461 | 9,271 | 3,596 | 38,328 |
| Exchange adjustments | (716) | (108) | 93 | (731) |
| Provided for the year | 2,004 | 4,173 | 194 | 6,371 |
| At December 31, 2015 | 26,749 | 13,336 | 3,883 | 43,968 |
| Carrying Values | | | | |
| At December 31, 2015 | 2,738 | 21,887 | 1,844 | 26,469 |
| At December 31, 2014 | 3,380 | 25,976 | 2,132 | 31,488 |

Notes:

(a) Product technology represents software acquired from independent third parties for the development of TV set top box. Amortisation is provided on a straight-line basis over 3 years.

(b) Customer relationship represents contracted and non-contracted customer relationship arising from the acquisition of Pro Brand International, Inc ("PBI") during the twelve months ended June 30, 2013. The amount is amortised over its estimated useful life of 7.5 years on a straight-line basis.

(c) Other represents the fair value of the research and development team of PBT, a subsidiary of the Group acquired during the twelve months ended June 30, 2013. The mature research and development team is separately recognised based on the fair value at the date of acquisition. It can support the Group for further expansion. Amortisation is provided on a straight-line basis over 7.5 years.

## 20. INTEREST IN AN ASSOCIATE/LOAN TO AN ASSOCIATE

| | 12.31.2015<br>HK$'000 | 12.31.2014<br>HK$'000 |
|---|---|---|
| Share of net assets of associate | - | - |
| Loan to an associate | 23,269 | 23,269 |
| | 23,269 | 23,269 |

Note:

Loan to an associate is unsecured, repayable on demand and bearing fixed interest rate at 4.75% (Six months ended December 31, 2014: 4.75%) per annum. It is classified as non-current as the management expected the repayment of loan from an associate will be over one year from the end of the reporting period.

As at December 31, 2015 and 2014, the Group had interests in the following associate:

| Name of entity | Form of business structure | Place of incorporation | Place of operation | Class of shares | held by the Group | Principal activities |
|---|---|---|---|---|---|---|
| Dish Media | Limited company | Nepal | Nepal | Ordinary | 47.12% | Provision of Direct-To-Home service for satellite TV |

The Group has discontinued recognition of its share of losses of the associate. The amounts of unrecognised share of the associate, extracted from the relevant management accounts of associates, both for the year/period end cumulatively, are as follows:

| | (Twelve months)<br>1.1.2015 to<br>12.31.2015<br>HK$'000 | (Six months)<br>7.1.2014 to<br>12.31.2014<br>HK$'000 |
|---|---|---|
| Unrecognised share of profit/(loss) of associate for the year / period | 2,754 | (3,496) |
| Accumulated unrecognised share of losses of associate | (11,847) | (14,601) |

## 20. INTEREST IN AN ASSOCIATE/LOAN TO AN ASSOCIATE - Continued

Summarised financial information:

| | 12.31.2015 HK$'000 | 12.31.2014 HK$'000 |
|---|---|---|
| Current assets | 59,556 | 36,105 |
| Non-current assets | 190,779 | 178,486 |
| Current liabilities | (287,664) | (259,569) |
| Non-current liabilities | (851) | (865) |
| The above amounts of assets and liabilities include the following: | | |
| Cash and cash equivalents | 4,019 | 1,975 |
| Current financial liabilities (excluding trade and other payables and provision) | 185,273 | 180,291 |

| | (Twelve months) 1.1.2015 to 12.31.2015 HK$'000 | (Six months) 7.1.2014 to 12.31.2014 HK$'000 |
|---|---|---|
| Revenue | 114,330 | 60,153 |
| Profit/(loss) for the year/period | 5,844 | (7,419) |
| Total comprehensive income for the year/period | 7,663 | (3,282) |

Reconciliation of the above summarised financial information to the carrying amount of the interest in an associate recognised in the consolidated financial statements:

| | 12.31.2015 HK$'000 | 12.31.2014 HK$'000 |
|---|---|---|
| Net liabilities | **(38,180)** | **(45,843)** |
| Proportion of the Group's ownership interest | **47.12%** | **47.12%** |
| Carrying amount of the Group's interest in an associate | **-** | **-** |

## 21. AVAILABLE-FOR-SALE INVESTMENTS

| | 12.31.2015<br>HK$'000 | 12.31.2014<br>HK$'000 |
|---|---|---|
| Available-for-sale investments comprises: | | |
| Unlisted securities: | | |
| Equity securities in overseas - non-current (Note) | - | - |

Note:

The Group acquired unlisted equity securities at a consideration of HK$40,573,000 satisfied by transfer of trade receivables of the same amount during the twelve months ended June 30, 2014. This investment was initially measured at fair value and subsequently measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that its fair value cannot be reliably measured.

During the six months ended December 31, 2014, an impairment loss of HK$40,573,000 was recognised in respect of the available-for-sale investments.

## 22. AMOUNT DUE FROM AN ASSOCIATE

Amount due from an associate include:

(i) amount of HK$14,685,000 (December 31, 2014: HK$16,194,000) is unsecured, bearing fixed interest rate at 4.75% per annum. It is classified as non-current as the management expected the repayment of loan from an associate will be over one year from the end of the reporting period; and

(ii) amount of HK$53,201,000 (December 31, 2014: HK$52,905,000) being unsecured, interest-free and the Group allows a credit period of 360 days to its associate which is trade in nature.

The following is an aged analysis of trade receivables from an associate, which is trade in nature, presented based on the invoice date at the end of the reporting year/period:

| | **12.31.2015**<br>**HK$'000** | **12.31.2014**<br>**HK$'000** |
|---|---|---|
| 0 - 30 days | - | 1,016 |
| 31 - 90 days | 12,485 | 1,863 |
| 91 - 360 days | 25,561 | 38,990 |
| More than 360 days | 15,155 | 11,036 |
| | 53,201 | 52,905 |

Included in the Group's amount due from an associate balance is trade debt with an aggregate amount of HK$15,155,000 (December 31, 2014: HK$11,036,000) which was past due at the end of the reporting period but for which the Group has not provided for impairment loss because management is of the opinion that the amount is recoverable taking into account repayments during the period and after the end of the reporting period.

Aging of amount due from an associate which are past due but not impaired:

| | **12.31.2015**<br>**HK$'000** | **12.31.2014**<br>**HK$'000** |
|---|---|---|
| More than 360 days | 15,155 | 11,036 |

## 23. LOAN RECEIVABLES

| | 12.31.2015<br>HK$'000 | 12.31.2014<br>HK$'000 |
|---|---|---|
| Loans receivables (note i and ii) | 165,938 | 88,646 |
| Less: allowance for doubtful debts (note iii) | (109,515) | (60,687) |
| | 56,423 | 27,959 |

Notes

(i) Loan receivables included an amount of HK$85,930,000 (2014: HK$85,930,000) borne interest rates at 1.2% (Six month ended December 31, 2014: 1.2%) per annum, repayable by annual instalments up to year 2018. During the year ended December 31, 2015, impairment loss of HK$25,243,000 (Six months ended December 31, 2014: HK$60,687,000) was made which is determined by the management of the Group based on the creditworthiness and the past collection history of the customers. Balance of HK$25,243,000 is classified as non-current according to the expected repayment schedule as at December 31, 2014.

(ii) The Group also granted loans amounting to HK$34,580,000 and HK$46,822,000 to third parties during the year ended December 2015 (Six months ended December 31, 2014: HK$2,716,000). The amounts are unsecured and borne interest at 5% and 3-month Libor plus 100 basis points per annum respectively (Six months ended December 31, 2014: 5% per annum), and is classified as non-current as the management expected the repayment of such amount will be over one year from the end of the reporting period. During the year ended December 31, 2015, impairment loss of HK$23,585,000 (six months ended December 31, 2014: nil) was made which is determined by the management of the Group based on the creditworthiness and the past collection history of the customers.

(iii) Allowance for doubtful debts

| | 12.31.2015<br>HK$'000 | 12.31.2014<br>HK$'000 |
|---|---|---|
| At beginning of year/period | 60,687 | - |
| Allowance for impairment loss | 48,828 | 60,687 |
| At the end of year/period | 109,515 | 60,687 |

## 24. DEFERRED TAXATION

The following are the major deferred tax assets (liabilities) recognised by the Group and movements thereon during the year/period:

| | Fair value adjustment on intangible asset HK'000 | Tax losses HK'000 | Revaluation of investment properties HK'000 | Provision for PRC withholding tax HK$'000 (Note i) | Accelerated tax depreciation HK$'000 | Provision and others HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| At July 1, 2014 | (12,519) | 2,807 | (9,776) | (5,237) | - | - | (24,725) |
| Exchange adjustments | - | - | (19) | (6) | - | - | (25) |
| Credit (charge) to profit or loss for the period | 1,280 | (1,138) | (6,085) | (461) | - | - | (6,404) |
| At December 31, 2014 | (11,239) | 1,669 | (15,880) | (5,704) | - | - | (31,154) |
| Exchange adjustments | 7 | (1) | 623 | 322 | - | - | 951 |
| Credit (charge) to profit or loss for the year | 1,089 | (1,668) | (3,964) | (412) | (682) | 2,263 | (3,374) |
| Disposal of subsidiary (note 36) | - | - | 2,350 | - | - | - | 2,350 |
| Charge to property revaluation reserve | - | - | (7,508) | - | - | - | (7,508) |
| At December 31, 2015 | (10,143) | - | (24,379) | (5,794) | (682) | 2,263 | (38,735) |

Note i: Movement during the year included HK$412,000 (six months ended December 31, 2014: HK$461,000) provision for PRC withholding tax.

## 24. DEFERRED TAXATION - Continued

The following is the analysis of the deferred tax balances for financial reporting purposes:

| | 12.31.2015<br>HK$'000 | 12.31.2014<br>HK$'000 |
|---|---|---|
| Deferred tax assets | 2,263 | 1,669 |
| Deferred tax liabilities | (40,998) | (32,823) |
| | (38,735) | (31,154) |

At December 31, 2015, the Group had unrecognised tax losses of HK$99,420,000 (December 31, 2014: HK$241,853,000) available for offset against future profits due to the unpredictability of future profit streams.

Included in the unrecognised tax losses are losses of HK$12,048,000 (December 31, 2014: HK$12,072,000) that will expire between 2031 and 2034 (December 31, 2014: expire between 2031 and 2034). Other tax losses may be carried forward indefinitely.

Under the Law of the PRC on Enterprise Income Tax, withholding tax at 10% is imposed on dividends declared in respect of profits earned by PRC subsidiaries from January 1, 2008 onwards. Deferred taxation has been provided for in full in respect of undistributed profits retained by PRC entities in the consolidated financial statements.

At December 31, 2015, the Group had deductible temporary differences of HK$22,624,000 (December 31, 2014: HK$98,673,000). No deferred tax asset has been recognised in relation to such deductible temporary differences as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

## 25. INVENTORIES

| | 12.31.2015<br>HK$'000 | 12.31.2014<br>HK$'000 |
|---|---|---|
| Raw materials | 38,488 | 92,331 |
| Work in progress | 52,532 | 95,061 |
| Finished goods | 193,758 | 42,851 |
| | 284,778 | 230,243 |

## 26. TRADE, BILLS AND OTHER RECEIVABLES

| | 12.31.2015<br>HK$'000 | 12.31.2014<br>HK$'000 |
|---|---|---|
| Trade receivables (note i) | 351,223 | 438,315 |
| Bills receivables | - | 518 |
| Less: allowance for doubtful debts | (102,293) | (147,376) |
| | 248,930 | 291,457 |
| Other receivables | 59,982 | 78,303 |
| Total trade, bills and other receivables | 308,912 | 369,760 |

Note (i) Included an amount due from a non-controlling party of a subsidiary of HK$15,850,000 (2014: Nil).

The Group allows an average credit period of 60 to 120 days to its trade customers. The following is an aged analysis of trade and bills receivables, net of allowance for doubtful debts, presented based on the invoice date at the end of the year/period:

| | 12.31.2015<br>HK$'000 | 12.31.2014<br>HK$'000 |
|---|---|---|
| 0 - 30 days | 124,420 | 185,894 |
| 31 - 90 days | 81,568 | 63,048 |
| 91 - 180 days | 22,793 | 18,340 |
| More than 180 days | 20,149 | 24,175 |
| | 248,930 | 291,457 |

During the year ended December 31, 2015, 78% (December 31, 2014: 85%) of the trade and bills receivables that are neither past due nor impaired are due from diversified customers with no recent default payment history.

Included in the Group's trade and bills receivable balance are debtors with an aggregate carrying amount of HK$54,045,000 (December 31, 2014: HK$42,515,000) which was past due at the end of the reporting period but for which the Group has not provided for impairment loss because management believes that the fundamental credit quality of the relevant customers has not deteriorated.

## 26. TRADE, BILLS AND OTHER RECEIVABLES - Continued

Aging of trade and bills receivables which are past due but not impaired:

| | 12.31.2015<br>HK$'000 | 12.31.2014<br>HK$'000 |
|---|---|---|
| Less than 3 months past due | 42,686 | - |
| 3 to 6 months past due | 3,866 | 18,340 |
| More than 6 months past due | 7,493 | 24,175 |
| | 54,045 | 42,515 |

Movement in the allowance for doubtful debts:

| | 12.31.2015<br>HK$'000 | 12.31.2014<br>HK$'000 |
|---|---|---|
| Balance at beginning of the year/period | 147,376 | 120,832 |
| Disposal of a subsidiary | (2,555) | - |
| Impairment loss recognised | 39,063 | 35,070 |
| Bad debt written off | (78,053) | (8,897) |
| Exchange realignment | (3,538) | 371 |
| Balance at the end of the year/period | 102,293 | 147,376 |

The Group recognised impairment loss based on the accounting policy stated in Note 4(o)(iii). The allowance for doubtful debts at the end of the reporting period represents allowance on individually impaired trade and bills receivables with an aggregate balance of HK$102,293,000 (December 31, 2014: HK$147,376,000), which have been outstanding for more than one year.

Management considered they are unlikely to be collected. The Group does not hold any collateral over these balances.

## 27. BOND RECEIVABLES

On December 28, 2010, the Group subscribed for the zero coupon convertible bonds("2010 Convertible Bonds") issued by Heng Xin China Holdings Limited ("HXCH") with principal amount of HK$200,000,000 from HXCH at a consideration of HK$200,000,000. The consideration was settled in cash by the Group. HXCH is a public limited company with its shares listed on the Growth Enterprise Market Board of the Stock Exchange. The 2010 Convertible Bonds do not bear any interest with maturity on December 27, 2012.

Upon the maturity of the 2010 Convertible Bonds on December 27, 2012, the 2010 Convertible Bonds were settled by:

i)Cash for HK$100,000,000; and
ii)A bond ("2012 Bond") issued by HXCH with principal amount of HK$100,000,000.

The 2012 Bond is unsecured, bears a coupon rate of 6% per annum, coupon payable quarterly in arrears, with its maturity on December 29, 2014.

At initial recognition, the amount of the 2012 Bond was measured at fair value at HK$94,776,000 calculated based on the present value of the contractually determined stream of future cash flows discounted at the required yield which was determined with reference to the credit rating of the Bond issuer and remaining time to maturity. The effective interest rate of the 2012 Bond is 9.1% per annum. Subsequent to the initial recognition, the 2012 Bond is measured at amortised cost less identified impairment losses at the end of the reporting period.

Subsequent to the maturity of the 2012 Bond on December 29, 2014, on January 12, 2015 the Group had entered into several arrangements with HXCH and National United Resources Holdings Limited ("NUR"), a company with its shares listed on the Main Board of the Stock Exchange and the details illustrated below:

### Arrangement with HXCH

Pursuant to an agreement entered into with HXCH on January 12, 2015, the Company has agreed to extend the repayment deadline of the 2012 Bond until June 30, 2015 and a repayment schedule has been agreed.

- The Company issued an executed payment instruction to direct HXCH to make a payment of HK$30,000,000 out of the HK$100,000,000 2012 Bond principal to NUR as the consideration to subscribe bond to be issued by NUR.

- For the HK$70,000,000 outstanding part of the 2012 Bond, repayment schedule with HXCH was agreed. Five instalments of HK$10,000,000 each would be repaid to the Company ("first batch instalments") in January and February 2015, and one instalment of HK$20,000,000 would be repaid on June 30, 2015 ("second batch instalment"). Both batches of instalments carry interest at 6% per annum.

  The entire amount of HK$70,000,000 balance was fully repaid during the year ended December 31, 2015. As such, a reversal of impairment loss of HK$24,758,000 was recorded in profit or loss during the year ended December 31, 2015.

## 27. BOND RECEIVABLES - Continued

### Arrangement with NUR

- On January 12, 2015, the Group entered into bond subscription agreement with NUR. Pursuant to the subscription agreement, the Company conditionally agreed to subscribe for the bonds to be issued by NUR ("2015 Bond") in the principal amount of HK$80,000,000 for a term of one year with a coupon rate of 6% per annum, payable quarterly in arrears. The Company may, (i) on or after September 30, 2015 serving at least two days' prior written notice in writing to NUR, request NUR to redeem HK$20,000,000 of the 2015 Bond at 100% of its principal amount; and (ii) on or after January 11, 2016 serving at least four days' prior written notice in writing to NUR, request NUR to redeem HK$30,000,000 of the 2015 Bond at 100% of its principal amount. Unless previously redeemed or cancelled, NUR shall redeem the 2015 Bond at 100% of its principal amount together with any accrued interest and unpaid interest calculated up to (and including) the maturity date.

- The subscription price of the 2015 Bonds will be satisfied by the way of i) HK$30,000,000 receivable from HXCH by the payment instructions set out above; ii) the payment of a cash consideration of HK$50,000,000 to NUR by the Company.

The subscription of the 2015 Bond is subject to following conditions:

- The Company having provided to NUR in respect of a payment instructions of HK$30,000,000;

- The Company having received from HXCH the first batch instalments in aggregate HK$50,000,000 in cash; and

- All necessary consents or approvals from regulatory authority, if any, in connection with the subscription of 2015 Bond is obtained.

The subscription of 2015 Bond had been completed during the year ended December 31, 2015.

## 27. BOND RECEIVABLES - Continued

### Arrangement with NUR

The movement of bond receivables is set out below:

| | Twelve months 1.1.2015 12.31. 2015 HK$'000 | Six months 7.1.2014 12.31.2014 HK$'000 |
|---|---|---|
| As at beginning of year/period | 75,242 | 98,501 |
| Repayment settlement during the year/period (note i) | (120,000) | - |
| Initial recognition of 2015 Bond (note ii) | 75,242 | - |
| Effective interest income credited to profit or loss | 7,992 | 4,499 |
| Coupon interest received/receivable | (3,263) | (3,000) |
| Reversal of/(impairment loss) recognised for 2012 Bond | 24,758 | (24,758) |
| As at end of year/period | 59,971 | 75,242 |

Note:
(i) Balance included cash settlement of HK$70 million and non cash settlement of HK$30 million of 2012 Bond based on the Company issued executed payment instruction to direct HXCH to take up the subscription of HK$30 million principal amount of 2015 Bonds. Balance also included cash settlement of HK$20 million received for 2015 Bond during the year ended December 31, 2015.

(ii) The principal amount of 2015 Bond was HK$80,000,000. At initial recognition, the amount of the 2015 Bond was measured at fair value at HK$75,242,000 with fair value loss of bond receivables of HK$4,758,000 recognised in profit or loss during the year ended December 31, 2015. The fair value was calculated based on the present value of the contractually determined stream of future cash flows discounted at the required yield which was determined with reference to the credit rating of the 2015 Bond issuer and remaining time to maturity. The effective interest rate of the 2015 Bond is 13.74% per annum. Subsequent to the initial recognition, the 2015 Bond is measured at amortised cost less identified impairment losses at the end of the reporting period.

## 28. PLEDGED BANK DEPOSITS

The amounts represent deposits pledged to banks to secure short-term bank borrowings granted to the Group. The deposits carry fixed interest rates ranged from 0.3% to 1.65% (December 31, 2014: 0.30% to 2.60%) per annum. The pledged bank deposits will be released upon the settlement of short-term bank borrowings.

## 29. BANK BALANCES AND CASH

Bank balances and cash of the Group comprise bank balances and cash held and short-term bank deposits that are interest-bearing at floating interest rate and are with original maturity of three months or less. The remaining bank deposits carry fixed interest rates ranging from 0.3% to 2.35% (December 31, 2014: 0.01% to 3.25%) per annum.

As at December 31, 2015, cash and bank balances denominated in RMB amounted to approximately HK$20,331,000 (2014: approximately HK$4,207,000). RMB is not freely convertible into foreign currencies in the PRC. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement and Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks authorised to conduct foreign exchange business.

## 30. ASSETS CLASSIFIED AS HELD FOR SALE

(a) On December 30, 2014, the Group entered into sales and purchase agreement in respect of disposal of its entire equity interest in a wholly owned subsidiary, namely Weblink Technology Limited and its subsidiary Fiberlink Technology Limited (collectively referred to as "Weblink Group"), in an aggregate cash consideration of HK$14,000,000.

The major assets attribute to Weblink Group, which are expected to be sold within twelve months from December 31, 2014, have been classified as "assets classified as held for sale" and are presented separately in the consolidated statement of financial position. The major classes of assets of Weblink Group classified as held for sale are as follows:

| | 12.31.2015<br>HK$'000 | 12.31.2014<br>HK$'000 |
|---|---|---|
| Property, plant and equipment (note 14) | - | 3,852 |
| Prepaid lease payment (note 16) | - | 2,469 |
| Assets classified as held for sale | - | 6,321 |

The disposal of Weblink Group had been completed during the year ended December 31, 2015. Details please refer to note 36 to the consolidated financial statements.

(b) During the year ended December 31, 2015, disposal of investment properties which classified as held for sales amounted RMB26,000,000(equivalent to HK$32,711,000) has been completed.

## 31. TRADE, BILLS AND OTHER PAYABLES

| | 12.31.2015<br>HK$'000 | 12.31.2014<br>HK$'000 |
|---|---|---|
| Trade payables | 374,626 | 391,379 |
| Bills payables | 895 | 1,897 |
| Other payables (note i) | 107,917 | 219,166 |
| | 483,438 | 612,442 |

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

| | 12.31.2015<br>HK$'000 | 12.31.2014<br>HK$'000 |
|---|---|---|
| 0 - 30 days | 210,396 | 156,260 |
| 31 - 90 days | 116,450 | 130,533 |
| 91 - 360 days | 47,314 | 105,372 |
| More than 360 days | 1,361 | 1,111 |
| | 375,521 | 393,276 |

The average credit period on purchases of goods is 90 days.

Note:

(i) An amount due to a director of HK$15,157,000 (2014: HK$14,170,000) which included in other payable whose term is unsecured, interest free and repayable on demand.

At December 31, 2014, included in other payables an amount due to non-controlling interests amounting to HK$23,281,000, which bears interest rate at 2.3% per annum, is unsecured and repayable within one year. The amount was repaid during the year ended December 31, 2015.

## 32. BANK AND OTHER BORROWINGS

| | 12.31.2015 HK$'000 | 12.31.2014 HK$'000 |
|---|---|---|
| Bank loans | 292,438 | 306,928 |
| Other loans | 58,000 | - |
| | 350,438 | 306,928 |
| Analysed as: | | |
| Secured | 260,375 | 222,760 |
| Unsecured | 90,063 | 84,168 |
| | 350,438 | 306,928 |
| Carrying amount repayable: | | |
| On demand or within one year | 286,726 | 172,483 |
| In more than one year but not more than two years | 1,699 | 5,514 |
| In more than two years but not more than five years | - | 1,161 |
| More than five years | - | 1,189 |
| | 288,425 | 180,347 |
| Carrying amount of bank loans that contain a repayment on demand clause | 62,013 | 126,581 |
| | 350,438 | 306,928 |
| Less: Amount due within one year shown under current liabilities | (348,739) | (299,064) |
| Amount due after one year | 1,699 | 7,864 |

The range of the effective interest rates on the Group's bank and other borrowings are as follows:

| | Twelve Months 1.1.2015 12.31.2015 HK$'000 | Six months 7.1.2014 12.31.2014 HK$'000 |
|---|---|---|
| Variable interest rate borrowings | 1.42% - 12.00% | 1.42% - 5.00% |

## 33. CONVERTIBLE BONDS

Pursuant to the announcement dated August 13, 2015, the Company completed placing of Hong Kong dollar denominated convertible bonds (the "Convertible Bonds") with a principal amount of HK$15,100,000. The Convertible Bonds bears interest at 5% per annum and will be matured in 12 months from August 13, 2015. Holders of the Convertible Bonds shall have right to convert the whole or part of the principal amount at the conversion price of HK$0.32 per share. For details of the placing of Convertible Bonds, please refer to announcements dated August 13, 2015 and July 24, 2015 respectively.

As the Convertible Bonds was issued in Hong Kong dollar other than the functional currency of the Company in United States dollars, the conversion feature was recognised as derivative liabilities and estimated at HK$4,252,850 at the date of issue using binominal valuation method with reference to valuation by an independent valuer. The difference between principal amount received and fair value of derivative liabilities which represented the host debt liability at the date of issue is approximately HK$10,847,150.

The Convertible Bonds recognised in the statement of financial position is calculated as follows:

| | 12.31.2015 |
|---|---|
| **Reconciliation for derivative liability during the year (Level 3)** | **HK$'000** |
| **Derivative liabilities** | |
| Fair value of derivative liability of conversion options at date of issue | 4,253 |
| Fair value changes recognised upon conversion during the year recognised in profit or loss | 2,393 |
| Conversion during the year (note i) | (6,646) |
| Balance as at December 31, 2015 | - |
| **Host debt liabilities** | |
| Fair value of the host debt liability at date of issue | 10,847 |
| Interest expense (note 8) | 590 |
| Conversion during the year | (11,437) |
| Balance as at December 31, 2015 | - |

## 33. CONVERTIBLE BONDS - Continued

Interest expense on the Convertible Bonds is calculated using the effective interest method by applying the effective interest rate of 39.85% to the host debt liability during the year ended December 31, 2015.

Note i:

The fair value of derivative liability of conversion options during conversion was a level 3 fair value measurements. The following information is relevant in the determination of the fair value of derivative liability of conversion options.

| | **2015**<br>**HK$'000** |
|---|---|
| Valuation model | Binomial |
| Volatility of share prices | 64.31% |
| Dividend yield | 0% |
| Risk-free interest rate | 0.07% |

Any change in the major inputs into the model will result in changes in the fair value of the derivative component. If the volatility of share prices increased by 15%, with other parameters remain unchanged, the fair value of the derivative liability would increase by approximately HK$545,000 while volatility of share prices decreased by 15%, the fair value of the derivative liability would decrease by approximately HK$640,000. There was no change in valuation method during the year. There was also no transfer between levels during the year.

## 34. OBLIGATIONS UNDER FINANCE LEASES

| | **12.31.2015**<br>**HK$'000** | **12.31.2014**<br>**HK$'000** |
|---|---|---|
| Analysed for reporting purposes as: | | |
| Current liabilities | 1,840 | 1,826 |
| Non-current liabilities | 11,036 | 12,884 |
| | 12,876 | 14,710 |

## 34. OBLIGATIONS UNDER FINANCE LEASES - Continued

It is the Group's policy to lease certain of its land and buildings under finance leases. The average lease term is 10 years. Interest rate underlying all obligations under finance leases is fixed at the contract date at 5% per annum. These leases have no terms of renewal or purchase options and escalation clauses.

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|---|---|---|---|
| | 12.31.2015 HK$'000 | 12.31.2014 HK$'000 | 12.31.2015 HK$'000 | 12.31.2014 HK$'000 |
| Amounts payable under finance leases within one year | 1,938 | 1,939 | 1,840 | 1,826 |
| In more than one year but not more | 1,938 | 1,939 | 1,855 | 1,841 |
| In more than two years but not more | 5,813 | 5,817 | 5,656 | 5,613 |
| In more than five years | 3,553 | 5,494 | 3,525 | 5,430 |
| | 13,242 | 15,189 | 12,876 | 14,710 |
| Less: future finance charges | (366) | (479) | - | - |
| Present value of lease obligations | 12,876 | 14,710 | 12,876 | 14,710 |
| Less: Amount due for settlement within one year (shown under current liabilities) | | | (1,840) | (1,826) |
| Amount due for settlement after one year | | | 11,036 | 12,884 |

## 35. SHARE CAPITAL

| | Number of shares | Amount HK$'000 |
|---|---|---|
| Ordinary shares of HK$0.10 each | | |
| Authorised: | | |
| At July 1, 2014 and December 31, 2014 | 1,000,000,000 | 100,000 |
| Increase in authorised share capital (note a) | 2,000,000,000 | 200,000 |
| At December 31, 2015 | 3,000,000,000 | 300,000 |
| | | |
| Issued and fully paid: | | |
| At July 1, 2014 and December 31, 2014 | 832,228,862 | 83,223 |
| Issue of shares upon placing (note b) | 166,445,772 | 16,644 |
| Issue of shares upon conversion of convertible bonds (note c) | 47,187,500 | 4,719 |
| At December 31, 2015 | 1,045,862,134 | 104,586 |

Note:

(a) Pursuant to the ordinary resolution approved by the shareholders on June 8, 2015, the authorised share capital of the Company increased from HK$100,000,000 divided into 1,000,000,000 ordinary shares to HK$150,000,000 divided into 1,500,000,000 ordinary shares by the creation of an additional 500,000,000 new ordinary shares.

Pursuant to the ordinary resolution approved by the shareholders on December 4, 2015, the Company further increased its authorised share capital to HK$300,000,000 divided into 3,000,000,000 ordinary shares by the creation of an additional 1,500,000,000 new ordinary shares.

(b) On May 7, 2015, the Group had completed placing of new shares. A total of 166,445,772 ordinary shares had been successfully placed at the placing price of HK$0.28 per share. Details of the placing are set out in the announcement of the Company dated May 7, 2015.

(c) During the year ended December 31, 2015, convertible bonds of the Company with an aggregate principal amount of HK$15,100,000 were converted into 47,187,500 ordinary shares of HK$0.1 each at the conversion price of HK$0.32 per share (note 33).

(d) All new shares issued rank pari passu in all respect with the then existing shares.

## 36. DISPOSAL OF SUBSIDIARIES

(a) During the year ended December 31, 2015, the Group disposed of the entire equity interest in Weblink Group. The net assets of Weblink Group at the date of disposal were as follows:

| | HK$'000 |
|---|---|
| Property, plant and equipment (note 30) | 3,852 |
| Prepaid lease payment (note 30) | 2,469 |
| Bank balances and cash | 1,109 |
| Trade and other payables | (1,262) |
| Net assets disposed of | 6,168 |
| Releases of exchange reserve | 989 |
| Gain on disposal of subsidiaries included in profit or loss | 6,843 |
| Total consideration | 14,000 |
| | |
| Net cash inflow arising on disposal | |
| Cash consideration | 14,000 |
| Bank balance and cash disposed of | (1,109) |
| | 12,891 |

(b) During the year ended December 31, 2015, the Group disposed of the entire equity interest in Moment Track Limited and its subsidiary (collectively referred to "Moment Track Group"). The net assets of Moment Track Group at the date of disposal were as follows:

| | HK$'000 |
|---|---|
| Investment property (note 17) | 20,779 |
| Trade and other receivables | 250 |
| Bank balances and cash | 80 |
| Deferred tax payables (note 24) | (2,350) |
| Net assets disposed of | 18,759 |
| Releases of exchange reserve | 3,473 |
| Loss on disposal of subsidiaries included in profit or loss | (1,602) |
| Total consideration | 20,630 |
| | |
| Net cash inflow arising on disposal | |
| Cash consideration | 20,630 |
| Bank balance and cash disposed of | (80) |
| | 20,550 |

## 37. OPERATING LEASES

### The Group as lessee

Minimum lease payments paid under operating leases during the year/period:

| | Twelve months 1.1.2015 to 12.31.2015 HK$'000 | Six months 7.1.2014 to 12.31.2014 HK$'000 |
|---|---|---|
| Premises | 3,684 | 3,909 |

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

| | 12.31.2015 HK$'000 | 12.31.2014 HK$'000 |
|---|---|---|
| Within one year | 2,718 | 3,803 |
| In the second to fifth year inclusive | 1,256 | 5,712 |
| | 3,974 | 9,515 |

### The Group as lessor

Property rental income earned during the year was HK$8,925,000 (six months ended December 31, 2014: HK$5,216,000) with negligible outgoings. All of the investment properties held have committed tenants for the next one to five years.

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

| | 12.31.2015 HK$'000 | 12.31.2014 HK$'000 |
|---|---|---|
| Within one year | 5,521 | 1,829 |
| In the second to fifth year inclusive | 4,943 | 1,328 |
| Over five years | 16 | 1,093 |
| | 10,480 | 4,250 |

## 38. CAPITAL AND OTHER COMMITMENTS

| | 12.31.2015<br>HK$'000 | 12.31.2014<br>HK$'000 |
|---|---|---|
| Capital expenditure contracted for but not provided in the consolidated financial statements in respect of: | | |
| Acquisition of a subsidiary | 10,184 | 19,485 |

## 39. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 32, equity reserves attributable to owners of the Group, comprising issued share capital and various reserves and retained profits.

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors of the Company 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 and the issue of new debt or the redemption of existing debts.

## 40. FINANCIAL RISK MANAGEMENT

### (a) Categories of financial risk management

| | 12.31.2015<br>HK$'000 | 12.31.2014<br>HK$'000 |
|---|---|---|
| **Financial assets** | | |
| Loans and receivables (including cash and cash equivalents) | 594,015 | 716,931 |
| **Financial liabilities** | | |
| Amortised cost | 846,752 | 804,712 |

## 40. FINANCIAL RISK MANAGEMENT - Continued

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

The Group's major financial risk management include trade, bills and other receivables, loan receivables, bond receivables, available-for-sale investments, loan to an associate, amount due from an associate, pledged bank deposits bank balances and cash, trade, bills and other payables, obligation under finance leases and bank and other borrowings. Details of these financial risk management are disclosed in respective notes. The risks associated with these financial risk management and 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.

**Market risk**

**(i) Currency risk**

The Company's subsidiaries have foreign currency sales and purchases, which expose the Group to foreign exchange risk.

The carrying amounts of the Group's foreign currency (as in relation to the functional currency of the relevant group entities) denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

| | Assets | | Liabilities | |
|---|---|---|---|---|
| | **12.31.2015 HK$'000** | **12.31.2014 HK$'000** | **12.31.2015 HK$'000** | **12.31.2014 HK$'000** |
| Renminbi ("RMB") | 191 | 1,088 | 44,761 | 78,070 |
| HKD | 60,848 | 76,940 | - | 3 |
| USD | 49,915 | 94,178 | 209,621 | 246,784 |

**Sensitivity analysis**

As HKD is pegged with USD, the Group's currency risk relative to USD in relation to the monetary assets/liabilities denominated in HKD is not expected to be significant.

The Group is mainly exposed to USD and RMB relative to the functional currency of the relevant group entities, which are mainly RMB and USD respectively. The Group does not have a formal foreign currency hedging policy. But management monitors the Group's foreign currency exposure and enters into forward contracts when movements in the exchange rates are outside management's expected range in order to minimise the exchange rate risk.

## 40. FINANCIAL RISK MANAGEMENT - Continued

### (b) Financial risk management objectives and policies - Continued

**Market risk - Continued**

**(i) Currency risk - Continued**

**Sensitivity analysis - Continued**

The following table details the Group's sensitivity to a 5% increase and decrease in functional currency of respective group entities against USD and RMB. 5% is the sensitivity rate used and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes both USD and RMB monetary assets and liabilities at the end of the reporting period. A negative number below indicates an increase in loss where USD and RMB strengthen 5% against the functional currency. For a 5% weakening of USD and RMB against the functional currency, there would be an equal and opposite impact on the loss for the year/period.

| Note | **12.31.2015** | **12.31.2014** |
|---|---|---|
| | **HK$'000** | **HK$'000** |
| Increase in loss for the year/period: | | |
| - RMB | (1,671) | (2,887) |
| - USD | (5,989) | (5,723) |

Note:

(i) This is mainly attributable to the exposure outstanding on receivables and payables.

## 40. FINANCIAL RISK MANAGEMENT - Continued

### (b) Financial risk management objectives and policies - Continued

**Market risk - Continued**

#### (ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate loan to an associate, loan receivables, bond receivables and pledged bank deposits set out in notes 20, 23, 27 and 28.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances and bank and other borrowings as set out in notes 29 and 32 respectively. It is the Group's policy to keep the majority of balances and borrowings at floating rate of interest so as to minimise the fair value interest rate risk.

The Group currently does not have any interest rate hedging policy in relation to interest rate risk. The directors of the Company monitor the exposure on an ongoing basis and will consider hedging significant interest rate risk should the need arise.

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of LIBOR arising from the Group's USD borrowings.

**Sensitivity analysis**

The bank balances of the Group carry floating-rates of interest and have exposure to cash flow interest rate risk. The directors of the Company consider the exposure is insignificant and therefore no sensitivity analysis is presented.

The sensitivity analyses below have been determined based on the exposure to interest rates for variable-rate bank and other borrowings. The analysis is prepared assuming the amount of liabilities outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis point change is used and represents management's assessment of the reasonably possible change in interest rates.

A summary of the Group's monetary liabilities at the end of the reporting period that carried variable interest rate is as follows:

| Note | 12.31.2015<br>HK$'000 | 12.31.2014<br>HK$'000 |
|---|---|---|
| Liabilities | 350,438 | 306,928 |

## 40. FINANCIAL RISK MANAGEMENT - Continued

### (b) Financial risk management objectives and policies - Continued

#### Market risk - Continued

#### (ii) Interest rate risk - Continued

Based on the above summary, if interest rates had been 50 basis points higher or lower and all other variables were held constant, the Group's loss for the year ended December 31, 2015 would increase or decrease by HK$1,314,000 (Six months ended December 31, 2014: HK$1,151,000). The Group's sensitivity to interest rates has decreased during the period mainly due to decrease in bank and other borrowings.

#### Credit risk

The Group's maximum exposure to credit risk in the event of counterparties' failure to perform their obligations as at December 31, 2015 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. In order to minimise the credit risk, management of the Group has delegated a team 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. During the year ended December 31, 2015, impairment losses of HK$39,063,000 (six months ended December 31, 2014: HK$35,070,000) had been made for the long outstanding customers, representing the full irrecoverable amount of those customers. In this regard, the directors of the Company consider that the Group's credit risk in other debts is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

The Group has concentration of credit risk in respect of loan receivables. As at December 31, 2015, the loan receivables were mainly provided to several overseas customers who have long business relationship with the Group. During the year ended December 31, 2015, impairment losses of HK$48,828,000 (six months ended December 31, 2014: HK$60,687,000) had been made for the loan receivables. The management of the Group continuously monitors the level of exposure to ensure that follow up actions and collection actions are taken promptly to lower exposure.

## 40. FINANCIAL RISK MANAGEMENT - Continued

### (b) Financial risk management objectives and policies - Continued

#### Credit risk - Continued

The Group is also exposed to concentration of credit risk through its loan to an associate, amount due from an associate and deposit paid for acquisition of a subsidiary. Because of the Group's involvement in the management of the associate, the Group is in a position to monitor its financial performance. Accordingly, management believes that the Group's exposure in this regard is significantly reduced.

The Group has concentration of credit risk as 17% (December 31, 2014: 6%) and 45% (December 31, 2014: 31%) of the total trade and bills receivables was due from the Group's largest customer and the five largest customers respectively. The directors of the Company considered that the receivable balance from these customers do not represent a significant credit risk based on past collection experience and no bad debts have been recognised against trade and bills receivables due from these customers.

In addition, bonds receivable amounts to principal of HK$60,000,000 with carrying amount of HK$59,971,000 (December 31, 2014: bonds receivable amounts to principal of HK$100,000,000 with carrying amount of HK$75,242,000) as at December 31, 2015, expose the Group to concentration of credit risk on the counterparty. The Group assesses the credit risk by reviewing the financial performance and credit worthiness of bond receivable. Other than that, the Group has no other significant concentration of credit risk.

#### Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

## 40. FINANCIAL RISK MANAGEMENT - Continued

### (b) Financial risk management objectives and policies - Continued

#### Liquidity risk - Continued

The tables include both interest and principal cash flows. To the extent that interest flows are variable rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

**Liquidity risk tables**

| | Weighted average interest rate | Less than 1 month or on demand | 1 - 3 months | 3 month to1 year | Over 1 year | Total undiscounted cash flows | Carrying amount at December 31, 2015 |
|---|---|---|---|---|---|---|---|
| | % | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| December 31, 2015 | | | | | | | |
| Non-derivative financial liabilities | | | | | | | |
| Trade, bills and other payables | - | 300,213 | 111,205 | 71,877 | 143 | 483,438 | 483,438 |
| Bank and other borrowings | 4.39 | 161,257 | 112,857 | 81,097 | 1,746 | 356,957 | 350,438 |
| Obligation under finance lease | | 162 | 323 | 1,453 | 11,304 | 13,242 | 12,876 |
| | | 461,632 | 224,385 | 154,427 | 13,193 | 853,637 | 846,752 |

| | Weighted average interest rate | Less than 1 month or on demand | 1 - 3 months | 3 month to1 year | Over 1 year | Total undiscounted cash flows | Carrying amount at December 31, 2014 |
|---|---|---|---|---|---|---|---|
| | % | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| December 31, 2014 | | | | | | | |
| Non-derivative financial liabilities | | | | | | | |
| Trade, bills and other payables | - | 260,768 | 130,534 | 62,734 | 43,748 | 497,784 | 497,784 |
| Bank and other borrowings | 2.60 | 202,035 | 64,951 | 33,342 | 8,068 | 308,396 | 306,928 |
| Obligation under finance lease | | 162 | 323 | 1,453 | 13,251 | 15,189 | 14,710 |
| | | 462,965 | 195,808 | 97,529 | 65,067 | 821,369 | 819,422 |

## 40. FINANCIAL RISK MANAGEMENT - Continued

### (b) Financial risk management objectives and policies - Continued

#### Liquidity risk - Continued

Bank loans with a repayment on demand clause are included in the "less than month or on demand" time band in the above maturity analysis. As at December 31, 2015, the aggregate undiscounted principal amounts of these bank loans amounted to HK$62,013,000 (December 31, 2014: HK$126,581,000). Taking into account the Group's financial position, the directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate payment. The directors believe that such bank loans will be repaid within one year and one year after the end of the reporting period in accordance with the scheduled repayment dates set out in the loan agreements. At that time, the aggregate principal and interest cash outflows will amount to HK$62,013,000 and HK$1,736,000 (December 31, 2014: HK$126,581,000 and HK$375,000) respectively.

### (c) Fair value measurement of financial risk management

This note provides information about how the Group determine fair values of various financial assets and liabilities.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities that are recorded at amortised cost in the consolidated financial statements approximate their fair values.

The fair values of the financial assets and liabilities recorded at amortised cost have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties.

During the year ended December 31, 2015, the Group had financial risk management of derivative liabilities of conversion options were subject to fair value measurement. The inputs used for fair value measurement is categorised into level 3 within the fair value hierarchy as stated in note 3(b) to the consolidated financial statements including using of binominal pricing model with key input in volatility of share prices.

For disclosure of the investment properties that are measured at fair value, please refer to note 17 to the consolidated financial statements.

## 41. SHARE-BASED PAYMENT TRANSACTIONS

Pursuant to a share option scheme approved by a written resolution passed by the shareholders of the Company on March 17, 2005 (the "Option Scheme") which has a term of 10 years, the Company may grant options to the directors or employees, any business consultants, business partners, suppliers, customers, agents or financial or legal advisers of the Company or any of its subsidiaries, for the recognition of their contributions, to subscribe for shares in the Company with a payment of HK$1.00 upon each grant of options offered.

The exercise price of the share option will be determined at the highest of:

(i) the closing price of the Company's shares on the Stock Exchange on the date of grant;

(ii) the average of closing prices of shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the option; and

(iii) the nominal value of the shares.

The share options are exercisable at any time during a period of not more than 10 years from the date of grant, subject to the terms and conditions of the Option Scheme, or any conditions stipulated by the board of directors.

The maximum number of shares in respect of which options may be granted shall not exceed 10% of the number of shares of the Company in issue from time to time. Unless further shareholders' approval has been obtained pursuant to the conditions set out in the Option Scheme, no person shall be granted an option which, if all the options granted to the person (including both exercised and outstanding options) in any 12 month period up to the date of grant are exercised in full, would result in such person's maximum entitlement exceeding 1% of the number of issued shares of the Company.

The following table discloses movements of the share options of the Company entitled by the Company's directors or employees during the period/year:

## 41. SHARE-BASED PAYMENT TRANSACTIONS - Continued

### Number of share options

| | Date of grant(Note b) | Exercise price (Note a) | Outstanding at July 1, 2014 | Lapsed during the period | Outstanding at January 1, 2015 | Lapsed during the year | Outstanding December 31, 2015 |
|---|---|---|---|---|---|---|---|
| Type of grantee | | | | | | | |
| Directors | July 30, 2005 | HK$1.02 | 500,000 | - | 500,000 | (500,000) | - |
| Directors | October 22, 2010 | HK$2.05 | 2,500,000 | - | 2,500,000 | - | 2,500,000 |
| Employees | July 30, 2005 | HK$1.02 | 2,340,000 | - | 2,340,000 | (2,340,000) | - |
| Employees | December 16, 2006 | HK$2.05 | - | - | - | - | - |
| Employees | December 27, 2007 | HK$1.76 | 100,000 | - | 100,000 | - | 100,000 |
| Employees | April 1, 2009 | HK$1.114 | 100,000 | - | 100,000 | - | 100,000 |
| Employees | October 22, 2010 | HK$2.05 | - | - | - | - | - |
| Total | | | 5,540,000 | - | 5,540,000 | (2,840,000) | 2,700,000 |
| Exercisable at the end of the period/year | | | 5,540,000 | - | 5,540,000 | (2,840,000) | 2,700,000 |
| Weighted average exercise price | | | 1.50 | - | 1.50 | 1.02 | 2.00 |

(a) The closing prices of the Company's shares immediately before July 30, 2005, December 16, 2006, December 27, 2007, April 1, 2009 and October 22, 2010, the dates the options were granted, were HK$1.02, HK$2.05, HK$1.76, HK$1.114 and HK$2.05 respectively.

(b) The share options are vested in stages as follows:

On or after the second anniversary of the date of grant 50%.

On or after the third anniversary of the date of grant remaining 50%.

Options granted on July 30, 2005, December 16, 2006, December 27, 2007, April 1, 2009 and October 22, 2010 are exercisable until July 29, 2015, December 15, 2016, December 26, 2017, March 31, 2019 and October 21, 2020, respectively.

All the share options has been vested and no share options expenses recognised during the year ended December 2015 (six months ended December 31, 2014: HK$130,000) in relation to share options granted by the Company.

## 42. RETIREMENT BENEFIT PLANS

The Group operates a MPF Scheme for all qualifying employees in Hong Kong. The MPF Scheme is held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution paid and payable in the future years.

The retirement benefit scheme contributions arising from the MPF Scheme charged to the consolidated statement of profit or loss and other comprehensive income represent contributions paid and payable to the funds by the Group at rates specified in the rules of the scheme.

The employees employed by the operations in the PRC are members of the state-managed retirement benefit schemes operated by the PRC government. The PRC operations are required to contribute a certain percentage of their payroll to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes operated by the PRC government is to make the required contributions under the schemes.

In addition, certain subsidiaries of the Company in foreign countries are required to contribute amounts based on employees' salaries to the retirement benefit schemes as stipulated by the relevant local authorities. The employees are entitled to those subsidiaries' contributions subject to the regulations of the relevant local authorities.

## 43. RELATED PARTY DISCLOSURES

### (i) Transactions

The Group had the following related party transaction:

| Relationship | Nature of transaction | Twelve months 1.1.2015 to 12.31.2015 HK$'000 | Six months 7.1.2014 to 12.31.2014 HK$'000 |
|---|---|---|---|
| Associate | Sales of goods | 37,533 | 17,041 |
| | Interest income | 2,136 | 505 |

### (ii) Balances

Details of the Group's balances with related party are set out in the consolidated statement of financial position and in notes 20 and 22.

### (iii) Compensation of key management personnel

The remuneration of directors and other members of key management during the year/period was as follows:

| | Twelve months 1.1.2015 to 12.31.2015 HK$'000 | Six months 7.1.2014 to 12.31.2014 HK$'000 |
|---|---|---|
| Short-term benefits | 10,612 | 5,824 |
| Post-employment benefits | 236 | 115 |
| | 10,848 | 5,939 |

In the opinion of the directors, the remuneration of directors and key executives is determined having regard to the performance of individuals and market trends.

## 44. PLEDGE OF ASSETS

At the end of the reporting period, the following assets were pledged to secure banking facilities granted to the Group:

| | 12.31.2015 HK$'000 | 12.31.2014 HK$'000 |
|---|---|---|
| Bank deposits | 18,918 | 117,264 |
| Trade receivables | 64,889 | - |
| Leasehold land and buildings | 48,356 | 57,755 |
| Investment properties | 124,241 | 84,656 |

## 45. ACQUISITION OF ADDITIONAL INTEREST OF A SUBSIDIARY

On November 12, 2014, the Group entered into a sales and purchase agreement in respect of the acquisition of additional 49% equity interest in Weblink Technology Limited ("Weblink") at a cash consideration of HK$8,329,000. The transaction was completed during six months ended December 31, 2014 and the Group held 100% equity interest in Weblink after the acquisition.

A balance of HK$862,000 had been recognised in reserve, which represented the difference between the consideration paid of HK$8,329,000 and the carrying amount of the 49% non-controlling interest being acquired at date of acquisition.

During the year ended December 31, 2015, the Group disposed of the entire equity interest in Weblink. Details are set out in note 36.

## 46. MAJOR NON-CASH TRANSACTIONS

During the year ended December 31, 2015, the Company issued the executed payment instructions to direct HXCH to make payment of HK$30,000,000 to NUR on January 12, 2015 and on the same date, the Company subscribed HK$30,000,000 bond issued by NUR (note 27).

## 47. ARBITRATION

On September 29, 2011, the Group entered into a conditional agreement (the "Agreement") with an independent individual third party (the "Original Shareholder") and Technosat Technology JLT FZE ("Technosat", a company incorporated in Dubai, which was wholly owned by the Original Shareholder), to subscribe for 375 new shares in Technosat at a cash consideration of US$7,500,000 (equivalent to HK$58,170,000), amounting to 15% of Technosat's enlarged capital. Technosat is set up to be engaged in operation of digital TV and radio platform, pay TV channel, and sales and supply of TV set top boxes.

As at June 30, 2012, the Group had paid a deposit of US$2,500,000 (equivalent to HK$19,467,000) to Technosat to acquire new shares in Technosat which was fully provided for impairment in prior year. Pursuant to the terms of the Agreement, the Group is required to pay a further US$5,000,000 in relation to the subscription of this 15% equity interest in Technosat. The subscription is not yet completed up to the date of approval of this report as the conditions precedent of the subscription of new shares in Technosat including the consent and approval by government authority in Dubai has not been fulfilled.

Despite the Group's repeated request for information, there were no satisfactory response from the Original Shareholder or Technosat ("Counterparties") regarding the current status and the procurement of obtaining government approval from the government authority in Dubai. The Group has engaged legal counsel to act for the Group and started dispute resolution proceedings against the Original Shareholder and Technosat.

On January 21, 2013, the legal counsel of the Original Shareholder and Technosat served a notice to the Group's legal counsel for a claim on the further payment of US$5,000,000 in relation to the subscription of this 15% equity interest in Technosat.

The Group's legal counsel has replied on behalf of the Group on February 11, 2013 in response to the claim of the Original Shareholder and Technosat defending the claim as the directors of the Company consider such claim invalid, as the conditions precedent of the subscription of new shares in Technosat had not been fulfilled and constituted a breach of the Agreement.

The Group's legal counsel had repeated request on the Original Shareholder and Technosat to commence the next step on mediation, but there were no satisfactory response from the legal counsel of the Original Shareholder and Technosat up to the deadline set by August 2014. At the date of approval of this report, the Group's legal counsel is in the process for arrangement to submit for the next step on arbitration.

## 48. PRINCIPAL SUBSIDIARIES OF THE COMPANY

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

| Name of company | Place of/incorporation / establishment/ operations | Class of shares held | Issued and fully paid share capital/ registered capital | Proportion of nominal value of issued share/ registered capital held by the Company 12.31.2015 | | 12.31.2014 | | Principal activities |
|---|---|---|---|---|---|---|---|---|
| | | | | Directly | Indirectly | Directly | Indirectly | |
| Top Peaker Group Limited ("Top Peaker") | British Virgin Islands ("BVI")/ Hong Kong | Ordinary | US$10,000 | 100% | | 100% | | Investment holding |
| Sandmartin (Zhong Shan) Electronic Co., Ltd. (Note) 中山聖馬丁電子元件有限公司 | PRC | Registered capital | US$19,500,000 | | 100% | | 100% | Manufacture of electronic goods |
| SMT Hong Kong Limited | Hong Kong | Ordinary | HK$2 | | 100% | | 100% | Trading of electronic goods |
| SMT Electronic Technology Limited | Cayman Islands/ Taiwan | Ordinary | US$1 | | 100% | | 100% | Trading of electronic goods |
| SMT (Macao Commercial Offshore) Limited | Macau | Quota capital | MOP100,000 | | 100% | | 100% | Trading of electronic goods |
| TRT Business Network Solutions, Inc. | USA | Ordinary | US$100,000 | | 100% | | 100% | Trading of electronic goods |
| PBT | Cayman Islands/USA | Ordinary/ Preference | US$20,000,000/ US$9,759,203 | 59.1% | | 59.1% | | Investment holding and trading of Satellite TV equipment and antenna |
| PBI | USA | Ordinary | US$1 | | 59.1% | | 59.1% | Trading of Satellite and trading of Satellite TV equipment and antenna |
| Sksteck Inc. | Taiwan | Ordinary | NTW225,000,000 | | 59.1% | | 59.1% | Design, manufacture and trading of Satellite TV equipment and antenna |
| Weblink | BVI/ Hong Kong | Ordinary | US$200 | | N/A* | | 100% | Investment holding |
| Fiberlink Technology Limited (Note) 珠海保稅區隆宇光電科技有限公司 | PRC | Registered capital | US$1,500,000 | | N/A* | | 100% | Manufacture of optical fibre products |
| FLT Hong Kong Technology Limited | BVI/ Hong Kong | Ordinary | US$450,000 | | 100% | | 100% | Trading of optical fibre products |
| BCN Distribuciones, S.A. | Spain | Ordinary | EUR412,102 | | 100% | | 100% | Research and development and trading of electronic goods |
| IDS | Germany | Ordinary | EUR31,250 | | 100% | | 100% | Design and manufacture of electronic goods |
| Sino Light Enterprise Limited | Hong Kong/ PRC | Ordinary | HK$12,600 | | 64% | | 64% | Inactive |
| E-passing Co., Ltd. | Taiwan | Ordinary | NTW100,000,000 | | 100% | | 100% | Service of integration system of public program |
| Aggressive Digital Systems Private Ltd. | India | Ordinary | INR30,000,000 | | 51%** | | N/A | Manufacture of electronic goods |

* Companies disposed during the year ended December 31, 2015

** Company established during the year ended December 31, 2015

## 48. PRINCIPAL SUBSIDIARIES OF THE COMPANY - Continued

Note: These companies are wholly foreign owned enterprises.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets and liabilities 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 outstanding at any time of the year/period or at December 31, 2015 and December 31, 2014.

**Details of non-wholly owned subsidiaries that have material non-controlling interests**

The table below shows details of non-wholly owned subsidiaries of the Group that have material non-controlling interests:

| Name of company | Place of incorporation and principal place of business | Proportion Of ownership interest and voting rights held by non- controlling interest | | Profit (loss) allocated to non-controlling interests | | Accumulated non-controlling interests | |
|---|---|---|---|---|---|---|---|
| | | 12.31.2015 | 12.31.2014 | 12.31.2015 | 12.31.2014 | 12.31.2015 | 12.31.2014 |
| | | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| PBT | Cayman Islands/ USA | 40.9% | 40.9% | (6,413) | (5,414) | 44,370 | 52,037 |
| Individually immaterial subsidiaries | | | | 663 | (637) | (9,295) | (12,028) |
| Total | | | | (5,750) | (6,051) | 35,075 | 40,009 |

## 48. PRINCIPAL SUBSIDIARIES OF THE COMPANY - Continued

Summarised financial information in respect of PBT that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intergroup eliminations.

| | 12.31.2015<br>HK$'000 | 12.31.2014<br>HK$'000 |
|---|---|---|
| Current assets | 342,392 | 281,754 |
| Non-current assets | 116,884 | 216,866 |
| Current liabilities | (329,795) | (246,294) |
| Non-current liabilities | (21,050) | (30,243) |
| Net assets | 108,431 | 222,083 |

**Details of non-wholly owned subsidiaries that have material non-controlling interests**

| | Twelve months<br>1.1.2015<br>to<br>12.31.2015<br>HK$'000 | Six months<br>7.1.2014<br>to<br>12.31.2014<br>HK$'000 |
|---|---|---|
| Revenue | 1,011,224 | 372,641 |
| Loss for the year/period | (10,630) | (13,230) |
| Total comprehensive income for the year/period | (13,692) | (13,230) |

| | Twelve months<br>1.1.2015<br>to<br>12.31.2015<br>HK$'000 | Six months<br>7.1.2014<br>to<br>12.31.2014<br>HK$'000 |
|---|---|---|
| Net cash inflow/(outflow) from operating activities | 16,329 | (25,239) |
| Net cash outflow from investing activities | (15,426) | (13,736) |
| Net cash inflow from financing activities | 2,484 | 25,440 |
| Net cash inflow/(outflow) | 3,387 | (13,535) |

## 49. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

| | Notes | 12.31.2015 HK$'000 | 12.31.2014 HK$'000 |
|---|---|---|---|
| Investments in subsidiaries | | 345,367 | 350,436 |
| Deposit paid for acquisition of a subsidiary | | 46,306 | 37,005 |
| Bond receivables | | 59,971 | 75,242 |
| Loan to an associate | | 23,269 | 23,269 |
| Amounts due from subsidiaries | | 187,144 | 154,104 |
| Other receivables | | 27,653 | 7,360 |
| Bank balances and cash | | 181 | 19 |
| Total assets | | 689,891 | 647,435 |
| Other payables | | (1,812) | (984) |
| Borrowings | | (58,000) | - |
| Amount due to a subsidiary | | (83,766) | (120,699) |
| Total liabilities | | (143,578) | (121,683) |
| Net assets | | 546,313 | 525,752 |
| Capital and reserves | | | |
| Share capital | | 104,586 | 83,223 |
| Reserves (note) | | 441,727 | 442,529 |
| Equity attributable to owners of the Company | | 546,313 | 525,752 |

Note: Reserves of the Company

| | Share premium HK$'000 | Contributed surplus HK$'000 | Share option reserve HK$'000 | Special reserve HK$'000 | Accumulated losses HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| At July 1, 2014 | 349,246 | 181,788 | 7,960 | 79,900 | (153,191) | 465,703 |
| Profit and total comprehensive income for the period | - | - | - | - | (23,174) | (23,174) |
| At December 31, 2014 | 349,246 | 181,788 | 7,960 | 79,900 | (176,365) | 442,529 |
| Profit and total comprehensive income for the year | - | - | - | - | (43,425) | (43,425) |
| Issue of share | 29,258 | - | - | - | - | 29,258 |
| Issue and conversion of convertible bond | 13,365 | - | - | - | - | 13,365 |
| At December 31, 2015 | 391,869 | 181,788 | 7,960 | 79,900 | (219,790) | 441,727 |

## 49. STATEMENT OF FINANCIAL POSITION OF THE COMPANY - Continued

The contributed surplus represents the difference between the consolidated shareholders' fund of Top Peaker and the nominal value of the Company's shares issued to acquire Top Peaker at the time of a group reorganisation in prior years.

The special reserve represents the surplus arising pursuant to the capitalisation of advances from shareholders as part of the group reorganisation.

## 50. EVENT AFTER THE REPORTING PERIOD

Pursuant to announcement dated January 4, 2016, the Company entered into a subscription agreement (the "Subscription Agreement") with a subscriber to subscribe for 48,000,000 new ordinary shares of the Company at HK$0.50 per share (the "Subscription Shares"). The condition for the subscription has been fulfilled and completed by January 21, 2016 and the Subscription Shares were issued under the Subscription Agreement at the date of this report. Details please refer to announcements dated January 4, 2016 and January 21, 2016.

On December 31, 2015, the Company entered into a placing agreement (the "Placing Agreement") with a placing agent pursuant to which the placing agent has agreed to place, on a best effort basis, shares comprising up to 104,500,000 new ordinary shares at HK$0.50 per share (the "2016 Placing Shares"). The condition for the Placing Agreement has been fulfilled and the completion of the 2016 Placing Shares took place on January 13, 2016. Details please refer to announcement dated December 31, 2015 and January 13, 2016.

## 51. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to current year's presentation.

## 52. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on April 8, 2016.

## SANDMARTIN INTERNATIONAL HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS
## FOR THE YEAR ENDED DECEMBER 31, 2015

Financial Summary

| | Year ended June 30, 2012 | Year ended June 30, 2013 | Year ended June 30, 2014 | Six months ended December 31, 2014 | Year ended December 31, 2015 |
|---|---|---|---|---|---|
| | HK$' 000 | HK$' 000 | HK$' 000 | HK$' 000 | HK$' 000 |
| RESULTS | | | | | |
| Revenue | 1,342,950 | 1,398,548 | 1,664,111 | 785,081 | **1,627,889** |
| Loss before taxation | (35,244) | (176,972) | (87,110) | '(256,403) | **(97,936)** |
| Income tax credit (expense) | 2,908 | (43,454) | (14,458) | (14,191) | **(10,976)** |
| Loss for the year/period From continuing operations | (32,336) | (220,426) | (101,568) | (270,594) | **(108,912)** |
| Loss for the year/period from Discontinued operation | (25,539) | (82,136) | | | |
| Loss for the year/period | (57,875) | (302,562) | (101,568) | (270,594) | **(108,912)** |
| Attributable to: | | | | | |
| Owners of the Company | (53,241) | (271,424) | (101,432) | (264,543) | **(103,162)** |
| Non-controlling interests | (4,634) | (31,138) | (136) | (6,051) | **(5,750)** |
| | (57,875) | (302,562) | (101,568) | (270,594) | **(108,912)** |

| | At June 30, 2012 | At June 30, 2013 | At June 30, 2014 | At December 31, 2014 | At December 31, 2015 |
|---|---|---|---|---|---|
| | HK$' 000 | HK$' 000 | HK$' 000 | HK$' 000 | HK$' 000 |
| ASSETS AND LIABILITIES | | | | | |
| Total assets | 1,438,093 | 1,575,873 | 1,563,576 | 1,402,281 | **1,282,857** |
| Total liabilities | (517,092) | (894,594) | (846,408) | (989,958) | **(901,152)** |
| | 921,001 | 681,279 | 717,168 | 412,323 | **381,705** |
| Equity attributable to owners of the Company | 892,406 | 684,168 | 663,595 | 372,314 | **346,630** |
| Non-controlling interests | 28,595 | (2,889) | 53,573 | 40,009 | **35,075** |
| | 921,001 | 681,279 | 717,168 | 412,323 | **381,705** |