Haier 海尔

# HAIER HEALTHWISE HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 00348

# ANNUAL REPORT 2015/2016

# Contents

# Corporate Information

## EXECUTIVE DIRECTORS

Mr. Diao Yunfeng *(Chairman and Chief Executive Officer)*
Mr. Leung Lun, M.H.
Ms. Fang Fang

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ye Tian Liu
Mr. Lai Yun Hung
Dr. Ko Peter, Ping Wah

## AUDIT COMMITTEE

Mr. Lai Yun Hung *(Chairman)*
Mr. Ye Tian Liu
Dr. Ko Peter, Ping Wah

## NOMINATION COMMITTEE

Mr. Diao Yunfeng *(Chairman)*
Mr. Ye Tian Liu
Mr. Lai Yun Hung
Dr. Ko Peter, Ping Wah
Ms. Fang Fang

## REMUNERATION COMMITTEE

Mr. Ye Tian Liu *(Chairman)*
Mr. Lai Yun Hung
Mr. Leung Lun, M.H.
Dr. Ko Peter, Ping Wah
Ms. Fang Fang

## COMPANY SECRETARY

Mr. Mak Yee Chuen, Vincent

## AUDITOR

BDO Limited
25/F Wing On Centre
111 Connaught Road Central
Hong Kong

## LEGAL ADVISERS ON CAYMAN ISLANDS LAW

Maples and Calder Asia
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Hong Kong

## LEGAL ADVISERS ON HONG KONG LAW

TC & Co.
Units 2201-2203, 22/F
Tai Tung Building
8 Fleming Road
Wanchai
Hong Kong

## REGISTERED OFFICE

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Grand Cayman
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Cayman Islands

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Fax: (852) 2677 6857
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## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Maples Fund Services (Cayman) Limited
P.O. Box 1093
Boundary Hall
Cricket Square
Grand Cayman
Cayman Islands
KY1-1102

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

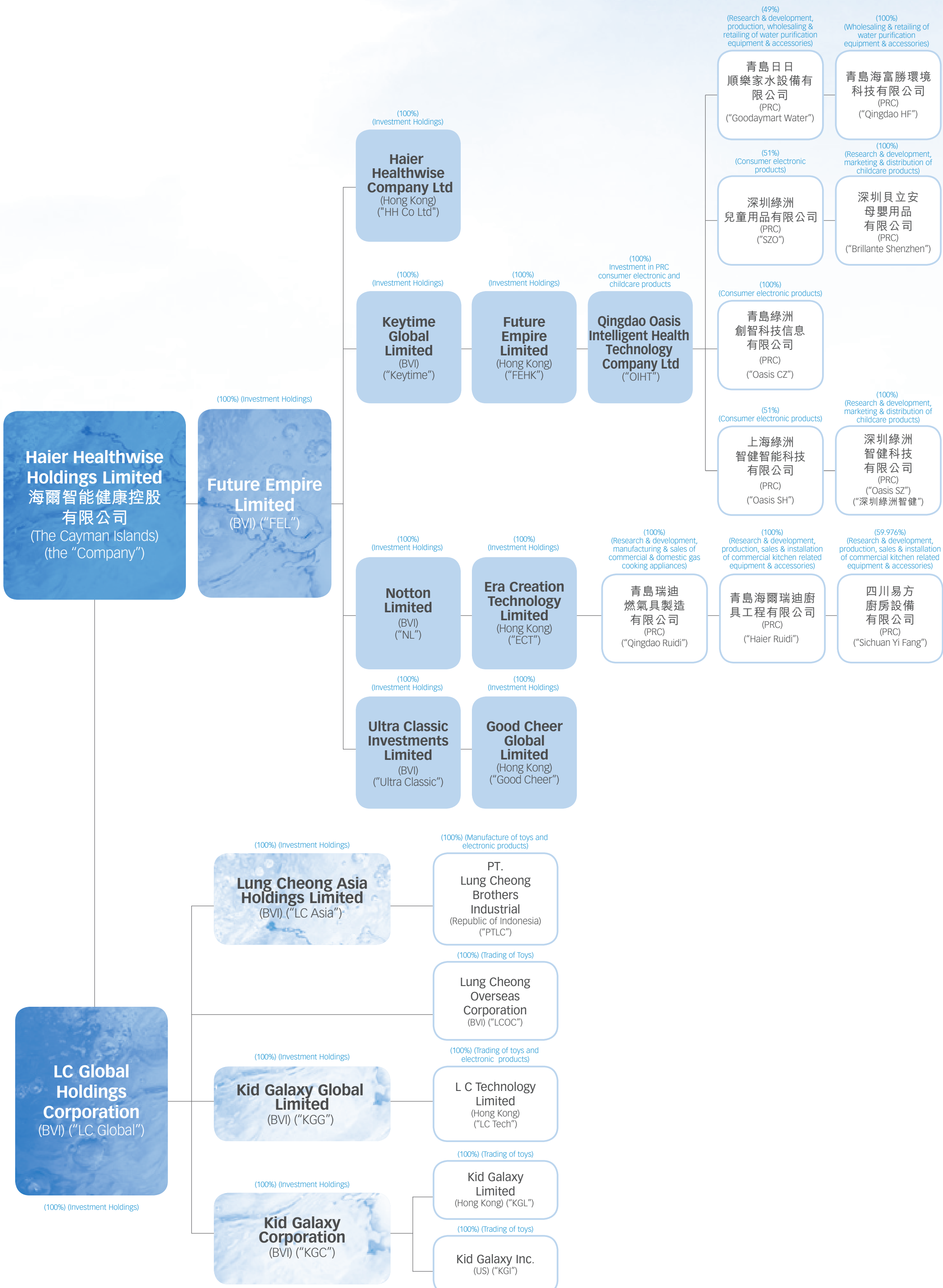
Tricor Abacus Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

## LISTING INFORMATION

The Stock Exchange of Hong Kong Limited
Stock Code: 00348
Website: www.haier-healthwise.com.hk

# Corporate Structure

(as at 30 June 2016)



# Chairman's Statement

On behalf of the board of directors (the "Board" or "Directors") of Haier Healthwise Holdings Limited (the "Company") and its subsidiaries (together the "Group"), I present to you the annual results of the Company and the Group for the year ended 31 March 2016.

## RESULTS

For the year ended 31 March 2016 (the "Year" or "Period" or "FY15/16"), the Group's turnover decreased by approximately ("approx.") 9% to approx. HK$353 million, compared with approx. HK$389 million for the year ended 31 March 2015 (the "FY14/15" or "Corresponding Period").

Gross profit margin for the Period was approx. 18% compared to approx. 29% in the Corresponding Period. Overall, loss attributable to owners of the Company was approx. HK$81 million compared with a profit of approx. HK$17 million in the Corresponding Period. The Directors do not recommend the payment of any dividend for the year ended 31 March 2016 (FY14/15: Nil).

## BUSINESS REVIEW

During the Period, sales slightly decreased due to the sales decline on both consumer electronic products and commercial kitchen products segments.

The Group recorded a loss for the year ended 31 March 2016 as compared to the profit recorded by the Group for the year ended 31 March 2015. The consolidated loss was primarily attributable to the goodwill impairment, the decrease in turnover and the gross profit margin of the Group under challenging market conditions which resulted in deleveraging of fixed costs.

### Commercial Kitchen Products

青島瑞迪燃氣具製造有限公司 ("Qingdao Ruidi") and its subsidiaries are the major commercial cooking appliances manufacturers in the PRC. Besides cooking appliances manufacturing and sale, Qingdao Ruidi implemented commercial kitchen Equipment Procurement Construction ("EPC") projects with hotels, restaurants, schools, government agencies, etc. during the Period. Due to the PRC economic slowdown, some of the EPC projects we bid were delayed. In addition, given the macro-economic situation, the management of the Company ("Management") believes a healthy cash flow is essentially important for the Group's long term stability and growth. Therefore, we have been more prudent and cautious for partner choosing and project selection. The above objective and subjective reasons led to a revenue decline in this segment.

## Consumer Electronic Products

### *Childcare Products*

The market for childcare related products and services is huge and fast growing in China. In addition, the recent universal two-child policy provides more catalysts. Based on the CRCCI research the market size of childcare products and services is expected to be approx. RMB2.6 trillion by 2017. Since the Group entered the childcare market, the Management has been working closely on R&D enhancement, product line expansion, distribution channel development and integration. During the Period, the Management strategically shifted the focus from large baby appliances into small baby appliances due to better long term prospects for the latter. Currently, the main products of the Group are Haier and Brillante branded small baby appliances (electric sterilizer, baby bottle & food warmer, baby food processor, baby air purifier, etc.). However, because of the much lower Average Selling Price ("ASP") of small baby appliances compared with that of large baby appliances, this focus shift caused an overall sales decline in this segment.

During the Period, the Management continues to deploy the multi-brand and multi-product strategy to meet customers' comprehensive needs, so far, we have entered into partnerships with a few world-leading childcare brands, including Nuby, a world famous baby and infant feeding brand, and Bébé Confort, a sub-brand of Dorel Group, a global childcare corporation specialising in strollers, car seats, baby travel gears, etc. to serve as their major distributor for childcare products in the PRC. The above brands have generated sales during the Period and the Management expects that they will be important revenue generators for this segment in the future.

On the other hand, we further streamlined the distribution networks during the Period. The Management participated in the Shanghai International Children Baby Maternity Industry Expo ("CBME China") in July 2015. We expect to focus more on large distributors with extensive networks in the future. The streamline of the distribution networks facilitates network management and reduces cost in the long run.

In addition, we have further enhanced Online to Offline ("O2O") strategy during the Period. Our products are currently available in various e-commerce channels and many mother & baby stores in most of the major cities in the PRC. The Management is of the view that a full O2O sales coverage ties in with consumers' demand and purchasing behaviour of childcare products.

# Chairman's Statement

### Toys

As previously mentioned in the interim results for the six months ended 30 September 2015, the expanded Indonesian factory was expected to contribute to the sales of the Group showing an increase of approx. 22% to HK$293 million for the year ended 31 March 2016 compared to HK$241 million for the year ended 31 March 2015. However, the weakness of the Original Equipment Manufacturing ("OEM") business segment did not contribute to the annual results due to the statutory increase in labour costs and employees' benefits during the Year under review. The tough OEM pricing competition for orders and additional costs of fixed assets investment led to an overall lower gross margin in the toy manufacturing segment. The Group employed over 2,400 workers at the Serang factory as at 31 March 2016.

The increase in toy sales was mainly attributable to orders received from our major US customer for the production of a series of toy figures relating to a major blockbuster movie released in December 2015. The toys produced by our Indonesian factory were shipped to the client's worldwide markets in particular the American and European continents. Our Japanese customer also increased orders for a line of infant and pre-school construction block sets destined mainly for the Japan market, thus shown a growth in shipments to Japan for the year ended 31 March 2016.

The slow but continued recovery of the North American market has not helped the sales of our Original Brand Manufacturing ("OBM") business. Kid Galaxy recorded a decrease in sales by approximately 8% from HK$88 million to HK$81 million for the year ended 31 March 2016. Sales of newly licensed toys and our own brand Morphibian series, Soft & squeezable series and Construction vehicle series with long selling history showed progress. Kid Galaxy's line of products continued to be well promoted in one of the major online stores and a few of the main mass retailers. However, Kid Galaxy was unable to maintain sales momentum in the matured Western European market and the developing Asian markets in view of the negative economic climate and weaker currencies.

## PLANS AND PROSPECTS

### Commercial Kitchen Products

The Commercial kitchen product market is very fragmented in the PRC with no major players in the market. Market growth is driven by increasing demand for dining out as the living standard rises, higher environmental standard and motivation to save fuel costs. However, due to the PRC economic slowdown, the investment in fixed assets decreased during the Period, which caused negative effects on the commercial kitchen products market. The Management believes that the negative effects will not last too long and the Group will control the financial risks with caution.

The Group's patented advanced infra technology for gas cooking appliances offers the best energy efficiency in the market (70% as compared to the government standard of 45%) and allows more than 50% saving in gas consumption in comparison with traditional blast gas kitchen range. Our products have low carbon monoxide emission (20 times less than the national standard) and have quietness and even heating distribution ability. In addition, the Management expects the new government regulation on the minimum heat efficiency requirement for commercial kitchen appliances to be implemented officially and executed in the foreseeable future.

## Consumer Electronic Products

### *Childcare Products*

In late October 2015, the Chinese government decided to implement the "two-child policy" nationally. The Management expects this policy will enable the childcare product and service market to grow significantly in the next decade.

Regarding Haier and Brillante branded childcare products, the Management continues to spend great efforts on new product R&D to enrich the overall product portfolio. New small baby appliances series will be launched successively. In addition, new products covering different categories, such as feeding and nursery, health and safety, etc. will also be released gradually.

The strategic partnerships with Nuby and Bébé Confort are milestones for the Group. The Group has shifted from a single brand baby appliance producer into a multi-brand and multi-product childcare product and service provider. The partnership with Nuby and Bébé Confort is just a start. In the coming months, the Management expects that we would form similar partnerships with more international childcare brands. This kind of partnership would not only expand our whole product portfolio but also further strengthen our distribution channels in the long run. The Management believes that the multi-brand and multi-product strategy together with O2O distribution network will get the Company well prepared to capture huge opportunities triggered by the "two-child policy".

## Toys

After years of continued expansion in the Indonesian factory, the Management believes the financial year 2016/17 is the time to consolidate the Serang facilities to ensure better utilisation of resources and implement cost control initiatives. Additional production equipment will be added in the year ending 31 March 2017 and further enlargement of the production areas is being reconsidered in view of competing facilities in Vietnam, India plus Northern and Inland parts of Mainland China. The Management will strive to enlarge our customer base to lessen the seasonal extremity of the OEM toys business. A new and restructured management team has been put in place at the Serang factory to ensure improved communications and efficiencies with localisation of management as one of our costs reduction efforts.

# Chairman's Statement

The Group will continue to bid for popular toys that suit our OEM business strategy and utilise the expanded facilities efficiently in view of the major investments made in the South East Asian factory. For the financial year 2016/17, the Group will continue to face the anticipated annual increase in minimum wages beginning in January 2017. In view of the recent Brexit, potential increase in interest rates in the United States and the uncertainties of the value of the Renminbi and other competing Asian currencies, the Management foresees Indonesian Rupiah is likely to follow the trend in order to stay competitive which may benefit the Group if there is a downward trend in the financial year 2016/17.

In addition to current successful lines, Kid Galaxy will continue to showcase newly licensed and developed products in the coming toy fairs in the early part of 2017. However, further capital investments into research, product development, engineering, new product moulds plus additional marketing and promotion costs for new and existing products will continue to affect the contribution to the profitability of this OBM segment.

As disclosed in the announcement of the Company dated 31 May 2013, the Company placed approx. HK$350 million in its private banking account with a Swiss-based banking institute and approx. HK$344 million had been applied in investing in high yield bonds issued by listed issuers in the open bond market. The Company's investment in the bond market is merely a temporary cash management exercise during the interim period and the Management has been liquidating the bond portfolio at market recently. As at the date of this report, the HK$350 million the Company originally placed in the bank, approx. HK$199 million of which was in the form of bonds, the remaining HK$151 million together with the coupon income it generated has been wired out of that Swiss-based banking institute for operation. The Company will maintain the intended use of proceeds as disclosed in the circular of the Company dated 26 February 2013 (the "2013 Placing Circular").

As at 31 March 2016, the Group had approx. HK$7 million non-cash valuation gain (FY14/15: HK$4 million) on available-for-sale investments as shown in our consolidated statement of comprehensive income. The available-for-sale investments have generated approx. HK$17 million coupon income during the Year (FY14/15: HK$19 million). The Management will continue to closely monitor and carefully manage the investments.

## GROUP RESOURCES AND LIQUIDITY

As at 31 March 2016, the Group's cash and bank balances were approx. HK$126 million (FY14/15: HK$107 million). The Group's total bank borrowings were approx. HK$37 million (FY14/15: HK$39 million). Gearing ratio, calculated as the total bank borrowings divided by shareholders' equity was approx. 7% as at 31 March 2016 (FY 14/15: 6%). As at 31 March 2016, the Group recorded total current assets of approx. HK$513 million (FY14/15: HK$502 million) and total current liabilities of approx. HK$163 million (FY14/15: HK$86 million). The current ratio of the Group, calculated by dividing the total current assets by the current liabilities, was approx. 315% (FY14/15: 585%). The Group recorded a decrease in shareholders' fund from approx. HK$623 million as at 31 March 2015 to a net asset position of approx. HK$561 million as at 31 March 2016. The decrease was mainly due to the Group suffering from loss and the impairment cost on goodwill during the Year.

## APPRECIATION

In conclusion, I would like to sincerely thank my fellow Board members and senior management, and all the employees for their contribution and dedications to the Group, which enabled us to overcome the challenges encountered during the year of corporate realignment and reorganisation. My appreciations go to our investors, customers, financiers and suppliers for their support to the Group during the past year.

**Diao Yunfeng**
*Chairman and Chief Executive Officer*
30 June 2016

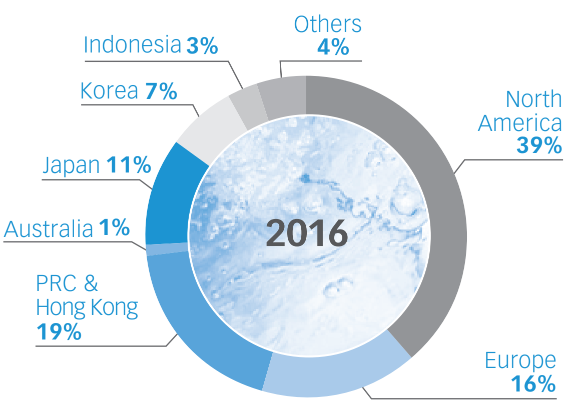
# Review of Operations

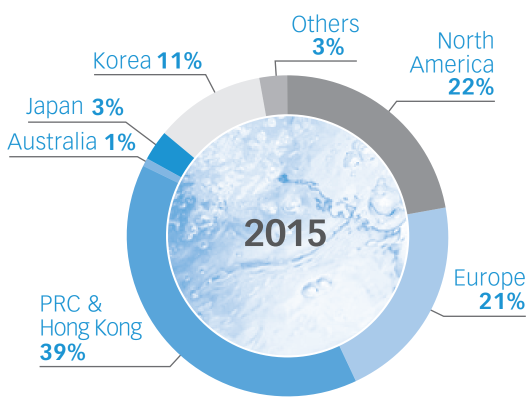
## MARKET REVIEW

For the year ended 31 March 2016, North America remained the major export destination for the Group's toy products, with shipments amounting to approx. HK$137 million compared to approx. HK$85 million in the Corresponding Period, accounted for approx. 39% (FY14/15: 22%) of the Group's total shipment. The increase in dollar term sales in North America and Canada were mainly attributable to the increased OEM orders and recoveries in the retail sectors. Mainland China and Hong Kong accounting for approx. HK$67 million compared to approx. HK$154 million in FY14/15, accounted for approx. 19% (FY14/15: 39%) of the Group's revenue. The decrease in sales in Mainland China and Hong Kong was mainly due to the decline in sales of commercial kitchen products and consumer electronic products segments. Shipments to Europe were approx. HK$56 million as compared with approx. HK$80 million in FY14/15, accounted for approx. 16% (FY14/15: 21%) of the Group's revenue. Exports to Japan was more than that in the previous year at approx. HK$40 million (FY14/15: HK$12 million), accounted for approx. 11% of the Group's total revenue compared to approx. 3% in FY14/15 due to the success of pre-school block playsets produced by the Group receiving favourable response in the market. The popular TV licensed items produced by the Group's Indonesian factory not selling well, thus shipment to Korea was lower approx. 7% of sales (FY14/15: 11%) during Year under review.

### Turnover by Geographical Segment

*For the year ended 31 March*




## PRODUCT REVIEW

### Toys

The Group's toys segment recorded an increase in sales of approx. 22% from approx. HK$241 million in FY14/15 to approx. HK$293 million in FY15/16, accounting for approx. 83% of the Group's turnover. The increase in turnover of this category was attributable to the increase in orders of toys produced at our recently expanded Indonesian factory, particularly being well received in the market, in addition to some economies recovering from recent financial downturn.

### Consumer Electronic Products

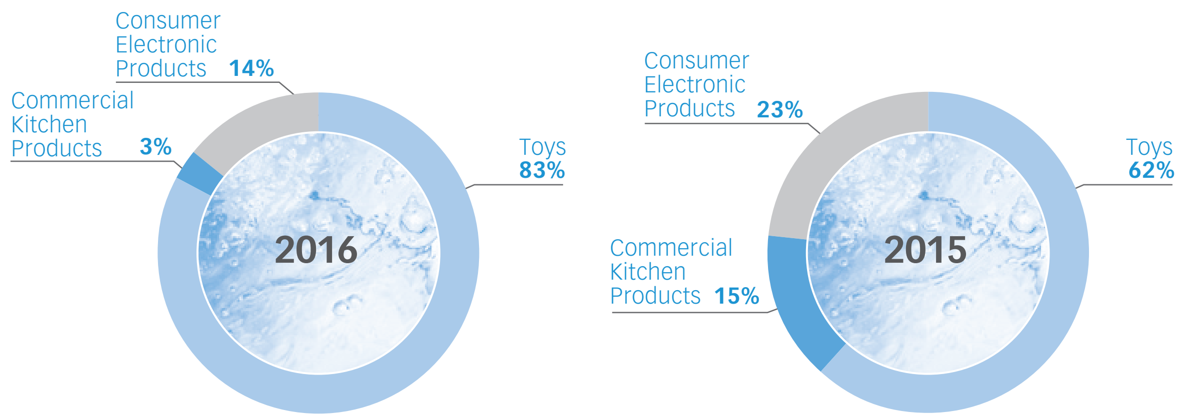
The consumer electronic products segment generated approx. HK$48 million in revenue and a loss before income tax of approx. HK$30 million in FY15/16 compared with HK$91 million and HK$20 million respectively in FY14/15. The loss of this segment is mainly due to the Management Strategically shifted the focus from large baby appliances to small baby appliances. The lower ASP of small baby appliances compared with that of large baby appliances lead to the sales decline.

### Commercial Kitchen products

The commercial kitchen products segment contributed revenue of approx. HK$12 million and a loss before income tax of approx. HK$52 million in FY15/16 compared with approx. HK$58 million in revenue and profit before income tax HK$6 million in FY14/15. The loss of this segment mainly due to the slowdown of economic growth in the PRC lead to the delay of some sizable EPC projects which affect our turnover and the impairment of goodwill approx. HK$36 million was recognised during the Year.

### Turnover by Product Type

*For the year ended 31 March*




## DIVISIONAL AND RESOURCES REVIEW

### Kid Galaxy

The Manchester operation of the Kid Galaxy Inc. ("KGI"), takes care of marketing, product design, customer service and sales fulfillment functions for the North America market, being US and Canada. KGI and the international sales arm Kid Galaxy Limited ("KGL") have contributed sales of approx. HK$81 million for year ended 31 March 2016 compared to approx. HK$88 million in FY14/15. Its revenue derived mainly from own brands sales such as Radio Control ("R/C") Morphibians, Soft Body and construction vehicles.

# Review of Operations

In North America, the number of specialty stores continued to decrease from year to year, KGI was not able to maintain sales due to a decrease of specialty customers which Kid Galaxy had been selling to over the years. There were increased sales to internet channels and other mass retail outlets but it was not sufficient to match previous years' records. During FY15/16, Kid Galaxy enriched its product mix with new product lines such as R/C "Morphibians", "Soft Body and construction vehicles" just to name a few. These expanding product lines which were being introduced during the Year under review received encouraging market response from customers in FY15/16. In the US, KGI was able to further penetrate into the mass market and internet retail networks as well as sourcing new product ideas from new external suppliers.

### Indonesia

During the Year under review, due to expansion in the Group's operations in South East Asia, the factory in Indonesia made greater contributions to the Group's turnover. Challenges in Southern China had prompted customers to place non-complex product orders with the Serang factory during the Year. With major customers willing to transfer orders to and new customers willing to test the newly available capacity of the South East Asia facility, the Group was able to take advantage of the local flexible labour structure and increased utilisation of the enlarged Serang factory. The Serang factory in Indonesia, at peak production stage during the year ended 31 March 2016, has employed over 2,400 seasonal contract labour. The revenue of Serang factory in Indonesia, have contributed with sales approx. HK$213 million for the year ended 31 March 2016 compared to approx. HK$153 million in FY14/15.

### China

During the Year under review, the Group's consumer electronic products and commercial kitchen products segments focusing their business in China which contributed a turnover of approx. HK$59 million for the year ended 31 March 2016 compare with approx. HK$149 million in the Corresponding Period. The turnover of consumer electronic products was mainly attributed to the Haier and Brillante branded small and large baby appliances while the turnover of commercial kitchen products was mainly attributed to the minimum heat efficiency commercial kitchen appliances and some sizable EPC projects.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE RESPONSIBILITY

The Group is committed to the long-term sustainability of its businesses and the communities in which it conducts business. It has adopted a proactive approach to environmental, social and governance ("ESG") responsibility and has established a working group, to be chaired by an Executive Director, comprising representatives from key departments of the Company to spearhead the ESG activities of the Group. The working group focuses on initiatives related to our stakeholders, our employees, the environment, our operating practices and the community.

## ENVIRONMENTAL PROTECTION

Energy saving measures are enforced in the Group's office and factory premises resulting in reduction of electricity consumption and greenhouse gas emissions.

Recycling and use of eco-friendly stationery, plus a series of measures to save paper and energy, resulted in more efficient use of resources as well as reduction of waste.

## PRODUCT SAFETY

Management always stressed the safety of our products as our first priority. We produce some of the world's most popular toys and brands for children and families, including Haier and Brillante branded childcare products and Haier branded water purifiers, and we know that with this comes the responsibility to ensure quality and safety. We strive to sustain the trust of our customers by employing strict standards that extend from product design to manufacturing and distribution.

The basic quality policy of the Group is to make safe, environmentally friendly products that can be used with confidence, and to offer our customers worldwide the quality that they will find essential. This embodies the principles upon which our safety and quality efforts are founded. In our effort to improve safety and quality, we comply with laws and regulations, established industry strict standards and exert and monitor controls on the use of heavy metals and phthalates.

Compliance with laws and regulations means working to maintain safety and quality in every country by complying with laws and regulations where we operate. The Group has continued to learn and apply new methods or technologies in order to place stricter safety and quality standards to prevent problems from occurring.

To control heavy metals and phthalates, we use third-party test labs to analyze products for the presence of heavy metals, such as lead and plasticizers (phthalates). If heavy metals or phthalates are found in any product, we immediately stop and prevent it from going to the market. The Group continuously strives to ensure product safety and quality and to implement thorough controls.

The Group applies internal operation procedures designed to comply with ever changing and revised regulations and laws enforced by the US, Europe, Japan, the PRC and other regulations around the world.

# Review of Operations

## RESPONSIBLE MANUFACTURING

The Group is an active participant in the global toy industry's initiative to continuously improve factory working conditions, commonly referred to as the ICTI CARE process (ICP). The ICP is based on a code of ethical operating practices designed to promote safe and just working conditions in toy factories. The ICP provides the industry with a unified approach to responsible manufacturing. The Group has committed to manufacture our products and comply with the ICP process. The Group's Indonesian factory is registered with ICTI CARE and is audited at least annually for compliance to the ICP Code of Conduct. Audits are conducted by an independent professional audit company that has been approved and trained by the ICTI CARE Foundation. Factories that completed an audit and meet the requirements of the ICP are then issued the ICP Seal of Compliance.

## EMPLOYEES

As at 31 March 2016, the Group had approx. 2,611 employees and contract workers based in Hong Kong headquarters, Macau office, PRC offices, the Indonesian factory and the U.S. sales office. The number of employees of the Group varies from time to time depending on production needs and they are remunerated based on industry practices.

## APPRECIATION

On behalf of the Board, I would like to take this opportunity to express my sincere gratitude to all our long-term business partners for their continuous support over the past year. I would also like to extend my appreciation to our group management and staff for their effort and dedication, despite another challenging year we were facing.

**Diao Yunfeng**
*Chairman and Chief Executive Officer*
30 June 2016

## FINANCIAL REVIEW

During the Year, the Group recorded a decrease in turnover for approx. 9% from HK$389 million for the year ended 31 March 2015 to HK$353 million for the year ended 31 March 2016. This decrease is resulting from slowdown of economic growth in the PRC lead to the delay of some sizable EPC projects which adversely affected the turnover in commercial kitchen products segments. Also, the Management has decided to strategically shifted the focus from large baby applicances to small baby applicances and the lower ASP of small baby applicances compared with that of large baby applicance lead to the sales decline in consumer electronic products segments. The turnover of commercial kitchen products segment decreased from HK$58 million to HK$12 million and the turnover of consumer electronic products segment decreased from approx. HK$91 million to HK$48 million for the year ended 31 March 2015.

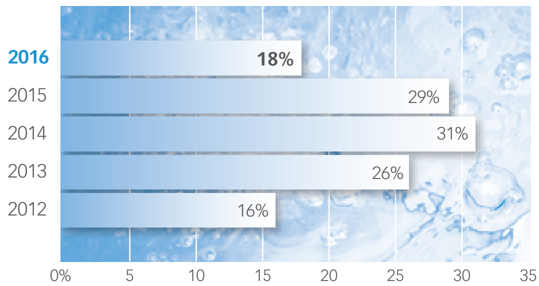
Cost of goods sold ("COGS"), increased approx. 5% compared to the previous financial year. The increase was because of the increase in staff cost and the depreciation charges in the Indonesia factory during the Year. The COGS were approx. HK$290 million in FY15/16 compared with approx. HK$278 million in FY14/15.

The gross profit decreased to approx. HK$63 million for the Year versus approx. HK$112 million in FY14/15. Gross profit margin was at approx. 18% (FY14/15: 29%), the decrease was due to the increase in amount of depreciation charges and the overall staff cost.

In line with the decrease in turnover, selling and distribution expenses for the year ended 31 March 2016 decreased to at approx. HK$46 million, representing a decrease of approx. 12% against approx. HK$53 million in the Corresponding Period. The decrease in selling expenses mainly attributed to the decrease in travelling expenses of approx. HK$2 million and marketing expenses of approx. HK$5 million.

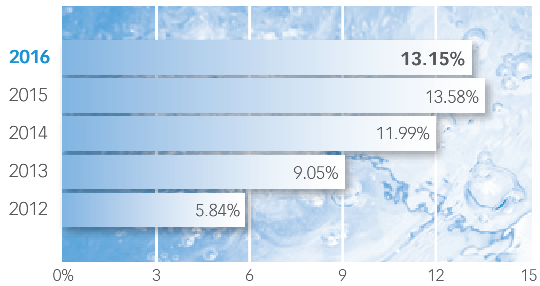
**Gross Profit Ratio**

*For the year ended 31 March*




**Selling Expense / Turnover**

*For the year ended 31 March*



# Management Discussion and Analysis

General and Administrative ("G&A") expenses for the year ended 31 March 2016 amounted to approx. HK$99 million, resulting in an increase of the overall G&A which was approx. 19% higher than previous year (FY14/15: HK$83 million). During the Year, our Indonesia factory expended and the development of new products lead to an increase in depreciation costs of approx. HK$3 million, repair and maintenance costs of approx. HK$3 million, products development costs of approx. HK$6 million and other miscellaneous expenses of approx. HK$3 million.

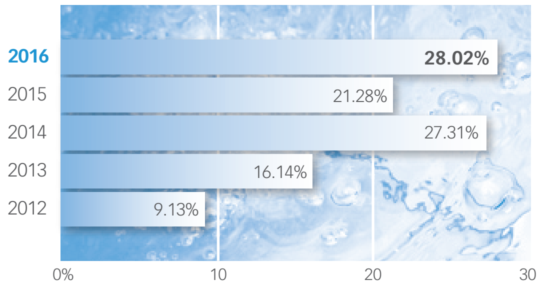
The goodwill of the Group was HK$61 million as at 31 March 2016 compared with HK$102 million in the Corresponding year. The decrease was because of the impairment of HK$33 million and HK$3 million in respect of the goodwill arising from the acquisition of Qingdao Ruidi and 四川易方廚房設備有限公司 ("Sichuan Yi Fang") was recognised during the Year. Management will constantly review the carrying amount of the goodwill from the acquisition.

Finance costs incurred for trade facilities for the Year under review was approx. HK$2 million in both FY15/16 and FY14/15.

All in all, the Group recorded a loss attributable to shareholders of approx. HK$81 million in FY15/16 compared to a profit of approx. HK$17 million in FY14/15.

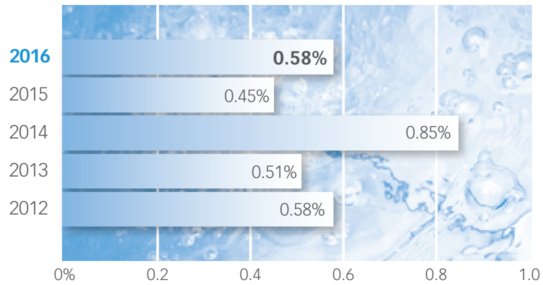
### G&A/Turnover

*For the year ended 31 March*




### Finance Costs/Turnover

*For the year ended 31 March*



# Management Discussion and Analysis

## GROUP RESOURCES AND LIQUIDITY

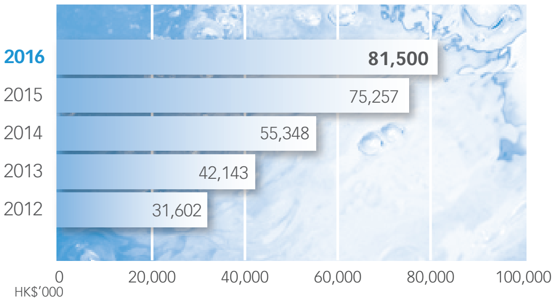
As at 31 March 2016, the non-current assets decreased in value to approx. HK$228 million. Property, plant and equipment assets owned by the Group under non-current assets increased by approx. HK$32 million to approx. HK$133 million as at 31 March 2016. The increase was attributable mainly to the addition of new machinery and equipment in the new Indonesia factory during the Year. Revaluation of property, plant and equipment has been part of the Group's periodic management assessment policy, taking into account the local property market conditions, current state of the toy manufacturing industry and overall utilisation of production facilities.

Goodwill was approx. HK$61 million of intangible assets as at 31 March 2016. The impairment loss of approx. HK$33 million and HK$3 million in respect of the goodwill arising from the acquisition of Qingdao Ruidi and Sichuan Yi Fang were recognised during the Year.

Management placed much emphasise on inventory control and will only authorise purchases in line with sales orders. The increase in sales in toy segment led to the increase in inventories of approx. 8% compared to the Corresponding year, value of stock increased from approx. HK$75 million in FY14/15 to approx. HK$82 million as at 31 March 2016. These stock are held mainly in the Indonesian factory, the PRC offices and by an independently managed warehouse in the US. Stock turnover days were higher at 81 days compared with 61 days in the Corresponding Period due to the sales decline during  the Year.

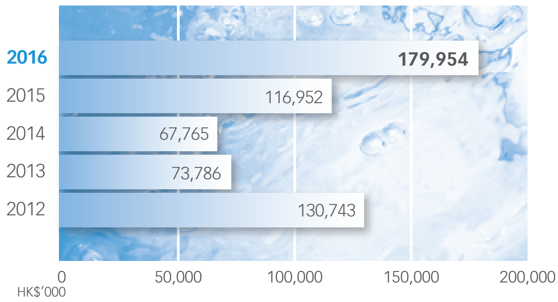
**Inventories**

*As at 31 March*




**Total Liabilities**

*As at 31 March*



# Management Discussion and Analysis

The trade receivables recorded a decrease of approx. 29% as at 31 March 2016 to approx. HK$47 million, compared with approx. HK$66 million in the Corresponding Period. Debtor turnover days were higher at 58 days in FY15/16 compared with 41 days in FY14/15. During the Year, the top 5 customers accounted for approx. 61% of the Group's turnover, compared to approx. 40% in the previous financial year. The Management regularly evaluates the Group's customers, assesses their known financial position and the credit risks.

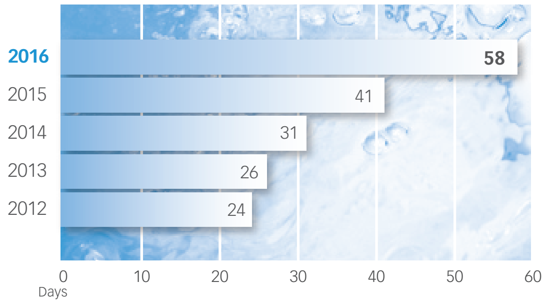
Cash and bank balance as at 31 March 2016 were approx. HK$126 million, compared with approx. HK$107 million as at 31 March 2015. The increase in cash and balances were mainly due to the receipt of the principal from matured available-for-sales investment bonds and the proceeds from exercise of warrants. The Group dealt with different revenue and expenditure currencies during the FY15/16 such as HK$, US$, RMB as well as Indonesian Rupiah. As at 31 March 2016, approx. HK$199 million was in the form of available-for-sale investment bond, placed with a Swiss based banking institute.

Trade payables and other payable and accrued charges recorded an increase against the Corresponding Period. Trade payables and other payables and accrued charges were approx. HK$79 million as at 31 March 2016 compared with approx. HK$52 million as at 31 March 2015. The trade payables mainly consisted of payables relating to material purchases and the trading products. During the Year, the Management has increased the bargaining power and credit line with suppliers and it leads to an increase in trade payables. Creditor turnover days increased to 61 days from 28 days at the end of the previous year.

Borrowings under current liabilities increased to approx. HK$37 million as at 31 March 2016 from approx. HK$24 million as at 31 March 2015, attributable mainly to a banking loan and trade facility offered by a local bank to our Indonesian subsidiary. The Trade facility is secured by the Group's Indonesian property, plant and equipment.

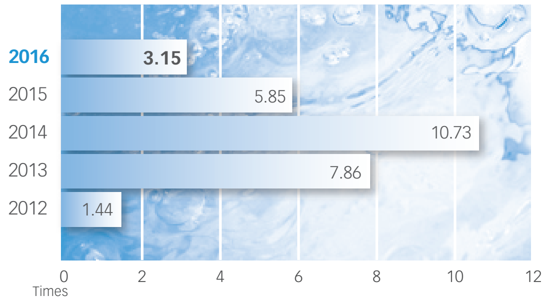
### Debtor Turnover Days

*As at 31 March*




### Current Ratio

*As at 31 March*



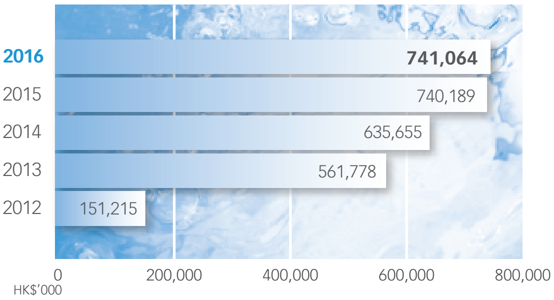
Taking into consideration certain set offs, the total amount due from related companies was approx. HK$13 million, while on the liability section, amount due to related parties which are being classified as current liabilities accounted to approx. HK$44 million. The net current liabilities of the Group to related companies as at 31 March 2016 show a value of approx. HK$31 million.

As at 31 March 2016, the Group had total assets of HK$741 million which was financed by shareholders' fund, payables and financial institutions credit facilities. The Group mainly generated revenue and incurred costs in HK$, US$ and RMB and did not have any related hedges for the year ended 31 March 2016. No financial instrument was used for hedging purpose. The Group adopted a prudent funding and treasury policy and managed the fluctuation exposures of exchange rate and interest rate on specific transactions.

As at 31 March 2016, the Group's total borrowings amounted to about HK$37 million was repayable on demand or within one year. All borrowings were denominated in either HK$ and US$ and bore interest at floating rates. As at 31 March 2016, the Group recorded total current assets of approx. HK$513 million and total current liabilities of approx. HK$163 million. The current ratio of the Group, calculated by dividing the total current assets by total current liabilities, was 315%. The Group recorded a decrease in shareholders' funds from approx. HK$623 million as at 31 March 2015 to approx. HK$561 million as at 31 March 2016. The decrease mainly due to the Group suffering losses from trading and the goodwill impairment during the Year.

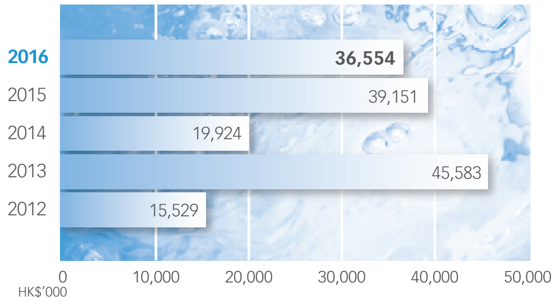
**Total Assets**

*As at 31 March*




**Bank Borrowings**

*As at 31 March*



# Management Discussion and Analysis

Save as aforesaid or as otherwise disclosed herein, the Group did not have any debt securities issued and outstanding, or authorised or otherwise created but unissued, any term loans (secured, unsecured, guaranteed or not), any other borrowings or indebtedness in the nature of borrowing including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits, any mortgages or charges, or other material contingent liabilities or guarantee at the close of business on 31 March 2016. Foreign currency amounts have been translated at the approx. exchange rates prevailing at the close of business on 31 March 2016.

The Group's operation relied upon the support from suppliers and financial institutions. Facilities and credit terms are provided on the basis of which certain financial and operational undertakings are complied with. On behalf of the Board, the Directors are of the opinion that, after taking into accounts the Group's internal resources and cash flow from operations, the Group will have sufficient working capital to satisfy its present requirements for the next twelve months from the date of this report in the absence of unforeseen circumstances.

## PRINCIPAL RISKS AND UNCERTAINTIES

The Group's financial performance, operations, businesses and prospects may be affected by a number of risks and uncertainties. The following highlights are the principal risks and uncertainties identified by the Group and it is not meant to be exhaustive. There may be other risks and uncertainties which are not known to the Group or which may not be material now but turn out to be material in the future.

### Market Risks

The Management has made a strategic decision on toy business to focus on fewer, larger OEM customers with global brands, which we opine as having the largest global potential. If they are unable to successfully sell and increase product offerings based on these brands, our future revenue and profits will decline and our business performance may be affected.

In addition to continuing to grow and develop our existing OBM brands, successfully executing our brand strategy may also require us to be able to successfully develop other brands and innovative new products to brand status. There is no guarantee that we will be able to do this.

Entertainment media, in forms such as television, motion pictures, digital products, digital shorts, DVD releases and other media, have become increasingly important platforms for consumers to experience OBM brands and our partners' brands and the success, or lack of success, of such media effort can significantly impact the demand for our products and our financial success. Not only our effort but also the effort of third parties will heavily impact the timing of media development, release dates and the ultimate consumer interest in and success of these media effort.

Our commercial kitchen products business is mainly focused on the kitchens within hotels, restaurants, schools and government agencies etc. in the PRC. Due to the economic growth slowdown and uncertainties, any delay or reduction in the number of the related projects will affect our performance during the Year.

Our consumer electronic products business is mainly focused on Haier, Brillante and other international branded childcare products in the PRC. We are facing significant challenge and competition against the peers and potential competitors. The Group may not be able to compete effectively against its competitors, gain or maintain our market share and profit margins. Failure to maintain the Group's competitive position may materially adversely affect our performance.

Meanwhile, our consumer electronic products business also depends on our ability to innovate and make improvement on the existing products. If we fail to introduce new products or making improvement on the existing products, the Group may not be able to has significant growth.

### Economic Risks

Our Group manufacture and market a wide variety of entertainment, toy and consumer electronic products worldwide through sales to our customers. Our financial performance is impacted by the level of discretionary consumer spending in the markets in which we shipped to. Recessions, credit crisis and other economic downturns or disruptions in credit markets in the United States, the PRC and in other markets in which our products are marketed and sold can result in lower levels of economic activity, lower employment levels, less consumer disposable income and lower consumer confidence. Any of these factors can reduce the amount which consumers spend on the purchase of our products. This in turn can reduce our revenues and harm our financial performance and profitability.

In addition to experiencing potentially lower revenues from our products during times of economic difficulties, in an effort to maintain sales during such times we may need to reduce the price of our products. Those steps may lower our net revenues or increase our costs, thereby decreasing our operating margins and lowering our profitability.

### Capital and Financial Risk

Our capital and financial risk management are set out in the Note 38 and Note 39 to the financial statements.

## USE OF PROCEEDS

On 6 November 2012, the Company entered into a Placing Agreement relating to placing of new shares. Details of Placing of New Shares and Possible were set out in the Company's announcements dated 19 November 2012 (the "2013 Placing") and the circular of the Company dated 26 February 2013 (the "2013 Placing Circular"). Pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), the 2013 Placing was approved by the Independent Shareholders at the Company's extraordinary general meeting ("EGM") held on 14 March 2013. All conditions precedent to the 2013 Placing as set out in the Placing Agreement has been fulfilled and net proceeds of approx. HK$389 million has been raised upon completion of the Placing on 2 April 2013.

# Management Discussion and Analysis

The Company set out below the update on the use of proceeds from the 2013 Placing.

| Placing and Net proceeds | Intended use of proceeds from the 2013 Placing as mentioned in the 2013 Placing Announcement and the 2013 Placing Circular | Actual use of proceeds from the 2013 Placing as at the date of this report |
|---|---|---|
| The 2013 Placing<br>Approximately HK$389 million | (a) Approximately HK$5 million will be used for the feasibility study of using the Company's current manufacturing and operations facilities or to expand and upgrade the current facilities in Indonesia (if necessary);<br><br>approximately HK$75 million will be used for carrying out the suggestion made in the feasibility study. | Approximately HK$1 million has been used for the feasibility study. |
| | (b) (i) Approximately HK$5 million will be used for performing a detail strategic review of the Company's operation; | Approximately HK$2.5 million has been used for performing a detail strategic review of the Company's operation. |
| | (ii) approximately HK$5 million will be used for the research and development of new lines of products and/or the related brand building or acquisitions, sales, marketing and promotion; and<br><br>(iii) approximately HK$60 million will be used for the possible acquisition of new product lines. | Approximately HK$42.9 million has been used to set up a company, which is principally engaged in consumer electronic products; and approximately HK$12.7 million has been used to acquire 51% share interest in a company, which is principally engaged in the research and development, marketing & distribution of baby appliances in the PRC.<br><br>Approximately HK$10.4 million has been used to set up a joint venture company, which is principally engaged in research and development, production, wholesaling, retailing of water purification equipment and accessories, installation and maintenance of water purification equipment and provision of relevant aftersales services in the PRC. The Directors believe that the business segment of baby appliances and water purifiers can complement the Group's existing business while further expand the Group's income base and add value to the shareholders of the Company. |

| Placing and Net proceeds | Intended use of proceeds from the 2013 Placing as mentioned in the 2013 Placing Announcement and the 2013 Placing Circular | Actual use of proceeds from the 2013 Placing as at the date of this report |
|---|---|---|
| | (c) Approximately HK$150 million will be used for possible acquisitions. | Approximately HK$8 million has been paid as part of the consideration for the acquisition of Notton Limited to enter the commercial kitchen industry. Approximately HK$23.7 million has been used to expand the registered capital of Qingdao Ruidi, the operating subsidiary of Notton in the PRC. Approximately HK$12.5 million has been used to set up a new subsidiary under Qingdao Ruidi for commercial kitchen design, planning and project management. Approximately HK$10 million has been used to acquire 59.976% share interest of Sichuan Yi Fang Kitchen Equipment Co., Ltd. which is principally engaged in research and development, production, sale and installation of commercial kitchen related equipment and accessories in the PRC. |
| | (d) Approximately HK$88 million will be used for the working capital of the Group, of which approximately HK$50 million will be used to support the increase in stock to cope with the organic growth of the business of the Company and the balance of approximately HK$38 million will be used for carrying out the plan as described in (a), (b) or possible acquisition in (c) above. | Approximately HK$32 million has been used for the working capital of the Group. |

As disclosed in the announcement of the Company dated 31 May 2013, the Company placed approx. HK$350 million in its private banking account with a Swiss based banking institute and approx. HK$344 million was invested in high yield bonds issued by listed issuers in the open bond market. The Company's investment in the bond market is merely a temporary cash management exercise during the interim period and the Management has been liquidating the bond portfolio at market recently. As at 31 March 2016, of the HK$350 million the Company originally placed in the bank, approx. HK$199 million was in the form of bond and the rest amounted approx. HK$151 million together with the coupon income it generated has been wired out of that Swiss based banking institute for operation. The Company will maintain its intention with the intended use of proceeds as disclosed in the 2013 Placing Circular.

As at 31 March 2016, the Group had approx. HK$7 million non-cash valuation gain (FY14/15: HK$4 million valuation gain) on available-for-sale investments as shown in our consolidated statement of comprehensive income. The available-for-sale investments have generated approx. HK$17 million coupon income during the Year (FY14/15: HK$19 million). Management will continue to closely monitor and carefully manage the investments.

# Corporate Governance Report

## CORPORATE GOVERNANCE PRACTICES

The Company is committed to achieving and maintaining a high standard of corporate governance practices as set out in the Corporate Governance Code (the "CG Code") in Appendix 14 to the Listing Rules and the Company has complied with the code provisions set out in the CG Code save for the deviations from code provisions A.2.1 and E.1.2 which are explained in the relevant paragraphs in this Report.

## CODE PROVISION E.1.2

Under code provision E.1.2 of the CG Code, the Chairman of the Board should attend the annual general meeting of the Company. The Chairman of the Board was absent from the Company's annual general meeting held on 2 September 2015 due to other business commitments.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard set out in Appendix 10 to the Listing Rules (the "Model Code"). The Company has made specific enquiry of its Directors. All Directors confirmed that they have complied with the required standard set out in the Model Code and the code of conduct regarding securities transactions by Directors adopted by the Company throughout the Year under review.

## THE BOARD

The Board is responsible for providing leadership and control of the Company and monitoring the performance of the management, approving the financial statements and annual budgets. It focuses on the formulation of business strategy, policy and control. Day-to-day operations of the Company are delegated to the Executive Directors and senior management of the Group. The Board reviews and approves key matters affecting the Company's strategic policies, finances and shareholders, such as financial statements, dividend policy and major corporate activities. Decisions of the Board are communicated to the Management through Executive Directors who have attended Board meetings.

The Board currently comprises three Executive Directors and three Independent Non-executive Directors. There is no relationship (including financial, business, family or other material/relevant relationship) among members of the Board. The names and brief biographies are set out on pages 39 to 42 of this Annual Report.

The Independent Non-executive Directors are high calibre executives with diversified industry expertise and bring a wide range of skills and experience to the Company. One of the independent Non-executive Directors possesses recognized professional qualifications in accounting. All Independent Non-executive Directors bring independent judgement on issues of strategy, performance, risk and people through their contribution at Board meetings.

The Board has received from each Independent Non-executive Director a written annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Board considers that the three Independent Non-executive Directors, representing half of the Board, are independent in character and they also meet the independence guidelines as set out in Rule 3.13 of the Listing Rules.

Board meetings are scheduled at approx. quarterly intervals, and additional meetings will be held when required. The Directors have access to all relevant information as well as the advice and services of the Company Secretary of the Company. Independent professional advice may be taken by the Directors as required. There were eight Board meetings held with full attendance during the year ended 31 March 2016.

Independent Non-executive Directors are appointed for a specific term of three years. All Directors are subject to retirement by rotation once every three years and are subject to re-election in accordance with the articles of association of the Company.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of Chairman and Chief Executive Officer have been performed by Mr. Diao Yunfeng since 27 October 2014. Although under code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual, the combination of the roles of Chairman and Chief Executive Officer by Mr. Diao is considered to be in the best interests of the Company and its shareholders as a whole. The Board believes that combining the roles of both Chairman and Chief Executive Officer in the same person provides the Company with strong and consistent leadership for both the Board and Management enabling the Company to operate efficiently. The Board considers that such an arrangement will not impair the balance of power and authority between the Board and the Management.

## BOARD COMMITTEES

The Board has established three committees, namely the Audit Committee, Remuneration Committee and Nomination Committee, to oversee particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees have been posted on the Company's website and the Stock Exchange's website and are available to shareholders upon request.

# Corporate Governance Report

## NUMBER OF MEETINGS ATTENDED/HELD

The attendance records of each Director at the meetings of the shareholders, the Board, Audit Committee, Remuneration Committee and Nomination Committee during the Year are set out below:

| | Board | Remuneration Committee | Nomination Committee | Audit Committee | 2015 Annual General Meeting ("AGM") |
|---|---|---|---|---|---|
| Executive Directors | | | | | |
| Mr. Diao Yunfeng *(Chairman and Chief Executive Officer)* | 8/8 | – | 1/1 | – | 0/1 |
| Mr. Leung Lun, M.H. | 8/8 | 1/1 | – | – | 1/1 |
| Ms. Fang Fang | 8/8 | 1/1 | 1/1 | – | 1/1 |
| Independent Non-executive Directors | | | | | |
| Mr. Ye Tian Liu | 8/8 | 1/1 | 1/1 | 2/2 | 1/1 |
| Mr. Lai Yun Hung | 8/8 | 1/1 | 1/1 | 2/2 | 1/1 |
| Dr. Ko Peter, Ping Wah | 8/8 | 1/1 | 1/1 | 2/2 | 1/1 |

## CONTINUOUS PROFESSIONAL DEVELOPMENT OF DIRECTORS

To assist Directors' continuing professional development, the Company recommends Directors to attend relevant seminars to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. During the year ended 31 March 2016, the Directors have participated in continuous professional development programmes, such as external seminars organised by qualified professionals, to develop and refresh their knowledge and skills in relation to their contribution to the Board. A record of the training received by the respective Directors are kept and updated by the Company.

The Directors also understand the importance of continuous professional development and are committed to participating any suitable training to develop and refresh their knowledge and skills.

According to the records provided by the Directors to the Company pursuant to the CG Code, all Directors have participated in appropriate continuous professional development activities during the Year under review. The individual training record of each Director for the year ended 31 March 2016 is summarised below:

| | Directors' duties and responsibilities/Corporate Governance/Updates on Laws, Rules and Regulations | | | Business related/ Accounting/Financial/ Management or other professional skills | |
|---|---|---|---|---|---|
| | Reading materials | Attending seminars/ conferences | In-house briefings | Reading materials | Attending seminars/ conferences |
| Executive Directors | | | | | |
| Mr. Diao Yunfeng *(Chairman and Chief Executive Officer)* | ✓ | ✓ | ✓ | ✓ | ✓ |
| Mr. Leung Lun, M.H. | ✓ | ✓ | ✓ | ✓ | ✓ |
| Ms. Fang Fang | ✓ | ✓ | ✓ | ✓ | ✓ |
| Independent Non-executive Directors | | | | | |
| Mr. Ye Tian Liu | ✓ | ✓ | ✓ | ✓ | ✓ |
| Mr. Lai Yun Hung | ✓ | ✓ | ✓ | ✓ | ✓ |
| Dr. Ko Peter, Ping Wah | ✓ | ✓ | ✓ | ✓ | ✓ |

## DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

The Company has established a formal and transparent procedure for formulating policies on remuneration of Directors and senior management of the Company. Details of the remuneration of each of the Directors for the year ended 31 March 2016 are set out in Note 14 to the consolidated financial statements.

The details of the five individual with highest emoluments are set out in Note 14(b) to the consolidated financial statements.

The remuneration of the members of senior management by band are set out in Note 14(c) to the consolidated financial statements.

## REMUNERATION COMMITTEE

The Company has established a Remuneration Committee in 2005. The Remuneration Committee consists of three Independent Non-executive Directors, namely Mr. Ye Tian Liu, Mr. Lai Yun Hung and Dr. Ko Peter, Ping Wah and two Executive Directors, namely Mr. Leung Lun, M.H. and Ms. Fang Fang. Mr. Ye Tian Liu is the Chairman of the Remuneration Committee. The function of the Remuneration Committee is to review and make recommendations to the Board on the Company's remuneration policy for all remuneration of Directors and senior management. The fees of the Non-executive Directors (including the Independent Non-executive Directors) are determined by the Board.

All members of the Remuneration Committee met once during the year ended 31 March 2016 for a proposal on remuneration packages and employment contracts for submission to the Board for approval.

The Company adopts a competitive remuneration package for its employees. Promotion and salary increments are assessed based on a performance related basis in order to attract, retain and motivate talented executives/employees to strive for future developments and expansion of the Company. To provide the Company with a flexible means of giving incentive to rewarding, remunerating, compensating and/or providing benefits to the executives/employees, a share option scheme was adopted by the Company in 2012. Details of the 2012 share option scheme are set out on pages 36 to 38 of this Annual Report.

## NOMINATION COMMITTEE

The Company has established a Nomination Committee in 2006. The Nomination Committee currently consists of three Independent Non-executive Directors, namely Mr. Ye Tian Liu, Mr. Lai Yun Hung and Dr. Ko Peter, Ping Wah and two Executive Directors, namely Mr. Diao Yunfeng and Ms. Fang Fang. Mr. Diao Yunfeng is the Chairman of the Nomination Committee. The function of the Nomination Committee is to review the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and make recommendations to the Board regarding any proposed changes to complement the Group's corporate strategy.

The Company adopted a policy on board diversity on 25 June 2013. The review of effectiveness of the Board Diversity Policy was conducted by the Board and all findings are satisfactory.

In assessing the Board composition, the Nomination Committee will consider various aspects set out in the Board Diversity Policy, including but not limited to gender, age, cultural and educational background, ethnicity, professional qualifications, skills, knowledge, industry and regional experience and length of service.

On selection of candidates for directorship of the Company, the Nomination Committee would consider the candidate's character, qualifications, experience, independence and other relevant criteria necessary to complement the corporate strategy and achieve Board diversity. All appointment will be based on merit and contribution that the selected candidates would bring to the Board.

During the year ended 31 March 2016, the Nomination Committee conducted an annual review of the structure, size and composition of the Board and the independence pursuant to code provision A.5.2 of the CG Code.

During the year ended 31 March 2016, the Nomination Committee held one meeting.

## AUDIT COMMITTEE

Pursuant to the Listing Rules, an Audit Committee was established on 14 March 2000. The Audit Committee currently consists of three Independent Non-executive Directors, namely Mr. Ye Tian Liu, Mr. Lai Yun Hung and Dr. Ko Peter, Ping Wah. Mr. Lai Yun Hung is the Chairman of the Audit Committee and has appropriate professional qualifications and experience in financial matters.

By reference to "A Guide for the Formation of An Audit Committee" published by the Hong Kong Institute of Certified Public Accountants, written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted by the Board since the date of establishment. The principal activities of the Audit Committee include the review and supervision of the Group's financial reporting process (including the preparation of the interim and annual results, internal controls, risk management and corporate governance).

Two Audit Committee Meetings were held with full attendance during the year ended 31 March 2016 to review the interim and annual financial results and reports, financial reporting, report on the Company's internal control and risk management review and processes and the re-appointment of the external auditors.

In view of the recent amendments to the CG Code relating to risk management and internal control systems for accounting period from 1 January 2016, the terms of reference of the Committee has been reviewed and revised to include its role to address such new provisions on 27 November 2015. The updated terms of reference explaining the Committee's role and authority are available on both the Company's website and the website of HKEx.

The Company's annual results for the year ended 31 March 2016 has been reviewed by the Audit Committee.

The Audit Committee also met the external auditors twice during the year ended 31 March 2016 in the absence of the Executive Directors.

## CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the functions set out in code provision D.3.1 of the CG Code.

The Board has reviewed and is satisfied with the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

## AUDITORS' REMUNERATION

During the year ended 31 March 2016, the remuneration paid or payable to the independent auditors for the audit services amounted to approx. HK$2,433,000 and non-audit services amounted to approx. HK$132,000.

# Corporate Governance Report

## FINANCIAL REPORTING

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The Directors acknowledge their responsibility for preparing the financial statements as set out on pages 51 to 132. The statement of the external auditors about its reporting responsibilities on the financial statements is set out on pages 49 to 50.

The Directors confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

## INTERNAL CONTROL AND RISK MANAGEMENT

The Directors have the overall responsibility for internal control of the Group, including risk management and establishing appropriate policies having regard to the objectives of the Company. During the Year under review, the Directors, through the Audit Committee, conducted a review on the effectiveness of the Company's system of financial and non-financial controls. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. Controls are monitored by management review and by a programme of internal audits. The Audit Committee reviews the effectiveness of the internal control of the Group. It receives reports from the internal and external auditors which include recommendation for improvement.

There is currently no internal audit function within the Group. The Directors have reviewed the need for an internal audit function and are of the view that in light of the size, nature and complexity of the business of the Group, it would be more cost-effective to appoint external independent professionals to perform internal audit functions for the Group as the need arises. Nevertheless, the Directors will continue to review at least annually the need for an internal audit function.

The Company has put in place an organisational structure with formal defined lines of responsibility and delegation of authority. There are also established procedures for planning, capital expenditure, treasury transactions, information and reporting systems, and for monitoring the Company's businesses and performance.

## COMPANY SECRETARY

Mr. Mak Yee Chuen, Vincent, is the Company Secretary of the Group and has day-to-day knowledge of the Company's affairs. He reports to the Chairman and the Chief Executive Officer, Mr. Diao Yunfeng.

The biographical details of Mr. Mak is set out on page 41 of this Report. Mr. Mak has confirmed that he has undertaken no less than 15 hours of relevant professional training during the Year.

## SHAREHOLDERS' RIGHTS

To safeguard shareholders' interests and rights, a separate resolution is proposed for each substantially separate issue at general meetings, including the election of individual directors. All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each general meeting.

The procedures for shareholders of the Company to propose a person for election as a Director of the Company are available on the Company's website (www.haier-healthwise.com.hk).

### Procedures for shareholders to convene extraordinary general meeting and putting forward proposal at general meeting

There are no provisions allowing shareholders to propose new resolutions at the general meetings under the Cayman Islands Companies Law (2012 Revision) (the "Law"). However, shareholders are requested to follow Article 72 of the Articles of Association (the "Articles") of the Company. Pursuant to Article 72 of the Articles of the Company, general meetings shall be convened on the written requisition of any two or more members of the Company, or on the written requisition of any one member which is a recognised clearing house, deposited at the registered office specifying the objects of the meeting and signed by the requisitionists, provided that such requisitionists held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company. Such meeting shall be held within two months after the deposit of such requisition. If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting, the requisitionists themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Board provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionists as a result of the failure of the Board shall be reimbursed to them by the Company.

## PUTTING FORWARD ENQUIRIES TO THE BOARD

For putting forward any enquiries to the Board of the Company, shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

### Contact details

Shareholders may send their enquiries or requests as mentioned above to the Company:

| | |
|---|---|
| Address: | Lung Cheong Building, 1 Lok Yip Road, Fanling, New Territories, Hong Kong<br>(For the attention of the Company Secretary) |
| Fax: | (852) 2677 6857 |

# Corporate Governance Report

For the avoidance of doubt, shareholders must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

## INVESTOR RELATIONS

The Company highly values its relationship with its shareholders and other stakeholders. It has put in place an effective corporate communication system which provides transparent, regular and timely public disclosures to its shareholders and other stakeholders. The main features of the system are as follows:

- The Company maintains a corporate website (www.haier-healthwise.com.hk) on which comprehensive information about the Group, including core business, financial reports, public announcements, circulars and news of the Group, is disclosed. Shareholders can obtain corporate communication electronically via the Company's website.

- The Company establishes and maintains different communication channels with its shareholders and other stakeholders through annual reports, interim reports and other publication.

- AGM provides a useful forum for shareholders to exchange views with the Board. The respective chairmen of the Board and Audit, Remuneration and Nomination Committees (or in the absence of the chairmen of such Committees, another member of each Committee or failing this his duly appointed delegate) will endeavor to be available to answer questions raised by shareholders.

- Separate resolutions are proposed at general meetings for each substantially separate issue, including the election of individual Directors.

- Details of the proposed resolutions to be put forward at a general meeting are, where necessary or appropriate, included in a circular to the shareholders dispatched prior to the date of the relevant general meeting.

- All resolutions put to the vote of a general meeting are taken by poll. The poll results are published on the Stock Exchange's website at www.hkexnews.hk and on the Company's website in accordance with Rule 13.39(5) of the Listing Rules.

In addition, the Company has established the Investor Relations Department with designated senior management for maintaining regular dialogue with institutional investors and analysts to keep them abreast of the Company's developments. Enquiries from shareholders and other stakeholders are dealt with in an informative and timely manner.

Shareholders and other stakeholders may write directly to the Company at its principal place of business in Hong Kong for any enquiries.

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

## PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are development, engineering, manufacturing and sale of toys, commercial kitchen and consumer electronic products.

An analysis of the Group's turnover and segment information is set out in Note 6 to the financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the Year are set out in the consolidated statement of comprehensive income on page 51.

## BUSINESS REVIEW

The business review of the Group for the year ended 31 March 2016 is set out in Review of Operations and Management Discussion and Analysis on pages 10 to 23.

The Company has complied with all the relevant laws and regulations that have a significant impact on the Company. The Company will seek professional legal advice from legal advisers, where necessary, to ensure transactions and business to be performed by the Company are in compliance with the applicable laws and regulations.

## DIVIDENDS

The Directors do not recommend any dividend in respect of the year ended 31 March 2016 (2015: Nil).

## RESERVES

Movements in the reserves of the Group and of the Company during the Year are set out in page 54 and Note 33 to the financial statements.

## SHARE CAPITAL

Details of the movements in share capital of the Company during the year ended 31 March 2016 are set out in Note 30 to the financial statements.

# Report of the Directors

## PROPERTY, PLANT AND EQUIPMENT

Details of the movements in Property, plant and equipment are set out in Note 15 to the financial statements.

## EMOLUMENT POLICY

The Group's emolument policies are based on the salaries paid by comparable companies, employment conditions and responsibilities, and individual performance of the Directors, senior management and general staff and are reviewed by the Remuneration Committee periodically.

The emoluments of the Directors are recommended by the Remuneration Committee and are decided by the Board, having regard to the salaries paid by comparable companies, time commitment and responsibilities, and employment conditions elsewhere in the Group.

The Company has adopted a share option scheme to provide a flexible and effective means of incentivising, rewarding, remunerating, compensating to eligible participants who contribute the success of the Group. Details of the schemes are set out in the paragraph headed "Share Option Scheme" below and Note 33 to the financial statements.

None of the directors waived any emoluments during the year ended 31 March 2016.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 27 September 2016 to 30 September 2016 (both days inclusive), during which period no transfer of shares will be effected. In order to determine the entitlement to attend and vote at the 2016 AGM of the Company to be held on 30 September 2016, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Abacus Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 26 September 2016.

## INFORMATION ON SUBSIDIARIES

Particulars of the subsidiaries are set out in Note 18 to the financial statements.

## FIVE YEARS FINANCIAL SUMMARY

The following is a summary of the consolidated results, assets and liabilities of the Group for each of the last five years ended 31 March 2016.

| | 2016<br>HK$'000 | 2015<br>HK$'000 | 2014<br>HK$'000 | 2013<br>HK$'000 | 2012<br>HK$'000 |
|---|---|---|---|---|---|
| Turnover | **352,799** | 389,427 | 193,664 | 209,341 | 419,758 |
| (Loss)/profit before income tax | **(94,044)** | 16,957 | 2,608 | 1,181 | 76,731 |
| Income tax credit/(expense) | **106** | (10,423) | 687 | 1,048 | 918 |
| (Loss)/profit for the year | **(93,938)** | 6,534 | 3,295 | 2,229 | 77,649 |
| Attributable to: | | | | | |
| Owners of the Company | **(81,324)** | 17,037 | 5,287 | 2,229 | 77,649 |
| Non-controlling interests | **(12,614)** | (10,503) | (1,992) | – | – |
| | **(93,938)** | 6,534 | 3,295 | 2,229 | 77,649 |
| Total assets | **741,064** | 740,189 | 635,655 | 561,778 | 151,215 |
| Total liabilities | **179,954** | 116,952 | 67,765 | 73,786 | 130,743 |
| Total equity | **561,110** | 623,237 | 567,890 | 487,992 | 20,472 |

## DISTRIBUTABLE RESERVES

As at 31 March 2015 and 2016, in the opinion of the directors, the Company has no distributable reserves.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the Year under review.

## SHARE OPTION SCHEME

On 14 September 2012, the shareholders of the Company approved the adoption of a share option scheme ("the Scheme").

Details of the Scheme are as follows:

### (1) Purpose

To provide a flexible and effective means of incentivising, rewarding, remunerating, compensating, to eligible participants who contribute the success of the Group.

### (2) Eligible persons

Any person who is an employee (whether full time or part time) holding salaried office or employment under a contract of employment or service contract or terms of employment ("Contract") with the Group or is a Director (including executive and non-executive directors) of the Group or any adviser, consultant, agent, contractor, customer and supplier of any member of the Group or any subsidiaries of the Company.

### (3) Maximum number of shares

The scheme mandate limit of the Scheme was approved by a shareholders' resolution passed in the EGM of the Company held on 14 September 2012, details of which have been set out in the circular dated 29 August 2012. Accordingly, the maximum number of shares available for issue under the Scheme is 345,775,799, representing 10% of the issued ordinary share capital of the Company as at the date of the EGM.

The total number of Shares which may be issued upon exercise of all outstanding Options granted and yet to be exercised under the Scheme and all outstanding options granted and yet to be exercised under any other Scheme shall not exceed 30% of the shares in issue from time to time. No options may be granted under the Scheme and no options may be granted under any other Schemes if this will result in the limit being exceeded. Subject to specific approval of the shareholders of the Company, the 10% limit may be refreshed with reference to the date of such specific approval of the shareholders of the Company.

### (4) Maximum entitlement of each eligible person

Unless approved by shareholders, the total number of shares issued and to be issued upon exercise of the share options granted to each eligible person in any 12-month period must not exceed 1% of the shares of the Company in issue.

### (5) Time of exercise of option

An option may be exercised during the periods to be determined and notified by the Directors to the grantees at the time of making offers to grant share options to them provided that such periods shall not exceed the period of ten years from the date of offer.

### (6) Acceptance of offers

Offers for the grant of share options must be accepted within 21 days after the offer date. Offers for grant of share options have to be accepted together with remittance in favour of the Company of HK$1.00.

### (7) Basis of determining the option exercise price

The subscription price for the Shares under the Scheme shall be a price determined by the Directors at its discretion, provided that it shall not be less than the whichever is the highest of (i) the closing price of the shares as stated in the daily quotation sheets issued by the Stock Exchange on the date of offer; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the offer date; and (iii) the nominal value of the shares. Details of the scheme are set out in the circular of the Company dated 29 August 2012.

### (8) The remaining life of the Scheme

The Scheme will remain in force until 14 September 2022, being the date which falls ten years after the date of adoption of the Scheme.

Details of the share options movement and outstanding as at 31 March 2016 have been disclosed in Note 31 to the financial statements.

## SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for 10 years from 14 September 2012 to 14 September 2022 and for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operation. Further details of the Scheme are set out in the circular of the Company date 29 August 2012.

On 13 May 2014, share options of 100,000,000 were granted by the Company to the senior management and employees of the subsidiaries and associate, and consultants at exercise price HK$0.87 per share.

The following table lists the details of movement in the options granted and outstanding under the Scheme during the Period:

| | Number of share options | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Category of participants | Outstanding as at 1 April 2015 | Granted during the Period | Exercised during the Period | Cancelled/ lapsed during the Period | Outstanding as at 31 March 2016 | Exercise price HK$ | Closing price immediately before the date of grant HK$ | Weighted average closing price immediately before exercise HK$ | Date of grant | Exercise period |
| Senior management of the subsidiaries and associate (Note 1) | 25,000,000 | – | – | – | 25,000,000 | 0.87 | 0.86 | – | 13 May 2014 | 13 May 2015 – 12 May 2017 |
| Employees of the subsidiaries and associate (Note 1) | 24,000,000 | – | – | – | 24,000,000 | 0.87 | 0.86 | – | 13 May 2014 | 13 May 2015 – 12 May 2017 |
| Consultants (Note 1) | 51,000,000 | – | – | – | 51,000,000 | 0.87 | 0.86 | – | 13 May 2014 | 13 May 2015 – 12 May 2017 |
| Total | 100,000,000 | – | – | – | 100,000,000 | | | | | |

Note:

1. The options are vested in two tranches in the proportion of 40% and 60% on 13 May 2015 and 13 May 2016 respectively.

## DIRECTORS

The Directors during the year ended 31 March 2016 and up to the date of this report were:

*Executive Directors:*
Mr. Diao Yunfeng *(Chairman and Chief Executive Officer)*
Mr. Leung Lun, M.H.
Ms. Fang Fang

*Independent Non-executive Directors:*
Mr. Ye Tian Liu
Mr. Lai Yun Hung
Dr. Ko Peter, Ping Wah

In accordance with Article 116 of the Company's Articles, the Directors retiring by rotation at the 2016 AGM are Ms. Fang Fang and Mr. Lai Yun Hung. Both Ms. Fang Fang and Mr. Lai Yun Hung will retire and, being eligible, offer themselves for re-election as Directors at the Annual General Meeting.

Biographical details of Directors and senior management are set out as follows:

### Executive Directors

Mr. Diao Yunfeng, aged 44, is our Executive Director since 24 September 2014 and was appointed as the Chairman, Chief Executive Officer and Chairman of Nomination Committee since 27 October 2014. He obtained his EMBA degree from the China Europe International Business School in the People's Republic of China ("PRC") and a bachelor degree from the Southeast University of the PRC.

He was awarded as the "Outstanding Entrepreneur" of Shandong Province. Mr. Diao joined Haier Group in 1995 and is currently the vice president of Haier Group, responsible for the development and management of various emerging segments of Haier Group, including the global home electric appliances, childcare related products and intelligent healthcare products, etc.

Mr. Diao has held a number of senior positions including the director of overseas marketing management of the Haier Group and the general manager of Haier International Business Corporation Limited, and under his leadership, the overseas business of Haier achieved one milestone after another. Mr. Diao has been responsible for the development and planning of the home electric appliances business for Haier since 2011, during which he has established an innovative platform for Haier childcare related products and intelligent healthcare products.

# Report of the Directors

Mr. Leung Lun, M.H., aged 67, is the founder of the Group. Mr. Leung was appointed as an Executive Director of the Company in July 1997. Mr. Leung is a member of the Remuneration Committee of the Company. He has over 50 years of experience in the toys manufacturing industry. Mr. Leung is a director of the Chinese Overseas Friendship Association. He is also an honourable president of the Dongguan Toys Association of China, chairman of the Kowloon West Youth Care Committee, chairman of the Kowloon City District Fire Safety Committee, president of the Merchants Support For Rehabilitated Offenders Committee, chairman of the Friends of The Community Chest Kowloon City District Committee, chairman of the Hong Kong Kowloon City Industry and Commerce Association, vice president of The Hong Kong Chinese Importers' & Exporters' Association and vice president of the Hong Kong Economic & Trade Association. He was named an honourable citizen of Dongguan City and Zhaoqing City by the local authority in 1996 and 2009 respectively for his contribution to the cities.

Ms. Fang Fang, aged 38, was appointed as an Executive Director of the Company in May 2013. She is a member of the Nomination Committee and Remuneration Committee of the Company. She is responsible for overseeing the strategic development, financial planning, investor relationship, corporate and business management of the Group. Ms. Fang holds a bachelor's degree in Economics from the Fudan University, Shanghai and a master's degree in sociology from The Chinese University of Hong Kong. Ms. Fang has over 10 years of experience in the field of financial investment and business management. Ms. Fang was a non-executive director of FDS Networks Group Limited, a company listed on the Singapore Exchange Limited, from May 2009 to January 2013. Ms. Fang is currently a licensed person to carry out Type 4 (advising on securities) and Type 9 (asset management) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO").

## Independent Non-Executive Directors

Mr. Ye Tian Liu, aged 70, was appointed as an Independent Non-executive Director of the Company in November 1999. Mr. Ye holds a master's degree in business administration. Mr. Ye is also the Chairman of the Remuneration Committee and member of the Audit Committee and the Nomination Committee of the Company. He was formerly an executive director of a locally listed company for several years. He has extensive experiences in China trade and property investment.

Mr. Lai Yun Hung, aged 64, is a partner of Lai & Wong, Certified Public Accountants as well as the managing director of Lai & C.K. Wong CPA Limited. Mr. Lai chairs the Audit Committee and is also members of the Remuneration Committee and the Nomination Committee of the Company. He has over 33 years of working experience in audit and tax assignments in audit firms, with exposure in listed and unlisted companies engaging in various types of industries including banks, financial institutions, manufacturing and trading companies, travel agencies and solicitors firms. Mr. Lai is a fellow member of the Institute of Chartered Accountants in England and Wales (ACA), a fellow member of the Association of Chartered Certified Accountants (FCCA) in the United Kingdom and a fellow member of the Hong Kong Institute of Certified Public Accountants (FCPA (Practising)) in Hong Kong. Mr. Lai was appointed as an Independent Non-executive Director of the Company in September 2004.

Dr. Ko Peter, Ping Wah, aged 67, was appointed as an Independent Non-executive Director of the Company on 28 September 2012. He is a member of the Audit Committee, the Nomination Committee and the Remuneration Committee of the Company. He holds a Ph. D degree in business administration from the Bulacan State University, Republic of the Philippines, a master of science degree in business administration from the University of Bath, England and a bachelor's degree of law (Chinese Law) from the University of Beijing, China and a higher diploma in mechanical engineering from the Hong Kong Polytechnic University. He has been registered as a Lead Auditor & Tutor of ISO9000 for 15 years and as a Quality Management Consultant and Trainer for 19 years. He has been appointed as a part-time tutor of universities in Hong Kong and overseas for many years.

## Company Secretary

Mr. Mak Yee Chuen, Vincent, aged 59, was appointed as Company Secretary in July 2000. Mr. Mak holds a master degree of laws from the University of Hong Kong and a master degree in business administration from the Hong Kong Polytechnic University. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and The Association of Chartered Certified Accountants. He is the founder and a partner of Vincent Mak & Company, Certified Public Accountants since 1987. He is also the principal of Vincent Mak & Co., Solicitors.

## Senior Management

Mr. Du Yilin, aged 40, is the general manager of the Childcare products. He joined the Haier Group in 1998. Mr. Du has held several senior positions such as the general manager of a branch centre; TV segment distribution channel i.e. Guomei（國美）; household appliances products for Haier Group. Mr. Du has 17 years of experience as senior management in the household appliance industry. He is knowledgeable in the development of domestic and foreign household appliances industry and well-experienced in corporate operations, internal control, sales and marketing, etc. He also has profound management experience in corporate strategic operational planning, building operating platform, developing operating system, integrating marketing planning, developing marketing system and brand management.

Mr. Wang Tian Guang, aged 48, is the general manager of the commercial kitchen business in Haier Ruidi. He joined the Group since May 2015. Mr. Wang has over 23 years of experience in production, design, management and after-sale service in the hotel kitchen and laundry equipment area. He is a college graduate in civil engineering from the Chongqing University.

Mr. Leung Yuk Hung, Paul, aged 41, is the associate director responsible for the development of new investments and business ventures. Mr. Leung is the son of Mr. Leung Lun M.H., an Executive Director of the Company. He holds a bachelor of commerce (accounting and finance) degree and a bachelor of engineering (I.T.) degree from the University of Western Australia. He joined the Group in March 2003.

# Report of the Directors

Mr. Wong, Andy Tze On, CPA, aged 49, was the former Executive Director responsible for formulation of the corporate strategies, corporate and business management, financial planning and management of the Group until his re-designation in September 2014 to concentrate on the overall management of the toy business as well as the OEM business development of the Indonesia subsidiary. He is also responsible for toy segment compliance, financier relationship and risk management of the Group. Mr. Wong holds a business degree in accounting from the Curtin University of Technology, Western Australia. He joined the Group in June 1993. He is a member of the Australian Society of Certified Practising Accountants. Mr. Wong was an Executive Director of the Company for the period from August 1997 to September 2014. Mr. Wong serves as a committee member of the Hong Kong Trade Development Council Toys Advisory Committee since July 2013.

## DIRECTORS' SERVICE CONTRACTS

One of the Executive Directors has entered into a service agreement with the Company for an initial fixed term of three years commencing from 1 September 1997 and shall continue thereafter unless and until terminated by either the Company or the Director giving to the other party not less than six months' notice in writing to determine the same. Under the agreement, the Executive Director will receive a fixed monthly salary and/or may receive a year end bonus and a discretionary bonus.

One of the Executive Directors has entered into a service contract with the Company for an initial term of three years commencing from 31 May 2013 and the service contract continues thereafter unless and until terminated by either the Company or the Director giving to the Company not less than two months' written notice or payment in lieu of notice to determine the same. Under the service contract, the Executive Director will receive a fixed monthly salary and/or may receive a management bonus.

None of the Independent Non-executive Directors has entered into written service contract with the Company for a term of three years which will be automatically renewed for another term of three years until it is terminated. According to the verbal arrangements, it may be terminated at any time by the Independent Non-executive Director giving not less than three months' prior written notice.

Apart from the above, none of the Directors has a service contract with the Company which is not terminable within one year without payment of compensation, other than statutory compensation.

## PERMITTED INDEMNITY

Pursuant to the Articles, every Director shall be entitled to be indemnified out of the assets of the Company against all actions, costs, charges, damages, expenses, losses and liabilities which he/she may sustain or incur in the execution of his/her office or otherwise in relation thereto.

The Company has taken out insurance against the liability and costs associated with defending any proceedings which may be brought against Directors of the Group.

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 31 March 2016, apart from the Lung Cheong (BVI) Holdings Limited ("Disposal Group"), the Directors were not aware of any business or interest of each Director, management shareholder and their respective associate, that competes or may compete with the business of the Group and any other conflict of interest which any such person have or may have with the Group.

Save as mentioned above, no contracts of significance in relation to the Company's business to which the Company, any of its holding companies or subsidiaries was a party, and in which a Director had a material interest, whether directly or indirectly, or a controlling shareholder or any of its subsidiaries is a party, subsisted at the end of the Year or at any time during the Year.

## DIRECTORS' INTERESTS IN EQUITY SECURITIES

At 31 March 2016, the interests and short positions of each Director and chief executive of the Company in the shares or underlying shares of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of Part XV of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules were as follows:

| **Name of Director** | **Name of company** | **Capacity** | **Number and class of securities** (Note 1) | **Approximate percentage on the issued share capital of the same class of securities** |
|---|---|---|---|---|
| Leung Lun | The Company | Interest in a controlled corporation | 775,332,240 ordinary shares (L) (Note 2) | 13.10% |
| | Lung Cheong Investment Limited | Interest in a controlled corporation | 1,000 ordinary shares (L) | 100% |
| | Rare Diamond Limited | Beneficial interest | 70 ordinary shares (L) | 70% |
| Fang Fang | The Company | Beneficial interest | 12,000,000 ordinary shares (L) | 0.20% |

Notes:

1. The letter "L" represents the Director's interests in the shares and underlying shares of the relevant company.

2. These shares were held by Lung Cheong Investment Limited, a company wholly-owned by Rare Diamond Limited. Rare Diamond Limited is beneficially owned as to 70% by Mr. Leung Lun, M.H., an Executive Director of the Company and 30% by Mr. Leung Chung Ming, who is the brother of Mr. Leung Lun, M.H..

Save as disclosed above, as at 31 March 2016, none of the Directors or chief executive of the Company had or was deemed to have any interests or short position in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which had been notified to the Company and the Stock Exchange pursuant to the Model Code.

Apart from the Scheme, at no time during the Period was the Company, its holding companies or its subsidiaries a party to any arrangements to enable the Directors, chief executives of the Company and their associates to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or its associated corporations (within the meaning of Part XV of the SFO).

## SUBSTANTIAL SHAREHOLDERS

As at 31 March 2016, the following persons, other than a Director or chief executive of the Company, had an interest in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of Part XV of the SFO:

| **Name of substantial shareholder** | **Number of ordinary shares of HK$0.10 each** (Note 1) | **Capacity** | **Approximate percentage on the issued share capital of the same class of securities** |
|---|---|---|---|
| Haier Electrical Appliances Second Holdings (BVI) Limited | 1,510,000,000 (L) | Beneficial owner | 25.52% |
| Qingdao Haier Collective Asset Management Association | 1,510,000,000 (L) (Note 2) | Interest of controlled corporation | 25.52% |
| Qingdao Haier Investment and Development Co., Ltd. | 1,510,000,000 (L) (Note 2) | Interest of controlled corporation | 25.52% |
| Lung Cheong Investment Limited | 775,332,240 (L) | Beneficial owner | 13.10% |
| Rare Diamond Limited | 775,332,240 (L) (Note 3) | Interest of controlled corporation | 13.10% |

Notes:

1. The letter "L" represents the entity's interests in the shares and underlying shares of the Company.

2. These shares were registered in the name of Haier Electrical Appliances Second Holdings (BVI) Limited, the entire issued share capital of which is wholly-owned by Qingdao Haier Investment and Development Co., Ltd., which is beneficially owned as to 63.42% by Qingdao Haier Collective Asset Management Association.

3. These shares were registered in the name of Lung Cheong Investment Limited, the entire issued share capital of which is wholly-owned by Rare Diamond Limited. Rare Diamond Limited is beneficially owned as to 70% by Mr. Leung Lun, M.H., an Executive Director of the Company, and 30% by Mr. Leung Chung Ming, who is the brother of Mr. Leung Lun, M.H.

Save as disclosed above, as at 31 March 2016, the Directors are not aware of any other person or corporation having an interest or short position in shares and underlying shares of the Company or its associated corporation(s) which would require to be recorded in the register required to be kept by the Company pursuant to section 336 of Part XV of the SFO.

## PRE-EMPTIVE RIGHTS

In the event that the Company issues, otherwise than pursuant to the Old Scheme and the Scheme, for cash consideration of any new shares or securities (including options and warrants) in the Company convertible into ordinary shares (the "New Issue Securities"), the holders of the Company's preference shares (the "Preference Shares") are entitled to subscribe, or procure subscribers to subscribe, for all or part of the New Issue Securities. Any New Issue Securities not subscribed for by the holders of Preference Shares may be subscribed for by the holders of ordinary shares in the Company upon terms and conditions no more favourable than those offered to the holder of Preference Shares.

## MANAGEMENT CONTRACTS

Other than the contracts of service with the Directors or any persons engaged in the full-time employment of the Group, no contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the Year.

## MAJOR CUSTOMERS AND SUPPLIERS

The percentage of sales and purchases attributable to the Group's largest customers and suppliers are as follows:

| | **2016**<br>**%** | 2015<br>% |
|---|---|---|
| Sales | | |
| – the largest customer | **25** | 11 |
| – five largest customers combined | **61** | 40 |
| Purchases | | |
| – the largest supplier | **19** | 20 |
| – five largest suppliers combined | **40** | 54 |

No Directors or their associates except for Disposal Group (as defined in the Listing Rules) and no shareholders (which to the knowledge of the directors own more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

# Report of the Directors

## AUDIT COMMITTEE

The Audit Committee had reviewed (together with the management and external auditor) the accounting principles and policies adopted by the Group and the audited consolidated financial statements for the year ended 31 March 2016.

## INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each Independent Non-executive Director an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all of the Independent Non-executive Directors are independent.

## BOARD OF DIRECTORS

Mr. Diao Yunfeng was appointed as an Executive Director on 24 September 2014, and was appointed as the Chairman and Chief Executive Officer and the Chairman of the Nomination Committee of the Company with effect from 27 October 2014.

## CONTINUING CONNECTED TRANSACTIONS

At an EGM held on 5 January 2015, an ordinary resolution was passed by the independent shareholders which approved the master purchase agreement dated 23 October 2014 entered into between LC Global Holdings Corporation ("LC Global"), a subsidiary of the Company, and Lung Cheong (BVI) Holdings Limited which is owned as to 30% by Mr. Leung Chung Ming and 70% by Mr. Leung, Kenneth Yuk Wai who is a son of one of the Company's executive Directors, Mr. Leung Lun, M.H., (the "Master Purchase Agreement") in relation to, among other matters, the supply of consumer electronic products, radio control/wireless products, electronic and plastic toys for a term up to 31 March 2017. The proposed annual caps in relation to the transactions under the Master Purchase Agreement for the period commencing from 1 April 2014 to 31 March 2015 and each of the period/years ended 31 March 2016 and ending 31 March 2017 would not exceed HK$60 million, HK$75 million and HK$95 million respectively.

For FY15/16, purchases from the Disposal Group amounted to approx. HK$49 million in line with the resolution approved by independent shareholders at the Company's EGM held on 5 January 2015.

In accordance with Rule 14A.37 of the Listing Rules, the Independent Non-executive Directors of the Company reviewed the continuing connected transactions in the paragraph above and confirmed that the transactions were entered into:

(i) In the ordinary and usual course of business of the Company;

(ii) Either on normal commercial terms or on terms no less favorable to the Company than terms available to or from (as appropriate) independent third parties; and

(iii) In accordance with the relevant agreement governing them on terms that were fair and reasonable and in the interests of the shareholders of the Company as a whole.

Pursuant to Rule 14A.38 of the Listing Rules, the Company's auditors, BDO Limited, were engaged to report on the Company's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants.

The auditors have issued an unqualified letter containing findings and conclusions in respect of the continuing connected transactions disclosed by the Group in the paragraph above in accordance with Rule 14A.38 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Stock Exchange.

# Report of the Directors

## RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Company is committed to maintaining, and has maintained good relationships with, its employees, customers and suppliers with a view to fostering better mutual understanding and/or a sense of belonging towards the Company. This is conducive to implementing the Group's strategies and business objectives, as well as the Group's business development and sustainability in the long term.

## ENVIRONMENTAL POLICIES AND PERFORMANCE

As a responsible corporation, the Company is committed to protecting the environment in the areas where we operate. To ensure our business development and sustainability, the Company endeavors to comply with the laws and regulations regarding environmental protection and to adopt effective measures to achieve efficient use of resources, energy saving and waste reduction.

## SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of its Directors as at the latest practicable date prior to the issue of this report, the public float of the shares of the Company is sufficient to meet the minimum level as prescribed in the Listing Rules.

## AUDITORS

The financial statements have been audited by BDO Limited who will retire and, being eligible, offer themselves for re-appointment. A resolution for the appointment of BDO Limited as auditors of the Company will be proposed at the forthcoming annual general meeting.

## CORPORATE GOVERNANCE

The Company's corporate governance principles and practice are set out in the Corporate Governance Report on pages 24 to 32 of this Annual Report.

On behalf of the Board
**Haier Healthwise Holdings Limited**

**Diao Yunfeng**
*Chairman and Chief Executive Officer*
30 June 2016

# Independent Auditor's Report

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**TO THE SHAREHOLDERS OF HAIER HEALTHWISE HOLDINGS LIMITED**
*(incorporated in the Cayman Islands with limited liability)*

We have audited the consolidated financial statements of Haier Healthwise Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 51 to 132, which comprise the consolidated statement of financial position as at 31 March 2016 and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with the terms of our engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

# Independent Auditor's Report

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

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

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 March 2016, 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.

**BDO Limited**
*Certified Public Accountants*

**Ng Wai Man**
Practising Certificate No. P05309

Hong Kong, 30 June 2016

# Consolidated Statement of Comprehensive Income

For the year ended 31 March 2016

| | Notes | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|---|
| Turnover | 6 | **352,799** | 389,427 |
| Cost of sales | | **(290,012)** | (277,506) |
| Gross profit | | **62,787** | 111,921 |
| Other income, gains and losses, net | 7 | **23,280** | 20,931 |
| Selling and distribution expenses | | **(46,389)** | (52,887) |
| General and administrative expenses | | **(98,866)** | (82,852) |
| Share of result of an associate | 19 | **3,653** | 9,512 |
| Finance costs | 9 | **(2,038)** | (1,760) |
| Impairment loss on goodwill | 16 | **(36,471)** | (3,523) |
| Fair value gain on contingent consideration | | **–** | 15,615 |
| (Loss)/profit before income tax | 8 | **(94,044)** | 16,957 |
| Income tax credit/(expense) | 10 | **106** | (10,423) |
| (Loss)/profit for the year | | **(93,938)** | 6,534 |
| Other comprehensive income for the year, net of tax | | | |
| Items that may be subsequently reclassified to profit or loss: | | | |
| Exchange differences arising from translation of foreign operations | | **(12,106)** | (203) |
| Revaluation of available-for-sale investments | | **6,605** | 3,663 |
| Surplus on revaluation of land and buildings | | **–** | 21,102 |
| Others | | **(261)** | – |
| Total other comprehensive income for the year, net of tax | | **(5,762)** | 24,562 |
| Total comprehensive income for the year | | **(99,700)** | 31,096 |
| (Loss)/profit for the year attributable to: | | | |
| Owners of the Company | | **(81,324)** | 17,037 |
| Non-controlling interests | | **(12,614)** | (10,503) |
| | | **(93,938)** | 6,534 |
| Total comprehensive income for the year attributable to: | | | |
| Owners of the Company | | **(88,183)** | 41,756 |
| Non-controlling interests | | **(11,517)** | (10,660) |
| | | **(99,700)** | 31,096 |
| (Loss)/earnings per share attributable to owners of the Company | | | |
| – Basic | 12 | **(1.39) cents** | 0.31 cents |
| – Diluted | 12 | **N/A** | 0.29 cents |

# Consolidated Statement of Financial Position

As at 31 March 2016

| | Notes | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 15 | **133,288** | 100,912 |
| Goodwill | 16 | **60,594** | 102,357 |
| Intangible assets | 17 | **8,710** | 10,419 |
| Interest in an associate | 19 | **21,982** | 18,904 |
| Deferred tax assets | 28 | **3,197** | 5,575 |
| | | **227,771** | 238,167 |
| **Current assets** | | | |
| Inventories | 20 | **81,500** | 75,257 |
| Trade and other receivables, deposits and prepayments | 21 | **84,334** | 95,195 |
| Available-for-sale investments | 22 | **199,017** | 201,680 |
| Amounts due from related companies | 23 | **13,123** | 231 |
| Amount due from an associate | 19 | **9,136** | 21,135 |
| Tax recoverable | | **599** | 1,532 |
| Cash and cash equivalents | 24 | **125,584** | 106,992 |
| | | **513,293** | 502,022 |
| **Current liabilities** | | | |
| Trade and other payables and accrued charges | 25 | **78,896** | 52,108 |
| Borrowings | 26 | **36,554** | 24,094 |
| Amounts due to related companies | 23 | **44,229** | 5,004 |
| Tax payable | | **3,151** | 4,661 |
| | | **162,830** | 85,867 |
| **Net current assets** | | **350,463** | 416,155 |
| **Total assets less current liabilities** | | **578,234** | 654,322 |

# Consolidated Statement of Financial Position

As at 31 March 2016

| | Notes | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Borrowings | 26 | – | 15,057 |
| Provision for long service payment | 27 | **3,744** | 2,451 |
| Deferred tax liabilities | 28 | **13,380** | 13,577 |
| | | **17,124** | 31,085 |
| **Net assets** | | **561,110** | 623,237 |
| **EQUITY** | | | |
| Share capital | 30 | **591,776** | 564,776 |
| Reserves | | **(10,483)** | 67,127 |
| Equity attributable to owners of the Company | | **581,293** | 631,903 |
| **Non-controlling interests** | | **(20,183)** | (8,666) |
| **Total equity** | | **561,110** | 623,237 |

On behalf of the board

**Leung Lun, M.H.**
*Director*

**Diao Yunfeng**
*Director*

# Consolidated Statement of Changes in Equity

For the year ended 31 March 2016

| | Share capital HK$'000 (Note 30) | Share premium HK$'000 | Shares to be issued HK$'000 (Note 29) | Share option reserve HK$'000 (Note 31) | Warrant reserve HK$'000 | Exchange fluctuation reserve HK$'000 | Investment revaluation reserve HK$'000 | Land and buildings revaluation reserve HK$'000 | Other reserve HK$'000 | Accumulated losses HK$'000 | Attributable to owners of the Company HK$'000 | Non-controlling interest HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| At 1 April 2014 | 555,776 | 254,569 | 82,000 | – | 3,830 | (31,414) | (16,539) | 28,891 | – | (306,632) | 570,481 | (2,591) | 567,890 |
| Exchange differences arising on translation of foreign operations | – | – | – | – | – | (46) | – | – | – | – | (46) | (157) | (203) |
| Revaluation of available-for-sale investments | – | – | – | – | – | – | 3,663 | – | – | – | 3,663 | – | 3,663 |
| Surplus on revaluation of land and buildings | – | – | – | – | – | – | – | 21,102 | – | – | 21,102 | – | 21,102 |
| Profit for the year | – | – | – | – | – | – | – | – | – | 17,037 | 17,037 | (10,503) | 6,534 |
| Total comprehensive income for the year | – | – | – | – – | – | (46) | 3,663 | 21,102 | – | 17,037 | 41,756 | (10,660) | 31,096 |
| Recognition of equity-settled share-based payment, net | – | – | – | 6,164 | – | – | – | – | – | – | 6,164 | – | 6,164 |
| Acquisition of a subsidiary | – | – | – | – | – | – | – | – | – | – | – | 4,585 | 4,585 |
| Lapse of profit guarantee – share portion | – | – | (41,000) | – | – | – | – | – | – | 41,000 | – | – | – |
| Exercise of warrants | 9,000 | 5,363 | – | – | (861) | – | – | – | – | – | 13,502 | – | 13,502 |
| At 31 March 2015 | 564,776 | 259,932 | 41,000 | 6,164 | 2,969 | (31,460) | (12,876) | 49,993 | – | (248,595) | 631,903 | (8,666) | 623,237 |
| Exchange differences arising on translation of foreign operations | – | – | – | – | – | (13,203) | – | – | – | – | (13,203) | 1,097 | (12,106) |
| Revaluation of available-for-sale investments | – | – | – | – | – | – | 6,605 | – | – | – | 6,605 | – | 6,605 |
| Others | – | – | – | – | – | – | – | – | (261) | – | (261) | – | (261) |
| Loss for the year | – | – | – | – | – | – | – | – | – | (81,324) | (81,324) | (12,614) | (93,938) |
| Total comprehensive income for the year | – | – | – | – – | – | (13,203) | 6,605 | – | (261) | (81,324) | (88,183) | (11,517) | (99,700) |
| Recognition of equity-settled share-based payment, net | – | – | – | (2,927) | – | – | – | – | – | – | (2,927) | – | (2,927) |
| Lapse of profit guarantee – share portion | – | – | (41,000) | – | – | – | – | – | – | 41,000 | – | – | – |
| Exercise of warrants | 27,000 | 16,086 | – | – | (2,586) | – | – | – | – | – | 40,500 | – | 40,500 |
| At 31 March 2016 | 591,776 | 276,018 | – | 3,237 | 383 | (44,663) | (6,271) | 49,993 | (261) | (288,919) | 581,293 | (20,183) | 561,110 |

Nature and purpose of reserves are disclosed in Note 33.

# Consolidated Statement of Cash Flows

For the year ended 31 March 2016

| | Notes | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|---|
| **Operating activities** | | | |
| (Loss)/profit before income tax | | **(94,044)** | 16,957 |
| Adjustments for: | | | |
| Interest income | | **(17,178)** | (19,446) |
| Interest expenses | | **2,038** | 1,760 |
| Share of result of an associate | | **(3,653)** | (9,512) |
| Depreciation of property, plant and equipment | | **10,652** | 8,093 |
| Amortisation of intangible assets | | **1,201** | 639 |
| Impairment loss on inventories | | **4,416** | – |
| Impairment loss on trade receivables, net | | **1,950** | 5,649 |
| Impairment loss on goodwill | | **36,471** | 3,523 |
| Gain on disposal of property, plant and equipment | | **–** | (383) |
| Gain on disposal of available-for-sale investments | | **(1,896)** | (977) |
| Equity-settled share-based payment expenses, net | | **(2,927)** | 6,164 |
| Addition to provision for long service payment | | **1,295** | 597 |
| Fair value gain on contingent consideration | | **–** | (15,615) |
| Operating cash flows before changes in working capital | | **(61,675)** | (2,551) |
| Increase in inventories | | **(10,659)** | (18,938) |
| Decrease/(increase) in trade and other receivables, deposits and prepayments | | **8,911** | (61,114) |
| (Increase)/decrease in amounts due from related companies | | **(12,892)** | 3,818 |
| Decrease/(increase) in amount due from an associate | | **11,999** | (21,135) |
| Increase in trade and other payables and accrued charges | | **26,788** | 38,334 |
| Increase in amounts due to related companies | | **39,225** | 1,485 |
| Cash generated from/(used in) operations | | **1,697** | (60,101) |
| Interest received | | **17,178** | 19,446 |
| Overseas income tax paid | | **(893)** | (825) |
| **Net cash generated from/(used in) operating activities** | | **17,982** | (41,480) |

# Consolidated Statement of Cash Flows

For the year ended 31 March 2016

| | Notes | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|---|
| **Investing activities** | | | |
| Purchase of property, plant and equipment | | **(44,458)** | (32,355) |
| Purchase of intangible assets | | **(22)** | (4,070) |
| Purchase of available-for-sale investments | | **(28,166)** | – |
| Cash outflow from acquisition of a subsidiary | | **–** | (8,188) |
| Capital injection to an associate | | **–** | (9,330) |
| Proceeds from disposal of property, plant and equipment | | **269** | 1,819 |
| Proceeds from disposal of available-for-sale investments | | **41,204** | 48,547 |
| **Net cash used in investing activities** | | **(31,173)** | (3,577) |
| **Financing activities** | | | |
| Interest paid | | **(2,038)** | (1,760) |
| Exercise of warrants | | **40,500** | 13,502 |
| New borrowings from banks | | **89,455** | 33,088 |
| Repayment of borrowings | | **(91,475)** | (16,949) |
| **Net cash generated from financing activities** | | **36,442** | 27,881 |
| **Net increase/(decrease) in cash and cash equivalents** | | **23,251** | (17,176) |
| **Effect of foreign exchange rate changes** | | **(4,659)** | 8,029 |
| **Cash and cash equivalents at beginning of year** | | **106,992** | 116,139 |
| **Cash and cash equivalents at end of year** | 24 | **125,584** | 106,992 |

## 1. ORGANISATION AND OPERATIONS

Haier Healthwise Holdings Limited 海爾智能健康控股有限公司 (the "Company") is a limited liability company incorporated in the Cayman Islands. Its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of its registered office is at P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands, and the principal place of business of the Company is at Lung Cheong Building, 1 Lok Yip Road, Fanling, New Territories, Hong Kong.

The Company is an investment holding company and its subsidiaries (collectively as the "Group") are principally engaged in development, engineering, manufacture and sale of toys, consumer electronic products and commercial kitchen products during the year. The principal activities of its subsidiaries are set out in Note 18 to the financial statements.

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

### (a) Adoption of new/revised HKFRSs – Effective on 1 April 2015

| | |
|---|---|
| HKFRSs (Amendments) | Annual Improvements 2010-2012 cycle |
| HKFRSs (Amendments) | Annual Improvements 2011-2013 cycle |
| Amendments to HKAS 19 | Defined Benefit Plans: Employee Contributions |

The adoption of these new/revised HKFRSs has no material impact on these 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 these consolidated 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] |
| HKFRS 14 | Regulatory Deferral Accounts[1] |
| HKFRS 15 | Revenue from Contracts with Customers[2] |
| HKFRS 16 | Leases[3] |

1 Effective for annual periods beginning on or after 1 January 2016
2 Effective for annual periods beginning on or after 1 January 2018
3 Effective for annual periods beginning on or after 1 January 2019

***HKFRS 9 (2014) – Financial Instruments***

HKFRS 9 introduces new requirements for the classification and measurement of financial assets. Debt instruments that are held within a business model whose objective is to hold assets in order to collect contractual cash flows (the business model test) and that have contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (the contractual cash flow characteristics test) are generally measured at amortised cost. Debt instruments that meet the contractual cash flow characteristics test are measured at fair value through other comprehensive income ("FVTOCI") if the objective of the entity's business model is both to hold and collect the contractual cash flows and to sell the financial assets. Entities may make an irrevocable election at initial recognition to measure equity instruments that are not held for trading at FVTOCI. All other debt and equity instruments are measured at fair value through profit or loss ("FVTPL").

HKFRS 9 includes a new expected loss impairment model for all financial assets not measured at FVTPL replacing the incurred loss model in HKAS 39 and new general hedge accounting requirements to allow entities to better reflect their risk management activities in 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*

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

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at FVTPL, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

***HKFRS 15 – Revenue from Contracts with Customers***

The new standard establishes a single revenue recognition framework. The core principle of the framework 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 and services. HKFRS 15 supersedes existing revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and related interpretations.

HKFRS 15 requires the application of a 5 steps 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 each performance obligation
Step 5: Recognise revenue when each performance obligation is satisfied

HKFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under HKFRS. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue.

***HKFRS 16 – Leases***

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. HKFRS 16 replaces HKAS 17 – Leases and the related interpretation.

The Group is in the process of making an assessment of the potential impact of these new/revised HKFRSs and is not yet in a position to state whether substantial changes to the Group's accounting policies and presentation of the financial statements will be resulted.

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

### (c) The disclosure requirements of the new Hong Kong Companies Ordinance relating to the preparation of financial statements

The provisions of the new Hong Kong Companies Ordinance (Cap.622) (the "New Companies Ordinance") regarding preparation of accounts and report of the directors and audits became effective for the financial year ended 31 March 2016.

The directors consider that there is no impact on the Group's financial position or performance, however the New Companies Ordinance has impacts on the presentation and disclosures in the consolidated financial statements. For example, 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 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 financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

### (b) Basis of measurement

The financial statements have been prepared under the historical cost basis except for the land and buildings and the available-for-sale investments, which are measured at fair values as explained in the accounting policies set out below.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the accounting policies of the Group. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are relatively significant to the consolidated financial statements are disclosed in Note 5.

## 3. BASIS OF PREPARATION – *Continued*

### (c) Functional and presentation currency

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

## 4. SIGNIFICANT ACCOUNTING POLICIES

### (a) Business combination and basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the dates of acquisition or up to the dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interest that represents a present ownership interest in the subsidiary either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs incurred are expensed. All other non-controlling interests are measured at fair value unless another measurement basis is required by HKFRS. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

## 4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

### (a) Business combination and basis of consolidation – *Continued*

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

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

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus such non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to such non-controlling interests even if this results in those non-controlling interests having a deficit balance.

### (b) Subsidiaries

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee, exposure, or rights, to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

## 4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

### (c) Associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor joint arrangement. 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.

Associates are accounted for using the equity method whereby they are initially recognised at cost and thereafter, their carrying amount are adjusted for the Group's share of the post-acquisition change in the associate's net assets except that losses in excess of the Group's interest in the associate are not recognised unless there is an obligation to make good those losses.

Profits and losses arising on transactions between the Group and its associates are recognised only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate.

Where unrealised losses provide evidence of impairment of the asset transferred they are recognised immediately in profit or loss. Any premium paid for an associate above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the associate. Where there is objective evidence that the investment in an associate has been impaired, the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

In the Company's statement of financial position, investments in associates are carried at cost less impairment losses, if any. The results of associates are accounted for by the Company on the basis of dividends received and receivable during the year.

### (d) Goodwill

Goodwill is initially recognised at cost being the excess of the aggregate of consideration transferred and the amount recognised for non-controlling interests over the fair value of identifiable assets, liabilities and contingent liabilities acquired.

Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is recognised in profit or loss on the acquisition date, after re-assessment.

## 4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

### (d) Goodwill – *Continued*

Goodwill is measured at cost less impairment losses. 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 to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired.

For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit 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. Any impairment loss for goodwill is recognised in profit or loss and is not reversed in subsequent periods.

### (e) Property, plant and equipment

Buildings comprise mainly factories, showrooms and offices. Freehold land and buildings are carried at revalued amount, being fair value, based on periodic, but at least triennial, valuations by external independent valuers, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Increases in the carrying amount arising on revaluation of land and buildings are recognised in other comprehensive income and accumulated in equity under land and buildings revaluation reserve. Decreases that offset previous increases of the same asset are offset against previous increase on earlier valuations and thereafter any further losses are recognised in profit or loss.

All other property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

## 4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

### (e) Property, plant and equipment – *Continued*

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

Depreciation of property, plant and equipment, is calculated using the straight-line method to allocate cost or revalued amounts to their residual values over their estimated useful lives, as follows:

| | |
|---|---|
| Buildings | 20 years |
| Leasehold improvements | Over the shorter of the lease terms and 5-50 years |
| Plant and machinery | 5-10 years |
| Furniture, fixtures and equipment | 2-5 years |
| Motor vehicles | 5 years |
| Moulds | 2-5 years |

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

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

## 4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

### (f) Leasing

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

***The Group as lessee***

Assets held under finance leases are initially recognised as assets at their fair value or, if lower, the present value of the minimum lease payments. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to profit or loss over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

The total rentals payable under the operating leases are recognised in profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease.

### (g) Intangible assets

***(i) Acquired intangible assets***

Intangible assets acquired separately are initially recognised at cost. The cost of intangible assets acquired in a business combination is fair value at the date of acquisition. Subsequently, intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses.

Amortisation is provided on a straight-line basis over their useful lives as follows. Intangible assets with indefinite useful lives are carried at cost less any accumulated impairment losses. The amortisation expense is recognised in profit or loss and included in general and administrative expenses.

| | |
|---|---|
| Patents | 5-10 years |

## 4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

### (g) Intangible assets – *Continued*

#### *(ii) Impairment*

Intangible assets with finite lives are tested for impairment when there is an indication that an asset may be impaired. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, irrespective of whether there is any indication that they may be impaired. Intangible assets are tested for impairment by comparing their carrying amounts with their recoverable amounts (see note 4(q)).

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount.

An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as revaluation decrease to the extent of its revaluation surplus.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount; however, the carrying amount should not be increased above the lower of its recoverable amount and the carrying amount that would have resulted had no impairment loss been recognised for the asset in prior years. All reversals are recognised in the income statement immediately, unless the relevant asset is carried at a revalued amount, in which case any reversal of impairment should be treated as a revaluation and therefore credited to other comprehensive income. However, to the extent that an impairment on the revalued asset was previously recognised as an expense in the income statement, a reversal of that impairment loss is recognised as income in the income statement.

### (h) Research and development costs

Expenditure on internally developed products is capitalised if it can be demonstrated that:

– it is technically feasible to develop the product for it to be sold;

– adequate resources are available to complete the development;

– there is an intention to complete and sell the product;

## 4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

### (h) Research and development costs – *Continued*

- the Group is able to sell the product;
- expenditure on the project can be measured reliably; and
- sale of the product will generate future economic benefits.

Capitalised development costs are amortised over the periods the Group expects to benefit from selling the products developed. The amortisation expense is recognised in profit or loss.

Development expenditure not satisfying the above criteria and expenditure on the research phase of internal projects are recognised in profit or loss as incurred.

### (i) Financial instruments

***(i) Financial assets***

The Group classifies its financial assets at initial recognition, depending on the purpose for which the asset was acquired. Financial assets at fair value through profit or loss are initially measured at fair value and all other financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. Regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

*Financial assets at fair value through profit or loss*

These assets include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

## (i) Financial instruments – *Continued*

### *(i) Financial assets – Continued*

*Loans and receivables*

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), and also incorporate other types of contractual monetary asset. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

*Available-for-sale financial assets*

These assets are non-derivative financial assets that are designated as available-for-sale or are not included in other categories of financial assets. Subsequent to initial recognition, these assets are carried at fair value with changes in fair value recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary instruments, which are recognised in profit or loss.

For available-for-sale 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 instruments, they are measured at cost less any identified impairment losses.

### *(ii) Impairment loss on financial assets*

The Group assesses, at the end of each reporting period, whether there is any objective evidence that financial asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– granting concession to a debtor because of debtor's financial difficulty, it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

**(i) Financial instruments** – *Continued*

***(ii) Impairment loss on financial assets*** – *Continued*

*For loans and receivables*

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset.

*For available-for-sale financial assets*

Where a decline in the fair value constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognised in profit or loss.

Any impairment losses on available-for-sale debt investments are subsequently reversed in 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.

For available-for-sale equity investment, any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

For available-for-sale equity investment that is carried at cost, the amount of impairment loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss is not reversed.

4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

## (i) Financial instruments – *Continued*

### *(iii) Financial liabilities*

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at fair value through profit or loss are initially measured at fair value and financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

*Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

*Financial liabilities at fair value through profit or loss*

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

## 4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

### (i) Financial instruments – *Continued*

***(iii) Financial liabilities*** – *Continued*

*Financial liabilities at amortised cost*

Financial liabilities at amortised cost including trade and other payables, borrowings, certain preference shares and the debt element of convertible loan note issued by the Group are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

***(iv) Effective interest method***

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

***(v) Equity instruments***

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

The Hong Kong Companies Ordinance, Cap. 622, came into operation on 3 March 2014. Under the Ordinance shares of the Company do not have a nominal value. Consideration received or receivable for the issue of shares on or after 3 March 2014 is credited to share capital. Commissions and expenses are allowed to be deducted from share capital under s. 148 and s. 149 of the Ordinance.

***(vi) Derecognition***

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

## 4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

### (i) Financial instruments – *Continued*

#### *(vi) Derecognition* – *Continued*

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

Where the Group issues its own equity instruments to a creditor to settle a financial liability in whole or in part as a result of renegotiating the terms of that liability, the equity instruments issued are the consideration paid and are recognised initially and measured at their fair value on the date the financial liability or part thereof is extinguished. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments are measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability or part thereof extinguished and the consideration paid is recognised in profit or loss for the year.

### (j) Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in first out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

### (k) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities, net of value-added tax rebates and discounts and after elimination of sales with the Group.

Sale of goods are recognised when the Group entity has delivered products to the customer; the customer has accepted the products and collectibility of the related receivables is reasonably assured.

Service income is recognised when services are provided.

Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

## 4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

### (l) Income taxes

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of reporting period.

An exception to the general requirement on determining the appropriate tax rate used in measuring deferred tax amount is when an investment property is carried at fair value under HKAS 40 "Investment Property". Unless the presumption is rebutted, the deferred tax amounts on these investment properties are measured using the tax rates that would apply on sale of these investment properties at their carrying amounts at the reporting date. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all the economic benefits embodied in the property over time, rather than through sale.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, 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.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income or when they relate to items recognised directly in equity in which case the taxes are also recognised directly in equity.

## 4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

### (m) Foreign currency

Transactions entered into by the group entities in currencies other than the currency of the primary economic environment in which it/they operate(s) (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. 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 arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

On consolidation, income and expense items of foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as foreign exchange reserve (attributed to minority interests as appropriate). Exchange differences recognised in profit or loss of group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the foreign operation concerned are reclassified to other comprehensive income and accumulated in equity as foreign exchange reserve.

4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

## (m) Foreign currency – *Continued*

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of reporting period. Exchange differences arising are recognised in the foreign exchange reserve.

## (n) Employee benefits

***(i) Short term employee benefits***

Short term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Short term employee benefits are recognised in the year when the employees render the related service.

***(ii) Defined contribution retirement plan***

Contributions to defined contribution retirement plans are recognised as an expense in profit or loss when the services are rendered by the employees.

***(iii) Termination benefits***

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

## (o) Pension obligations

The Group participates in several defined contribution retirement benefit schemes. A defined contribution plan is a retirement benefit scheme under which the Group pays contributions, on a mandatory, contractual or voluntary basis, into a separate entity. The schemes are generally funded through payments to insurance companies or state/trustee-administered funds. The Group has no further payment obligations once the contributions have been paid. It has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The contributions are recognised as employment costs when they are due and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

## 4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

### (p) Share-based payments

Where share options are awarded to employees and others providing similar services, the fair value of the options at the date of grant is recognised in profit or loss over the vesting period with a corresponding increase in the employee share option reserve within equity. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at the end of each reporting period so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also recognised in profit or loss over the remaining vesting period.

The Group also operates a phantom share option scheme. An option pricing model is used to measure the Group's liability at the end of each reporting period, taking into account the terms and conditions on which the bonus is awarded and the extent to which employees have rendered service. Movements in the liability (other than cash payments) are recognised in profit or loss.

Where equity instruments are granted to persons other than employees and others providing similar services, the fair value of goods or services received is recognised in profit or loss unless the goods or services qualify for recognition as assets. A corresponding increase in equity is recognised. For cash-settled share based payments, a liability is recognised at the fair value of the goods or services received.

### (q) Impairment of assets (other than financial assets)

At the end of each reporting period, the Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment/investment property under cost model;

– interests in leasehold land held for own use under operating leases; and

– investments in subsidiaries, associates and joint

## 4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

### (q) Impairment of assets (other than financial assets) – *Continued*

If the recoverable amount (i.e. the greater of the fair value less costs of disposal and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another HKFRS, in which case the impairment loss is treated as a revaluation decrease under that HKFRS.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent 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 in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another HKFRS, in which case the reversal of the impairment loss is treated as a revaluation increase under that HKFRS.

Value in use is based on the estimated future cash flows expected to be derived from the assets, 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.

### (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.

## 4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

### (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.

(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);

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

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 ESTIMATES AND JUDGMENTS

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

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

### (a) Useful lives, residual values and depreciation of property, plant and equipment

The Group's management determines the estimated useful lives, residual values and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are less than previously estimated lives, it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives; actual residual values may differ from estimated residual values. Periodic review could result in a change in depreciable lives and residual values and therefore depreciation expense in the future periods.

### (b) Impairment of property, plant and equipment

The impairment loss for property, plant and equipment is recognised for the amount by which the carrying amount exceeds its recoverable amount. The recoverable amount of the assets, or, where appropriate, the cash generating unit to which they belong, is the higher of its fair value less costs to sell and value in use. The recoverable amounts are determined based on fair value less costs to sell which are based on the best information available to reflect the amount obtainable at the end of reporting period, from the disposal of the asset in an arm's length transaction between knowledgeable and willing parties, after deducting the costs of disposal. For the estimation of value in use, the Group's management estimates future cash flows from the cash-generating units and chooses a suitable discount rate in order to calculate the present value of those cash flows.

## 5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS – *Continued*

### (c) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment. For the purposes of impairment reviews, the recoverable amount of goodwill is determined based on value-in-use calculations. The value-in-use calculations primarily use cash flow projections based on five-year financial budgets approved by management. There are a number of assumptions and estimates involved in the preparation of cash flow projections for the period covered by the approved budgets. Key assumptions include the expected growth in revenues, timing of future capital expenditures, growth rates and selection of discount rates to reflect the risks involved. Management prepares the financial budgets reflecting actual and prior year performance and market development expectations. Judgment is required to determine key assumptions adopted in the cash flow projections and changes to key assumptions can significantly affect these cash flow projections and therefore the results of the impairment reviewed.

### (d) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and variable selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to severe industry cycle. Management reassesses the estimations at the end of each reporting period.

### (e) Impairment of trade and other receivables

The Group's management determines the provision for impairment of trade and other receivables based on an assessment of the recoverability of the receivables. This assessment is based on the credit history of its customers and other debtors and the current market condition. Management reassesses the provision at the end of each reporting period.

## 6. TURNOVER AND SEGMENT INFORMATION

Information on the operating/reportable segments is provided to the chief operating decision-makers (the "CODM") to enable them to make strategic decisions. Such segment information is reported in accordance with the internal reporting procedure and the Group's internal organisation and reporting structure.

The Group has three reportable segments. The segments are managed separately as each business offers different products and requires different business strategies. The following summary describes the operations in each of the Group's reportable segments:

- Manufacturing and sale of toys
- Sale of consumer electronic products
- Manufacturing and sale of commercial kitchen products

Inter-segment transactions are priced with reference to prices charged to external customers for similar order. Corporate revenue, expenses, assets and liabilities are not allocated to the reportable segments as these items have not been used by the CODM in measuring the segments' profit or loss, assets and liabilities.

### (a) Segment revenue and results

**For the year ended 31 March 2016**

| | Toys HK$'000 | Consumer electronic products HK$'000 | Commercial kitchen products HK$'000 | Reportable segment total HK$'000 |
|---|---|---|---|---|
| Revenue to external customers | 293,464 | 47,653 | 11,682 | 352,799 |
| Segment loss before income tax | (16,070) | (29,765) | (52,489) | (98,324) |

## 6. TURNOVER AND SEGMENT INFORMATION – *Continued*

### (a) Segment revenue and results – *Continued*

For the year ended 31 March 2015

| | Toys HK$'000 | Consumer electronic products HK$'000 | Commercial kitchen products HK$'000 | Reportable segment total HK$'000 |
|---|---|---|---|---|
| Revenue to external customers | 240,856 | 90,539 | 58,032 | 389,427 |
| Segment profit/(loss) before income tax | (158) | (19,626) | 6,074 | (13,710) |

| | **2016 HK$'000** | 2015 HK$'000 |
|---|---|---|
| Reportable segment loss | **(98,324)** | (13,710) |
| Interest income | **17,018** | 19,040 |
| Gain on disposal of available-for-sale investments | **1,896** | 977 |
| Share of result of an associate | **3,653** | 9,512 |
| Fair value gain on contingent consideration | **–** | 15,615 |
| Equity-settled share-based payment, net | **778** | (1,990) |
| Unallocated corporate expenses | | |
| – Staff costs | **(6,856)** | (4,842) |
| – Legal and professional fee | **(4,557)** | (2,464) |
| – Consultancy service expense | **(5,700)** | (3,600) |
| – Others | **(1,952)** | (1,581) |
| Consolidated (loss)/profit before income tax | **(94,044)** | 16,957 |

## 6. TURNOVER AND SEGMENT INFORMATION – *Continued*

### (b) Segment assets and liabilities

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

| | **2016 HK$'000** | 2015 HK$'000 |
|---|---|---|
| Segment assets | | |
| Toys | **221,099** | 191,469 |
| Consumer electronic products | **57,949** | 82,173 |
| Commercial kitchen products | **132,995** | 187,590 |
| Segment assets | **412,043** | 461,232 |
| Available-for-sale investments | **199,017** | 201,680 |
| Interest in an associate | **21,982** | 18,904 |
| Unallocated corporate assets | | |
| – Cash and cash equivalents | **102,733** | 50,809 |
| – Others | **5,289** | 7,564 |
| Consolidated total assets | **741,064** | 740,189 |

| | **2016 HK$'000** | 2015 HK$'000 |
|---|---|---|
| Segment liabilities | | |
| Toys | **132,673** | 84,168 |
| Consumer electronic products | **21,545** | 15,612 |
| Commercial kitchen products | **25,486** | 16,912 |
| Segment liabilities | **179,704** | 116,692 |
| Unallocated corporate liabilities | **250** | 260 |
| Consolidated total liabilities | **179,954** | 116,952 |

## 6. TURNOVER AND SEGMENT INFORMATION – *Continued*

### (c) Other segment information included in segment results or segment assets

**For the year ended 31 March 2016**

| | Toys HK$'000 | Consumer electronic products HK$'000 | Commercial kitchen products HK$'000 | Unallocated HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| Interest income | (14) | (52) | (94) | (17,018) | (17,178) |
| Interest expenses | 2,038 | – | – | – | 2,038 |
| Income tax (credit)/expense | (594) | 332 | 156 | – | (106) |
| Share of result of an associate | – | – | – | (3,653) | (3,653) |
| Depreciation of property, plant and equipment | 7,840 | 2,381 | 431 | – | 10,652 |
| Amortisation of intangible assets | – | 605 | 596 | – | 1,201 |
| Impairment loss on inventories | – | – | 4,416 | – | 4,416 |
| Impairment loss on trade receivables, net | 134 | 629 | 1,187 | – | 1,950 |
| Impairment loss on goodwill | – | – | 36,471 | – | 36,471 |
| Gain on disposal of available-for-sale investments | – | – | – | (1,896) | (1,896) |
| Equity-settled share-based payment, net | – | (1,070) | (1,079) | (778) | (2,927) |
| Additions to property, plant and equipment | 40,423 | 3,977 | 58 | – | 44,458 |
| Additions to intangible assets | – | – | 22 | – | 22 |

## 6. TURNOVER AND SEGMENT INFORMATION – *Continued*

### (c) Other segment information included in segment results or segment assets – *Continued*

For the year ended 31 March 2015

| | Toys HK$'000 | Consumer electronic products HK$'000 | Commercial kitchen products HK$'000 | Unallocated HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| Interest income | (13) | (49) | (344) | (19,040) | (19,446) |
| Interest expenses | 1,648 | 31 | 81 | – | 1,760 |
| Income tax expense | 2,524 | 3,285 | 4,614 | – | 10,423 |
| Share of result of an associate | – | – | – | (9,512) | (9,512) |
| Depreciation of property, plant and equipment | 4,689 | 1,237 | 2,167 | – | 8,093 |
| Amortisation of intangible assets | – | 201 | 438 | – | 639 |
| Impairment loss on trade receivables, net | 6 | – | 5,643 | – | 5,649 |
| Impairment loss on goodwill | – | 3,523 | – | – | 3,523 |
| Gain on disposal of property, plant and equipment | (383) | – | – | – | (383) |
| Gain on disposal of available-for-sale investments | – | – | – | (977) | (977) |
| Equity-settled share-based payment, net | – | 1,070 | 3,104 | 1,990 | 6,164 |
| Additions to property, plant and equipment | 23,753 | 7,925 | 664 | 13 | 32,355 |
| Additions to intangible assets | – | 1,485 | 2,585 | – | 4,070 |
| Research and development service income | – | – | (9,001) | – | (9,001) |

## 6. TURNOVER AND SEGMENT INFORMATION – *Continued*

### (d) Geographical information

Information about the Group's revenue and non-current assets by geographical region, according to the location which the product is shipped and the location of assets, is as follows:

**For the year ended 31 March 2016**

| | Revenue HK$'000 | Non-current assets HK$'000 (Note (i)) |
|---|---|---|
| United States of America and Canada | 137,319 | 3,276 |
| Europe (Note (ii)) | 55,765 | – |
| China | 65,809 | 106,471 |
| Australia | 1,869 | – |
| Japan | 39,625 | – |
| Hong Kong | 1,591 | 98 |
| Korea | 23,833 | – |
| Indonesia | 10,884 | 114,723 |
| Others | 16,104 | 6 |
| | 352,799 | 224,574 |

## 6. TURNOVER AND SEGMENT INFORMATION – *Continued*

### (d) Geographical information – *Continued*

For the year ended 31 March 2015

| | Revenue HK$'000 | Non-current assets HK$'000 (Note (i)) |
|---|---|---|
| United States of America and Canada | 85,212 | 3,534 |
| Europe (Note (ii)) | 79,648 | – |
| China | 153,228 | 145,689 |
| Australia | 1,807 | – |
| Japan | 12,172 | – |
| Hong Kong | 662 | 77 |
| Korea | 44,450 | – |
| Indonesia | – | 83,284 |
| Others | 12,248 | 8 |
| | 389,427 | 232,592 |

Note:

(i) Excluding deferred tax assets

(ii) The products are first exported to one of the European countries ("Shipping Port Countries") and then distributed to different European countries by the customers. The information as to where the products are finally shipped is unavailable and the cost of obtaining such information would be excessive. The directors are of the opinion that disclosing the identities of the Shipping Port Countries is undesirable as such disclosure might be misleading.

## 6. TURNOVER AND SEGMENT INFORMATION – *Continued*

### (e) Information on major customers:

Revenue from two customers (2015: one customer) of the corresponding years contributing over 10% of the total sales of the Group are as follows:

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Customer A from toys segment | **86,794** | 44,672 |
| Customer B from toys segment (Note) | **60,498** | N/A |

Note: The corresponding revenue in the year ended 31 March 2015 for Customer B did not contribute over 10% of the Group's total revenue.

## 7. OTHER INCOME, GAINS AND LOSSES, NET

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Interest income | **17,178** | 19,446 |
| Sample income and others | **2,055** | 1,323 |
| Research and development service income | **–** | 9,001 |
| Gain on disposal of property, plant and equipment | **–** | 383 |
| Gain on disposal of available-for-sale investments | **1,896** | 977 |
| Impairment loss on trade receivables, net | **(1,950)** | (5,649) |
| Exchange gains/(losses), net | **4,101** | (4,550) |
| | **23,280** | 20,931 |

## 8. (LOSS)/PROFIT BEFORE INCOME TAX

(Loss)/profit before income tax is arrived at after charging:

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Costs of inventories recognised as expenses | **285,535** | 277,300 |
| Impairment loss on inventories | **4,416** | – |
| Auditors' remuneration | **2,433** | 1,512 |
| Depreciation of property, plant and equipment | **10,652** | 8,093 |
| Amortisation of intangible assets | **1,201** | 639 |
| Employee benefits expense (excluding directors) (Note 13) | **106,213** | 93,515 |
| Directors' emoluments (Note 14) | **3,708** | 4,160 |
| Research and development costs (included in general and administrative expenses) | **11,129** | 4,885 |
| Minimum lease payments under operating lease | **3,378** | 2,681 |

## 9. FINANCE COSTS

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Total interest expenses for financial liabilities that are not at fair value through profit or loss: | | |
| Interests on bank loans wholly repayable within five years | **2,038** | 1,760 |

## 10. INCOME TAX (CREDIT)/EXPENSE

No Hong Kong profits tax had been provided for the Group's Hong Kong subsidiaries as they did not derive any assessable profits for the year (2015: Nil).

Enterprise income tax ("EIT") has been provided at the rate of 25% (2015: 25%) on the estimated assessable profits for the year arising from the People's Republic of China (the "PRC").

Overseas income tax has been provided at the appropriate rates in the countries in which they operate.

## 10. INCOME TAX (CREDIT)/EXPENSE – *Continued*

The amount of income tax (credit)/expense in the consolidated statement of comprehensive income represents:

| | **2016** **HK$'000** | 2015 HK$'000 |
|---|---|---|
| PRC enterprise income tax | | |
| – provision in current year | **–** | 3,189 |
| – under-provision in prior years | **106** | 3 |
| | **106** | 3,192 |
| Overseas income tax – current year | **210** | 1,767 |
| Deferred tax (credit)/expense | **(422)** | 5,464 |
| Income tax (credit)/expense | **(106)** | 10,423 |

Income tax on the Group's (loss)/profit before income tax differs from the theoretical amount that would arise using the Hong Kong profits tax rate as follows:

| | **2016** **HK$'000** | 2015 HK$'000 |
|---|---|---|
| (Loss)/profit before income tax | **(94,044)** | 16,957 |
| Income tax (credit)/expense calculated at the tax rate of 16.5% (2015: 16.5%) | **(15,517)** | 2,798 |
| Effect of different tax rates in other countries | **(3,329)** | 860 |
| Income not subject to taxation | **(4,340)** | (6,653) |
| Expenses not deductible for tax purpose | **8,769** | 4,453 |
| Under-provision in prior years | **106** | 3 |
| Reversal of tax loss recognised in prior years | **–** | 3,200 |
| Deferred tax benefits arising from tax losses and others not recognised | **13,815** | 5,762 |
| Others | **390** | – |
| Income tax (credit)/expense | **(106)** | 10,423 |

## 11. DIVIDENDS

The directors do not recommend any dividend in respect of the year ended 31 March 2016 (2015: Nil).

## 12. (LOSS)/EARNINGS PER SHARE

| | **2016** **HK cents** | 2015 HK cents |
|---|---|---|
| Basic (loss)/earnings per share | **(1.39)** | 0.31 |
| Diluted (loss)/earnings per share | **N/A** (note(a)) | 0.29 |

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

| | **2016** **HK$'000** | 2015 HK$'000 |
|---|---|---|
| (Loss)/profit for the year attributable to owners of the Company, used in the basic and diluted (loss)/earnings per share calculation | **(81,324)** | 17,037 |

| | **2016** | 2015 |
|---|---|---|
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purposes of basic (loss)/earnings per share | **5,849,490,874** | 5,582,853,887 |
| **Effect of dilution** | | |
| – Warrants | **–** (note(a)) | 260,941,321 |
| – Share options | **–** (note(a)) | – (note(b)) |
| Weighted average number of ordinary shares for the purposes of diluted (loss)/earnings per share | **5,849,490,874** | 5,843,795,208 |

Note: (a) No diluted loss per share is presented for the year ended 31 March 2016 as the effect of all potential ordinary shares is anti-dilutive.

(b) For the year ended 31 March 2015, the share options of the Company granted in the period are treated as contingently issuable shares because their issue is contingent upon the performance assessments of the share option holders. No adjustment for the share options was made in calculating the diluted earnings per share.

## 13. EMPLOYEE BENEFITS EXPENSE

Employee benefits expense excluding directors' emoluments comprises:

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Wages and salaries | **99,679** | 84,135 |
| Other staff benefits | **4,457** | 2,989 |
| Equity-settled share-based payment, net (Note 31) | **(1,867)** | 4,047 |
| Pension costs—defined contribution plans | **3,944** | 2,344 |
| | **106,213** | 93,515 |

## 14. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

### (a) Directors' emoluments

The aggregate amounts of emoluments paid and payable to the directors of the Company are as follows:

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Director fee | **240** | 212 |
| Other emoluments: | | |
| Basic salaries, bonus, housing and other allowances and benefits in kind | **3,450** | 3,900 |
| Provident fund scheme contributions | **18** | 48 |
| | **3,708** | 4,160 |

No emoluments have been paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office during the year. No directors waived their emoluments in respect of the years ended 31 March 2016 and 2015.

## 14. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS – *Continued*

### (a) Directors' emoluments – *Continued*

The emolument of each director for the year ended 31 March 2016 is set out below:

| Name of director | Fees HK$'000 | Basic salaries and bonus HK$'000 | Housing and other allowances and benefits in kind HK$'000 | Provident fund scheme contributions HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| Mr. Diao Yunfeng | 60 | – | – | – | 60 |
| Mr. Leung Lun, M.H. | – | 1,500 | 780 | – | 2,280 |
| Ms. Fang Fang | – | 1,170 | – | 18 | 1,188 |
| Mr. Ye Tian Liu | 60 | – | – | – | 60 |
| Mr. Lai Yun Hung | 60 | – | – | – | 60 |
| Dr. Ko Peter, Ping Wah | 60 | – | – | – | 60 |
| | 240 | 2,670 | 780 | 18 | 3,708 |

The emolument of each director for the year ended 31 March 2015 is set out below:

| Name of director | Fees HK$'000 | Basic salaries and bonus HK$'000 | Housing and other allowances and benefits in kind HK$'000 | Provident fund scheme contributions HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| Mr. Diao Yunfeng (Note ii) | 32 | – | – | – | 32 |
| Mr. Leung Lun, M.H. | – | 1,500 | 780 | 12 | 2,292 |
| Mr. Wong, Andy Tze On (Note i) | – | 360 | 180 | 18 | 558 |
| Ms. Fang Fang | – | 1,080 | – | 18 | 1,098 |
| Mr. Ye Tian Liu | 60 | – | – | – | 60 |
| Mr. Lai Yun Hung | 60 | – | – | – | 60 |
| Dr. Ko Peter, Ping Wah | 60 | – | – | – | 60 |
| | 212 | 2,940 | 960 | 48 | 4,160 |

Note:

(i) Mr. Wong, Andy Tze On resigned on 24 September 2014.

(ii) Mr. Diao Yunfeng was appointed on 24 September 2014.

## 14. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS – *Continued*

### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2015: three) directors whose emoluments are disclosed in the analysis presented above. The emoluments payable to the remaining three (2015: two) individuals during the year are as follows:

| | **2016** **HK$'000** | 2015 HK$'000 |
|---|---|---|
| Basic salaries, bonus, housing and other allowances and benefits in kind | **1,969** | 1,617 |
| Provident fund scheme contributions | **77** | 62 |
| | **2,046** | 1,679 |

The emoluments paid or payable to the above individuals were within the following bands:

| | **2016** **No. of Individuals** | 2015 No. of Individuals |
|---|---|---|
| Nil to HK$1,000,000 | **2** | 2 |
| HK$1,000,001 to HK$1,500,000 | **1** | – |

### (c) Senior management's emolument

The emoluments paid or payable to the senior managements were within the following band:

| | **2016** **No. of Individuals** | 2015 No. of Individuals |
|---|---|---|
| Nil to HK$1,000,000 | **3** | 5 |
| HK$1,000,001 to HK$1,500,000 | **1** | – |

## 15. PROPERTY, PLANT AND EQUIPMENT

| | Land and buildings HK$'000 | Construction in progress HK$'000 | Leasehold improvements HK$'000 | Plant and machinery HK$'000 | Furniture, fixtures and equipment HK$'000 | Motor vehicles HK$'000 | Moulds HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|
| At 31 March 2014 | | | | | | | | |
| Cost or valuation | 34,841 | 5,306 | 645 | 19,930 | 8,119 | 855 | 32,320 | 102,016 |
| Accumulated depreciation and impairment | (120) | – | (482) | (14,802) | (6,535) | (437) | (29,097) | (51,473) |
| Net book value | 34,721 | 5,306 | 163 | 5,128 | 1,584 | 418 | 3,223 | 50,543 |
| Net book amount at 1 April 2014 | 34,721 | 5,306 | 163 | 5,128 | 1,584 | 418 | 3,223 | 50,543 |
| Additions | – | 2,545 | – | 10,435 | 9,645 | 247 | 9,483 | 32,355 |
| Disposals | – | – | – | (221) | – | (84) | (1,131) | (1,436) |
| Acquired through business combinations | – | – | – | 1,809 | 48 | 108 | 4,990 | 6,955 |
| Transfer from construction in progress | 6,988 | (6,988) | – | – | – | – | – | – |
| Depreciation charge | (41) | – | (161) | (3,044) | (1,516) | (191) | (3,140) | (8,093) |
| Surplus on revaluation | 28,139 | – | – | – | – | – | – | 28,139 |
| Exchange difference | (6,452) | (863) | 2 | (4) | (429) | (19) | 214 | (7,551) |
| Net book value at 31 March 2015 | 63,355 | – | 4 | 14,103 | 9,332 | 479 | 13,639 | 100,912 |
| At 31 March 2015 | | | | | | | | |
| Cost or valuation | 63,497 | – | 647 | 28,449 | 18,432 | 1,049 | 18,713 | 130,787 |
| Accumulated depreciation and impairment | (142) | – | (643) | (14,346) | (9,100) | (570) | (5,074) | (29,875) |
| Net book value | 63,355 | – | 4 | 14,103 | 9,332 | 479 | 13,639 | 100,912 |
| Net book amount at 1 April 2015 | 63,355 | – | 4 | 14,103 | 9,332 | 479 | 13,639 | 100,912 |
| Additions | 11,982 | – | 710 | 21,516 | 4,973 | 153 | 5,124 | 44,458 |
| Disposals | – | – | – | – | (43) | – | (226) | (269) |
| Depreciation charge | (1,125) | – | (106) | (3,712) | (2,465) | (149) | (3,095) | (10,652) |
| Exchange difference | (643) | – | (11) | 183 | (63) | (17) | (610) | (1,161) |
| Net book value at 31 March 2016 | 73,569 | – | 597 | 32,090 | 11,734 | 466 | 14,832 | 133,288 |
| At 31 March 2016 | | | | | | | | |
| Cost or valuation | 76,156 | – | 1,330 | 50,036 | 23,202 | 1,171 | 20,960 | 172,855 |
| Accumulated depreciation and impairment | (2,587) | – | (733) | (17,946) | (11,468) | (705) | (6,128) | (39,567) |
| Net book value | 73,569 | – | 597 | 32,090 | 11,734 | 466 | 14,832 | 133,288 |

## 15. PROPERTY, PLANT AND EQUIPMENT – *Continued*

Notes:

(a) As at 31 March 2016 and 2015, the land and buildings represent a freehold land and certain factories situated in Indonesia.

(b) The Group's land and buildings were revalued at 31 March 2015. Valuation was made on the basis of open market value carried out by KJPP Husni, Joediono & Rekan, an independent firm of chartered surveyors. The surplus on revaluation, net of applicable deferred income taxes, was credited to land and buildings revaluation reserve.

The fair value of land and buildings was estimated using a market comparison approach and classified as level 3 recurring fair value measurement. Fair values were based on prices for recent market transactions in similar properties with adjustments for differences in the location and condition of the Group's properties. These adjustments were based on unobservable inputs.

| Significant unobservable inputs | Range |
|---|---|
| (Discount)/premium on quality of properties | (15%) – 18% |

Higher premiums or discounts for the quality of the Group's properties compared to recent sales will result in correspondingly higher or lower fair values. The fair value measurement was based on the above properties' highest and best use, which does not differ from their actual use.

As at 31 March 2016, management reassessed the fair value of the land and buildings by reference to the property market information and was of the opinion that the fair value of the land and buildings does not materially differ from its carrying amount.

A reconciliation of the opening and closing fair value balances is provided below:

| | **2016**<br>**HK$'000** | 2015<br>HK$'000 |
|---|---|---|
| Opening balance (level 3 recurring fair value) | **63,355** | 34,721 |
| Addition | **11,982** | – |
| Transfer from construction in progress | **–** | 6,988 |
| Depreciation charge for the year | **(1,125)** | (41) |
| Surplus on revaluation | **–** | 28,139 |
| Exchange difference | **(643)** | (6,452) |
| Closing balance (level 3 recurring fair value) | **73,569** | 63,355 |

(c) The carrying amount of the revalued land and buildings would have been HK$20,047,000 (2015: HK$9,044,000), had they been stated at cost less accumulated depreciation and accumulated impairment losses.

## 16. GOODWILL

| | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|
| Cost | | |
| At 1 April | **105,880** | 100,970 |
| Acquired through business acquisition | **–** | 3,380 |
| Exchange difference | **(5,149)** | 1,530 |
| At 31 March | **100,731** | 105,880 |
| Accumulated impairment | | |
| At 1 April | **3,523** | – |
| Impairment loss recognised in the year | **36,471** | 3,523 |
| Exchange difference | **143** | – |
| At 31 March | **40,137** | 3,523 |
| At 31 March: | | |
| Cost | **100,731** | 105,880 |
| Accumulated impairment | **(40,137)** | (3,523) |
| Net carrying amount | **60,594** | 102,357 |

Goodwill acquired in business combination is allocated, at acquisition, to the cash-generating unit ("CGUs") that are expected to benefit from that business combination. As at 31 March 2016, the goodwill arose from the acquisitions of CGUs which are engaged in manufacturing and sale of commercial kitchen products and sale of toys respectively, is as follows:

| | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|
| Commercial kitchen products | **58,094** | 99,857 |
| Toys | **2,500** | 2,500 |
| | **60,594** | 102,357 |

16. GOODWILL – *Continued*

### Commercial kitchen products

The directors determined the respective recoverable amount of the CGUs of the commercial kitchen products as at 31 March 2016 from their value-in-use based on the valuations performed by an independent firm of professional valuers using the income approach method.

The income approach method is based on the projection of future cash flows of the commercial kitchen products segment derived from the financial budgets approved by the management of the Company ("Management") covering a five-year period. Cash flow beyond the five-year period are extrapolated as there is 3% growth in the commercial kitchen products segment in the PRC.

The discount rates in a range from 15% to 19% (2015: 16% to 18%) adopted in the future cash flow projections of the CGUs of the commercial kitchen products are pre-taxed and reflect specific risks relating to the relevant markets.

In prior years, the Management expected the growth of commercial kitchen products segment will become obvious in these years because of the government policy regarding the heat efficiency requirement for commercial kitchen products. However, throughout the year, there is no news on the exact timeframe for the implementation of such new policy and the growth in demand of commercial kitchen products is not happened as expected. In addition, due to the recent slowdown in the economic growth in the PRC, leading to the delay of some potential and ongoing commercial kitchen equipment procurement projects, the Management has become more prudent and cautious for partner choosing and project selection. Therefore, in current year, the Management has reassessed and adjusted the revenue growth adopted in the five-year financial budgets. This had an adverse impact on the estimated value-in-use of those CGUs and an impairment loss on goodwill of HK$36,471,000 was recognised. As the carrying amount of the CGUs has been reduced to their recoverable amount of HK$58,094,000, any adverse changes in the key assumptions used to calculate the recoverable amount would result in further impairment losses.

### Toys

The recoverable amount of the CGU of the toys trading business in the USA is determined by the value-in-use calculation. The calculation was carried out by cash flow projections based on financial budgets approved by the Management covering a five-year period. Cash flow beyond the five-year period is extrapolated using an estimated average growth rate of 3% (2015: 3%), which does not exceed the long-term growth rate for the industry in the corresponding country.

The discount rate of 25% (2015: 25%) adopted in the value-in-use calculation of the CGU of toys is pre-taxed and reflect specific risks relating to the relevant markets.

## 16. GOODWILL – *Continued*

### Toys – *Continued*

The Management reassessed the recoverable amount of the CGU of toys as at 31 March 2016 by reference to the discounted cash flow calculation with the above estimation and was of the opinion that no impairment loss should be recognised as the carrying amount of the CGU of toys approximates to its recoverable amount.

## 17. INTANGIBLE ASSETS

| **Patents** | HK$'000 |
|---|---|
| Cost: | |
| At 1 April 2014 | 7,148 |
| Additions | 4,070 |
| Exchange difference | 138 |
| At 31 March 2015 | 11,356 |
| Additions | 22 |
| Exchange difference | (606) |
| At 31 March 2016 | 10,772 |
| Accumulated amortisation: | |
| At 1 April 2014 | 289 |
| Charge for the year | 639 |
| Exchange difference | 9 |
| At 31 March 2015 | 937 |
| Charge for the year | 1,201 |
| Exchange difference | (76) |
| At 31 March 2016 | 2,062 |
| Carrying amount: | |
| At 31 March 2016 | 8,710 |
| At 31 March 2015 | 10,419 |

## 18. INTERESTS IN SUBSIDIARIES

Particulars of the subsidiaries of the Company at 31 March 2016 and 2015 are as follows:

| Name of company | Place of incorporation and operations | Particulars of issued share capital/ registered capital | Effective percentage holding 2016 | Effective percentage holding 2015 | Nature of business |
|---|---|---|---|---|---|
| **Shares held directly:** | | | | | |
| LC Global Holdings Corporation | British Virgin Islands | Ordinary US$50,001 | **100** | 100 | Investment holdings |
| Future Empire Limited | British Virgin Islands | Ordinary US$50,000 | **100** | 100 | Investment holdings |
| **Shares/investments held indirectly:** | | | | | |
| PT. Lung Cheong Brothers Industrial | Republic of Indonesia | Rupiah 96,305,804,000 | **100** | 100 | Manufacture of toys and electronic products |
| Kid Galaxy Global Limited | British Virgin Islands | Ordinary US$2 | **100** | 100 | Investment holdings |
| Kid Galaxy Corporation | British Virgin Islands | Ordinary US$11 | **100** | 100 | Investment holdings |
| Lung Cheong Asia Holdings Limited | British Virgin Islands | Ordinary US$50,001 | **100** | 100 | Investment holdings |
| Lung Cheong Overseas Corporation | British Virgin Islands | Ordinary US$50,000 | **100** | 100 | Trading of toys |
| Kid Galaxy Inc. | United States of America ("USA") | Ordinary US$100,010 | **100** | 100 | Trading of toys |
| LC Technology Limited | Hong Kong | Ordinary HK$30,010,000 | **100** | 100 | Trading of toys and electronic products |
| Kid Galaxy Limited | Hong Kong | Ordinary HK$10,010,000 | **100** | 100 | Trading of toys |

## 18. INTERESTS IN SUBSIDIARIES – *Continued*

| Name of company | Place of incorporation and operations | Particulars of issued share capital/ registered capital | Effective percentage holding 2016 | Effective percentage holding 2015 | Nature of business |
|---|---|---|---|---|---|
| **Shares/investments held indirectly:** | | | | | |
| Haier Healthwise Company Limited | Hong Kong | Ordinary HK$1 | **100** | N/A | Investment holdings |
| Ultra Classic Investments Limited | British Virgin Islands | Ordinary US$1 | **100** | N/A | Investment holdings |
| Good Cheer Global Limited | Hong Kong | Ordinary HK$1 | **100** | N/A | Investment holdings |
| Keytime Global Limited | British Virgin Islands | Ordinary US$1 | **100** | N/A | Investment holdings |
| Future Empire Limited | Hong Kong | Ordinary HK$1 | **100** | 100 | Investment holdings |
| Notton Limited | British Virgin Islands | Ordinary US$1 | **100** | 100 | Investment holdings |
| Era Creation Technology Limited | Hong Kong | Ordinary HK$1 | **100** | 100 | Investment holdings |
| Qingdao Oasis Intelligent Health Technology Company Limited | The People Republic of China ("PRC") | Ordinary US$10,000,000 | **100** | 100 | Trading of consumer electronic and childcare products |
| Qindao Ruidi Gas Appliances Manufacturing Limited ("Qingdao Ruidi") | PRC | Ordinary RMB30,000,000 | **100** | 100 | Research, development, manufacturing & sales of commercial & domestic gas cooking appliances |
| Qingdao Haier Rudi Kitchen Appliances & Engineering Company Limited ("Haier Ruidi") | PRC | Ordinary RMB10,000,000 | **100** | 100 | Research, development, production, sales and installation of commercial kitchen related equipment and accessories |

## 18. INTERESTS IN SUBSIDIARIES – *Continued*

| Name of company | Place of incorporation and operations | Particulars of issued share capital/ registered capital | Effective percentage holding 2016 | Effective percentage holding 2015 | Nature of business |
|---|---|---|---|---|---|
| **Shares/investments held indirectly:** | | | | | |
| Sichuan Yi Fang Kitchen Equipment Company Limited ("Sichuan Yi Fang") | PRC | Ordinary RMB16,000,000 | **59.976** | 59.976 | Research and development, production, sales and installation of commercial kitchen related equipment and accessories |
| 深圳綠州兒童用品有限公司 ("Shenzhen Oasis") | PRC | Ordinary RMB5,000,000 | **51** | 51 | Trading of consumer electronic products |
| 深圳貝立安母嬰用品有限公司 ("Shenzhen Brillante") | PRC | Ordinary RMB2,000,000 | **51** | 51 | Research & development, marketing & distribution of childcare products |
| 青島綠州創智科技信息有限公司 ("Oasis CZ") | PRC | Ordinary RMB10,000 | **100** | 100 | Trading of consumer electronic products |
| 上海綠洲智健智能科技有限公司 | PRC | Ordinary RMB1,100,000 | **51** | N/A | Trading of consumer electronic products |
| 深圳綠洲智健科技有限公司 | PRC | Ordinary RMB5,000,000 | **51** | N/A | Trading of consumer electronic products |

## 19. INTEREST IN AN ASSOCIATE

| | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|
| Unlisted shares, at cost | **9,330** | 9,330 |
| Share of result of an associate | **13,165** | 9,512 |
| Exchange difference | **(513)** | 62 |
| | **21,982** | 18,904 |
| Amount due from an associate | **9,136** | 21,135 |

The amount due from an associate is unsecured, interest-free and repayable on demand.

Particulars of the Group's associate are as follows:

| Name of associate | Form of business structure | Place of incorporation | Percentage of ownership interest 2016 | Percentage of ownership interest 2015 | Place of operation and principle activity |
|---|---|---|---|---|---|
| 青島日日順樂家水設備有限公司 ("Goodaymart Water") | Corporation | PRC | **49%** | 49% | Wholesaling and retailing, installation and maintenance of water purification equipment and accessories and provision of relevant aftersales services in PRC |

## 19. INTEREST IN AN ASSOCIATE – *Continued*

The summarised financial information in respect of the associate held by the Group at the end of reporting period is set out below:

| | 2016<br>HK$'000 | 2015<br>HK'000 |
|---|---|---|
| **Goodaymart Water** | | |
| Non-current assets | – | 4,580 |
| Current assets | 58,407 | 222,942 |
| Current liabilities | (23,753) | (198,654) |
| Net assets | 34,654 | 28,868 |
| Group's share of net assets of the associate (Note) | 21,982 | 18,904 |

| | 2016<br>HK$'000 | For the period from date of incorporation on 14 July 2014 to 31 March 2015<br>HK'000 |
|---|---|---|
| Revenue | 104,821 | 217,070 |
| Profit for the year/period | 7,455 | 19,412 |
| Group's share of result of the associate for the year/period | 3,653 | 9,512 |

Note: Since the other shareholder, Goodaymart Water has not yet paid up their respective shares as at 31 March 2016 and 2015, the amount of the Group's share of net assets of the associate represents the total cash contribution by the Group at the incorporation date plus the subsequent change of net assets in share holding pro-rata basis.

## 20. INVENTORIES

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Raw materials | **3,396** | 24,379 |
| Work-in-progress | **37,827** | 19,623 |
| Finished goods | **40,277** | 31,255 |
| | **81,500** | 75,257 |

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

The carrying amounts of trade and other receivables, deposits and prepayments are as follows:

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Trade receivables | **53,739** | 71,715 |
| Less: allowance for doubtful debts | **(7,125)** | (5,613) |
| | **46,614** | 66,102 |
| Other receivables, deposits and prepayments | **37,720** | 29,093 |
| | **84,334** | 95,195 |

## 21. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS – *Continued*

(a) The movements in the allowance for doubtful debts during the year, including both specific and collective loss components, are as follows:

**Allowance of doubtful debts on trade receivables**

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| At beginning of year | **5,613** | 41 |
| Amounts written off for the year | **(134)** | (112) |
| Addition to impairment loss | **1,950** | 5,649 |
| Exchange difference | **(304)** | 35 |
| At end of year (Note) | **7,125** | 5,613 |

Note:

Included in the above allowance for doubtful debts in respect of trade receivables is a provision for individually impaired trade receivables of HK$7,125,000 (2015: HK$5,613,000) with a carrying amount before provision of HK$12,524,000 (2015: HK$10,691,000).

(b) The ageing analysis of the trade receivables, net of allowance for doubtful debts, is as follows:

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| 0-90 days | **26,109** | 38,859 |
| 91-180 days | **854** | 19,207 |
| 181-365 days | **5,786** | 8,000 |
| Over 365 days | **13,865** | 36 |
| | **46,614** | 66,102 |

The Group's sales are on letter of credit or open account terms. Credit terms are reviewed on a regular basis. The normal trade terms include letter of credit, deposits before shipments and credit period ranging from 30 to 90 days but business partners with strong financial backgrounds may be offered longer credit terms.

## 21. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS – *Continued*

(c) Below is the ageing analysis of the carrying amounts of trade receivables that are past due at the end of the reporting period but for which the Group has not provided for impairment loss because the Management are of the opinion that the fundamental credit quality of the customers has not deteriorated:

| | **2016** **HK$'000** | 2015 HK$'000 |
|---|---|---|
| Within 30 days past due | **279** | 11,596 |
| 31 to 90 days past due | **5,403** | 9,742 |
| Over 90 days past due | **14,907** | 656 |
| | **20,589** | 21,994 |

Trade receivables that are neither past due nor impaired relate to customers for whom there is no recent history of default.

Trade receivables that are past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the Management believes that no provision for impairment is necessary in respect of these balances as there have not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

## 22. AVAILABLE-FOR-SALE INVESTMENTS

| | **2016** **HK$'000** | 2015 HK$'000 |
|---|---|---|
| Debt securities – at fair value | | |
| – Listed in Hong Kong | **82,724** | 94,023 |
| – Listed outside Hong Kong | **116,293** | 107,657 |
| | **199,017** | 201,680 |

## 23. AMOUNTS DUE FROM/(TO) RELATED COMPANIES

### (a) Amounts due from related companies

| | As at 31 March 2016 | As at 31 March 2015 | As at 1 April 2014 | Maximum balances outstanding during the year ended 31 March | |
|---|---|---|---|---|---|
| | 2016 HK$'000 | 2015 HK$'000 | 2014 HK$'000 | 2016 HK$'000 | 2015 HK$'000 |
| **Companies controlled by a director's close family members** | | | | | |
| Lung Cheong (BVI) Holdings Limited | – | – | 11 | – | 11 |
| Lung Cheong Toys Limited | – | – | 618 | – | 618 |
| Lung Cheong Digitech (HK) Company Limited | – | 11 | – | 11 | 11 |
| Dongguan Lung Cheong Toys Co., Ltd. | 2,262 | – | 2,015 | 2,262 | 2,015 |
| | 2,262 | 11 | 2,644 | N/A | N/A |
| **Companies related to our substantial shareholders** | 10,861 | 220 | 1,405 | N/A | N/A |
| | 13,123 | 231 | 4,049 | N/A | N/A |

**(b)** Amounts due from/(to) related companies are unsecured, interest-free and repayable on demand.

## 24. CASH AND CASH EQUIVALENTS

Cash and cash equivalents represent the bank balances and cash which earn interest on floating rates based on daily bank deposit rates. The carrying amounts of the bank balances and cash approximate to their fair value.

## 25. TRADE AND OTHER PAYABLES AND ACCRUED CHARGES

| | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|
| Trade payables | **41,960** | 28,798 |
| Other payables and accrued charges | **36,936** | 23,310 |
| | **78,896** | 52,108 |

At 31 March 2016, the ageing analysis of the trade payables is as follows:

| | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|
| 0-90 days | **29,652** | 22,768 |
| 91-180 days | **4,839** | 5,766 |
| 181-365 days | **3,843** | 26 |
| Over 365 days | **3,626** | 238 |
| | **41,960** | 28,798 |

## 26. BORROWINGS

| | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|
| CURRENT | | |
| Bank loans – secured (note (b)) | **19,283** | 4,680 |
| – unsecured | **1,702** | 3,906 |
| | **20,985** | 8,586 |
| Trust receipt loans – secured (note (b)) | **15,569** | 15,508 |
| | **36,554** | 24,094 |
| NON-CURRENT | | |
| Bank loan – secured (note (b)) | **–** | 15,057 |
| | **36,554** | 39,151 |

## 26. BORROWINGS – *Continued*

At 31 March 2016, total current and non-current trust receipt loans and bank loans are scheduled to repay as follows:

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| On demand and within one year | **36,554** | 24,094 |
| More than one year, but not exceeding two years | **–** | – |
| More than two years, but not exceeding five years | **–** | 15,057 |
| | **36,554** | 39,151 |

(a) As at 31 March 2016, except the borrowings of HK$24,712,000 (2015: HK$30,565,000) were interest-bearing at fixed rate of 8% (2015: 6.75%) per annum, other borrowings were interest-bearing at variable rate ranging from LIBOR plus 3% to LIBOR plus 3.25% per annum (2015: LIBOR plus 3% to LIBOR plus 3.25% per annum).

(b) As at 31 March 2016, certain of the Group's borrowings and banking facilities are secured by the following:

(i) Legal charge over the Group's land and buildings situated in Republic of Indonesia, with carrying value of HK$73,569,000 (2015: HK$63,355,000).

(ii) Pledge of a subsidiary's fixtures and equipment, inventories and trade receivables with carrying value of HK$775,000 (2015: HK$1,033,000), HK$8,991,000 (2015: HK$7,758,000) and HK$5,135,000 (2015: HK$7,062,000) respectively.

(c) As at 31 March 2016, the Group had a total banking facilities of approximately HK$54,460,000 (2015: HK$54,460,000) of which HK$17,906,000 (2015: HK$15,309,000) had not been utilised.

## 27. PROVISION FOR LONG SERVICE PAYMENT

| | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|
| At beginning of year | **2,451** | 2,148 |
| Addition | **1,295** | 597 |
| Exchange difference | **(2)** | (294) |
| At end of year | **3,744** | 2,451 |

The amounts represent the provision for long service payment for the Group's employees in Hong Kong and Indonesia. They are regulated by the Labour Law in Hong Kong and Indonesia respectively.

## 28. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, if any, are as follows:

Deferred tax assets:

| | **Available-for-sale investments** HK$'000 | **Cumulative tax losses** HK$'000 | **Others** HK$'000 | **Total** HK$'000 |
|---|---|---|---|---|
| At 1 April 2014 | 3,268 | 7,612 | 895 | 11,775 |
| Acquired through business combination | – | – | 262 | 262 |
| Charged to profit or loss | – | (2,212) | (52) | (2,264) |
| Reversal of previously recognised tax loss charged to profit or loss | – | (3,200) | – | (3,200) |
| Charged to other comprehensive income | (724) | – | – | (724) |
| Exchange difference | – | (187) | (87) | (274) |
| At 31 March 2015 | 2,544 | 2,013 | 1,018 | 5,575 |
| Charged to profit or loss | – | (426) | 848 | 422 |
| Charged to other comprehensive income | (1,874) | – | 87 | (1,787) |
| Others | – | – | (750) | (750) |
| Exchange difference | – | (110) | (153) | (263) |
| At 31 March 2016 | 670 | 1,477 | 1,050 | 3,197 |

## 28. DEFERRED TAX – *Continued*

Deferred tax liabilities:

| | Revaluation of properties HK$'000 |
|---|---|
| At 1 April 2014 | 6,906 |
| Charged to other comprehensive income | 7,034 |
| Exchange difference | (363) |
| At 31 March 2015 | 13,577 |
| Exchange difference | (197) |
| At 31 March 2016 | 13,380 |

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

| | **2016 HK$'000** | 2015 HK$'000 |
|---|---|---|
| Deferred tax assets | **3,197** | 5,575 |
| Deferred tax liabilities | **(13,380)** | (13,577) |
| | **(10,183)** | (8,002) |

Deferred tax assets are recognised for estimated tax losses carry forward to the extent that the realisation of the related tax benefits through future taxable profits are probable. The Group did not recognise deferred tax assets in respect of estimated losses amounting to approximately HK$81,665,000 (2015: HK$42,685,000) that can be carried forward against future taxable income. All tax losses may be carried forward indefinitely except for the amounts of approximately HK$5,072,000 (2015: HK$4,234,000) which will expire from 2022 to 2034 and HK$69,183,000 (2015: HK$31,374,000) which may be carried forward for a period of five years from their respective year of origination.

## 29. SHARES TO BE ISSUED

Consideration shares to be issued represent the share portion of the consideration arising from the acquisition of Notton Limited and its subsidiaries (the "Acquired Group") completed on 19 August 2013. 100,000,000 ordinary shares of the Company would be issued if the profit of Acquired Group reaches HK$11,000,000 for the year ended 31 December 2014 and another 100,000,000 ordinary shares of the Company would be issued if the profit of the Acquired Group reaches HK$21,000,000 for the year ended 31 December 2015. The fair value of the contingent consideration shares was determined to be HK$82,000,000 with reference to the quoted market price of the Company's share of HK$0.41 each at the date of acquisition.

During the year ended 31 March 2015, 100,000,000 shares to be issued was lapsed as the Acquired Group failed to fulfil the profit guarantee for the year ended 31 December 2014. Total amount of HK$41,000,000 shares to be issued were transferred to retained earnings accordingly.

During the year, the remaining 100,000,000 shares to be issued was also lapsed as the Acquired Group failed to fulfil the profit guarantee for the year ended 31 December 2015. All remaining amount of HK$41,000,000 shares to be issued were transferred to retained earnings accordingly.

## 30. SHARE CAPITAL

| | **Authorised** | | | |
|---|---|---|---|---|
| | **Convertible cumulative redeemable preference shares of US$100,000 each** | | **Ordinary shares of HK$0.10 each** | |
| | Number of shares | US$'000 | Number of shares '000 | HK$'000 |
| At 1 April 2014, 31 March 2015 and 2016 | 40 | 4,000 | 10,000,000 | 1,000,000 |

| | **Issued and fully paid** | | | |
|---|---|---|---|---|
| | **Convertible cumulative redeemable preference shares of US$100,000 each** | | **Ordinary shares of HK$0.10 each** | |
| | Number of shares | US$'000 | Number of shares '000 | HK$'000 |
| At 1 April 2014 | – | – | 5,557,758 | 555,776 |
| Exercise of warrants | – | – | 90,000 | 9,000 |
| At 31 March 2015 | – | – | 5,647,758 | 564,776 |
| Exercise of warrants | – | – | 270,000 | 27,000 |
| At 31 March 2016 | – | – | 5,917,758 | 591,776 |

## 31. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operation. The Scheme, which was adopted by an ordinary resolution of the shareholders on 14 September 2012, constitutes a share option scheme governed by Chapter 17 of the Listing Rules.

Under the Scheme, share options can be exercised at any time during the periods to be determined and notified by the directors of the Company to the grantees at the time of making offers to grant share options to them, provided that such periods shall not exceed the period of ten years from the date of grant. The scheme mandate limit of the Scheme was refreshed pursuant to a shareholders' resolution passed in the extraordinary general meeting of the Company last held on 14 September 2012 (the "EGM"). The maximum number of shares available for issue under the Scheme is 345,775,799, representing 10% of the issued ordinary share capital of the Company as at the date of the EGM, 14 September 2012 and thereafter. The subscription price for the shares under the Scheme shall be a price determined by the directors at its discretion, provided that it shall not less than the higher of (i) the closing price of the shares stated in the daily quotation sheets of Stock Exchange on the date of grant and (ii) the average closing price of the shares stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of share options. A nominal consideration of HK$1 is payable for each of the share options granted.

On 13 May 2014, a total of 100,000,000 share options were granted by the Company to the senior management and employees of its subsidiaries and associate and consultants (together as the "Grantees") at the exercise price of HK$0.87 per share. The share options outstanding are subject to the achievement of individual and company level performance targets with below vesting timetable:

1. If both of the individual and company level performance targets are met on or before 13 May 2015, 40% of share options granted to the respective Grantee will be exercisable on 13 May 2015.

2. If both of the individual and company level performance targets are met on or before 13 May 2016, the remaining 60% of share options granted to the respective Grantee will be exercisable on 13 May 2016.

## 31. SHARE OPTION SCHEME – *Continued*

| Grantee | Date of grant | Exercisable period | Exercise price per share HK$ | Outstanding at 1.4.2015 | Granted during the year | Exercised during the year | Forfeited during the year | Outstanding at 31.3.2016 |
|---|---|---|---|---|---|---|---|---|
| Category I: | | | | | | | | |
| – Senior management | 13.5.2014 | 13.5.2015 to 12.5.2017 | 0.87 | 25,000,000 | – | – | – | 25,000,000 |
| Category II: | | | | | | | | |
| – Employees | 13.5.2014 | 13.5.2015 to 12.5.2017 | 0.87 | 24,000,000 | – | – | – | 24,000,000 |
| Category III: | | | | | | | | |
| – Consultants (Note i) | 13.5.2014 | 13.5.2015 to 12.5.2017 | 0.87 | 51,000,000 | – | – | – | 51,000,000 |
| Total for all categories | | | | 100,000,000 | – | – | – | 100,000,000 |
| Exercisable at the end of the year | | | | | – | | | 11,265,600 |
| Weighted average exercise price | | | | | HK$0.87 | | | HK$0.87 |
| Weighted average remaining contractual life at the end of the year | | | | | 2.12 years | | | 1.12 years |

Note:

(i) The Group granted share options to the consultants in return for their provision of management consultancy services to the Group.

During the year ended 31 March 2016, the Company recognised total expenses of approximately HK$404,000 (2015: HK$6,164,000) in relation to the share options granted by the Company.

As at 31 March 2016, the directors reassessed the possibility of vesting conditions fulfilment and concluded that it was unlikely for any of the Grantees to meet both the individual and company level performance targets on or before 13 May 2016. Accordingly, the share option reserve of HK$3,331,000 in respect of the remaining 60% of share options to be granted on 13 May 2016 was reversed through profit or loss during the year.

## 32. NON-CONTROLLING INTERESTS

Shenzhen Oasis and its wholly-owned subsidiary, 51% owned by the Group and Sichuan Yi Fang, 59.976% owned by the Group have material non-controlling interests ("NCI"). Summarised financial information in relation to the NCI of Shenzhen Oasis and its wholly-owned subsidiary and Sichuan Yi Fang, before intra-group elimination are presented below:

| | Year ended 2016 HK$'000 | Year ended 2015 HK$'000 |
|---|---|---|
| **Shenzhen Oasis and its wholly-owned subsidiary** | | |
| Revenue | **39,383** | 78,221 |
| Loss for the year | **(22,650)** | (18,090) |
| Total comprehensive income for the year | **(20,151)** | (18,389) |
| Loss and total comprehensive income allocated to NCI | **(9,874)** | (9,011) |
| Cash flow (used in)/generated from operating activities | **(7,544)** | 5,178 |
| Cash flow used in investing activities | **(2,984)** | (879) |
| Net cash (outflow)/inflow | **(10,528)** | 4,299 |

| | 2016 HK'000 | 2015 HK'000 |
|---|---|---|
| **As at 31 March** | | |
| Non-current assets | **3,094** | 4,390 |
| Current assets | **35,276** | 43,409 |
| Current liabilities | **(79,218)** | (68,172) |
| Net liabilities | **(40,848)** | (20,373) |
| Accumulated non-controlling interests | **(21,475)** | (11,601) |

## 32. NON-CONTROLLING INTERESTS – *Continued*

| | Year ended 2016 HK$'000 | For the period from date of acquisition on 4 April 2014 to 31 March 2015 HK$'000 |
|---|---|---|
| **Sichuan Yi Fang** | | |
| Revenue | **4,509** | 15,099 |
| Loss for the year/period | **(3,787)** | (4,094) |
| Total comprehensive income for the year/period | **(4,106)** | (4,121) |
| Loss and total comprehensive income allocated to NCI | **(1,643)** | (1,649) |
| Cash flow (used in)/generated from operating activities | **(3,258)** | 3,096 |
| Cash flow used in investing activities | **(18)** | (431) |
| Net cash (outflow)/inflow | **(3,276)** | 2,665 |

| | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|
| **As at 31 March** | | |
| Non-current assets | **5,931** | 6,352 |
| Current assets | **17,799** | 16,806 |
| Current liabilities | **(19,906)** | (15,195) |
| Net assets | **3,824** | 7,963 |
| Accumulated non-controlling interests | **1,292** | 2,935 |

## 33. RESERVES

### The Group

The natures and purposes of reserves are set out below:

***Share premium***
Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, share premium of the Company is available for paying distributions and dividends to shareholders subject to the provisions of its Memorandum and Articles of Association and provided that immediately following the distributions or dividend payments, the Company is able to pay its debts as they fall due in the ordinary course of business.

***Share option reserve***
The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in Note 4(p) to the consolidated financial statements.

***Warrant reserve***
Warrant reserve represents the amount of proceeds on issue of warrants.

***Exchange fluctuation reserve***
Exchange fluctuation reserve represents foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in Note 4(m) to the financial statements.

***Investment valuation reserve***
Investment revaluation reserve represents change in fair values of available-for-sale financial assets.

***Land and buildings revaluation reserve***
Land and buildings revaluation reserve represents the cumulative net change in the fair value of land and buildings held at the end of reporting period and are dealt with in accordance with the accounting policy in Note 4(e) to the financial statements.

***Accumulated losses***
It represents the cumulative net gains and losses recognised in profit or loss.

## 33. RESERVES – *Continued*

### The Company

| | Share premium HK$'000 | Shares to be issued HK$'000 | Share option reserve HK$'000 | Warrant reserve HK$'000 | Accumulated losses HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| **At 1 April 2014** | 341,870 | 82,000 | – | 3,830 | (424,958) | 2,742 |
| Loss and total comprehensive income for the year | – | – | – | – | (6,740) | (6,740) |
| Recognition of equity-settled share-based payment, net | – | – | 6,164 | – | – | 6,164 |
| Lapse of profit guarantee – share portion | – | (41,000) | – | – | 41,000 | – |
| Exercise of warrants | 5,363 | – | – | (861) | – | 4,502 |
| **At 31 March 2015** | 347,233 | 41,000 | 6,164 | 2,969 | (390,698) | 6,668 |
| Profit and total comprehensive income for the year | – | – | – | – | 2,268 | 2,268 |
| Recognition of equity-settled share-based payment, net | – | – | (2,927) | – | – | (2,927) |
| Lapse of profit guarantee – share portion | – | (41,000) | – | – | 41,000 | – |
| Exercise of warrants | 16,086 | – | – | (2,586) | – | 13,500 |
| **At 31 March 2016** | 363,319 | – | 3,237 | 383 | (347,430) | 19,509 |

## 34. HOLDING COMPANY STATEMENT OF FINANCIAL POSITION

| | Notes | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non-current assets** | | | |
| Interests in subsidiaries | 18 | **611,302** | 572,062 |
| **Current assets** | | | |
| Tax recoverable | | **9** | 9 |
| Cash and cash equivalents | | **692** | 2 |
| | | **701** | 11 |
| **Current liabilities** | | | |
| Other payables and accrued charges | | **718** | 629 |
| **Net current liabilities** | | **(17)** | (618) |
| **Net assets** | | **611,285** | 571,444 |
| **EQUITY** | | | |
| Share capital | 30 | **591,776** | 564,776 |
| Reserves | 33 | **19,509** | 6,668 |
| **Total equity** | | **611,285** | 571,444 |

On behalf of the board

**Leung Lun, M.H.**
Director

**Diao Yunfeng**
Director

## 35. CONTINGENT LIABILITIES

At 31 March 2016 and 2015, the Group had no contingent liabilities.

## 36. COMMITMENTS

### (a) Capital commitments

At 31 March 2016 and 2015, the Group had no capital commitments.

### (b) Operating lease commitments

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

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| **The Group as lessee** | | |
| Not later than one year | **4,243** | 1,683 |
| Later than one year but not later than five years | **4,319** | 261 |
| | **8,562** | 1,944 |

Operating lease payments represent rentals payable by the Group on its leased office premises. Leases are negotiated for terms ranging from two to five years (2015: two to five years) and rentals are fixed over the terms of the leases.

## 37. RELATED PARTY TRANSACTIONS

During the year, the Group had transactions and balances with related parties, some of which are also deemed to be connected parties pursuant to the Listing Rules. Besides, transactions between the Company and its subsidiaries have been eliminated on consolidation and are not disclosed in this note.

**(a)** During the year, the Group entered into the following material transactions with related parties:

| **Related party relationship** | **Types of transaction** | **Transaction amount** | |
|---|---|---|---|
| | | **2016 HK$'000** | 2015 HK$'000 |
| Companies related to the Group's substantial shareholders | Purchase | **4,302** | 34,565 |
| Companies related to the Group's substantial shareholders | Sales | **4,139** | 31,016 |
| Companies controlled by a director's close family members | Purchase (Note) | **49,359** | 48,498 |
| Companies controlled by a director's close family members | Sales (Note) | **721** | – |
| Companies related to the Group's substantial shareholders | Service expense | **41** | 440 |
| Companies controlled by a director's close family members | Rental expense (Note) | **250** | – |

Transactions are conducted in the ordinary course of business at prices and terms based on mutual agreement.

Note: The related party transactions constitute connected transaction or continuing connected transaction as defined in Chapter 14A of the Listing Rules.

## 37. RELATED PARTY TRANSACTIONS – *Continued*

### (b) Key management personnel compensation

The key management personnel includes the directors, whose emoluments is disclosed in Note 14(a) and key management of the Company during the year. The emoluments of the key management excluding directors were as follows:

| | **2016 HK$'000** | 2015 HK$'000 |
|---|---|---|
| Short-term benefits | **2,224** | 2,446 |
| Post-employment benefits | **192** | 148 |
| | **2,416** | 2,594 |

## 38. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of net debts, comprising the borrowings disclosed in Note 26, less of cash and cash equivalents and available-for-sale investments, and equity attributable to owners of the Company, comprising share capital and reserves as disclosed in Notes 30 and 33 respectively.

The Group's management reviews the capital structure periodically. As part of this review, management considers the cost of capital and the risks associated with each class of capital. Based on recommendations of management, the Group will balance its overall capital structure through the payment of dividends, issue of new share as well as new debts or redemption of existing debts.

The gearing ratio at the end of reporting period is as follows:

| | **2016 HK'000** | 2015 HK'000 |
|---|---|---|
| Debts | **36,554** | 39,151 |
| Cash and cash equivalents | **(125,584)** | (106,992) |
| Available-for-sale investments | **(199,017)** | (201,680) |
| Net debts | **(288,047)** | (269,521) |
| Equity | **561,110** | 623,237 |
| Net debts to equity ratio | **N/A** | N/A |

## 39. FINANCIAL RISK MANAGEMENT

### Financial risk factors

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

***(a) Credit risk***

The Group's credit risk is primarily attributable to its cash and cash equivalents, trade and other receivables and available-for-sale investments. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. At the end of reporting period, the Group has a certain concentration of credit risk as 13% (2015: 21%) and 41% (2015: 54%) of the total trade receivables was due from the Group's largest debtor and the five largest debtors respectively.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customers as well as pertaining to the economic environment in which the customers operate.

In addition, the Group had concentration of credit risk on its liquid funds as 86% (2015: 88%) of bank balances were placed in five banks. However, the credit risk on liquid funds and available-for-sale investments is limited because the counterparties are banks and listed debt issuers with good reputation.

***(b) Liquidity risk***

Individual operating entities within the Group are responsible for their own cash management, including the short-term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the Company's board when the borrowings exceed certain predetermined levels of authority. The Group maintains availability of funding through an adequate amount of available credit facilities. The management aims to maintain flexibility in funding by keeping credit lines available.

## 39. FINANCIAL RISK MANAGEMENT – *Continued*

### Financial risk factors – *Continued*

***(b) Liquidity risk*** – *Continued*

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

| | Carrying amount HK$'000 | Total contractual undiscounted cash flow HK$'000 | Within 1 year or on demand HK$'000 | Over 1 year HK$'000 |
|---|---|---|---|---|
| **2016** | | | | |
| **Trade and other payables and accrued charges** | **78,896** | **78,896** | **78,896** | **–** |
| **Borrowings** | **36,554** | **36,554** | **36,554** | **–** |
| **Amounts due to related companies** | **44,229** | **44,229** | **44,229** | **–** |
| | **159,679** | **161,715** | **161,715** | **–** |

| | Carrying amount HK$'000 | Total contractual undiscounted cash flow HK$'000 | Within 1 year or on demand HK$'000 | Over 1 year HK$'000 |
|---|---|---|---|---|
| 2015 | | | | |
| Trade and other payables and accrued charges | 52,108 | 52,108 | 52,108 | – |
| Borrowings | 39,151 | 44,748 | 27,804 | 16,944 |
| Amounts due to related companies | 5,004 | 5,004 | 5,004 | – |
| | 96,263 | 101,860 | 84,916 | 16,944 |

## 39. FINANCIAL RISK MANAGEMENT – *Continued*

### Financial risk factors – *Continued*

***(b) Liquidity risk** – Continued*

The following table summarises the maturity analysis of bank borrowings with a repayment on demand clause based on agreed scheduled repayments set out in the loan agreements. The amounts include interest payments computed using contractual rates. As a result, these amounts were greater than the amounts disclosed in the "on demand" time band in the maturity analysis contained in above table. Taking into account the Group's financial position, the directors do not consider that it is probable that the bank will exercise its discretion to demand immediate repayment. The directors believe that such bank borrowings will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

| | Carrying amount HK$'000 | Total contractual undiscounted cash flow HK$'000 | Within 1 year HK$'000 | More than 1 year but less than 2 years HK$'000 | More than 2 years but less than 5 years HK$'000 |
|---|---|---|---|---|---|
| **At 31 March 2016** | **36,554** | **38,590** | **38,590** | **–** | **–** |
| At 31 March 2015 | 39,151 | 44,748 | 27,804 | 1,016 | 15,928 |

***(c) Interest rate risk***

The Group's interest rate risk arises primarily from borrowings. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The interest rates and terms of repayment of the Group's borrowings are disclosed in Note 26 to the financial statements. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, the management will consider hedging significant interest rate exposure should the need arise.

## 39. FINANCIAL RISK MANAGEMENT – *Continued*

### Financial risk factors – *Continued*

***(c) Interest rate risk** – Continued*

The following table details the interest rate profile of the Group's total debts at the end of reporting period.

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Effective interest rate % | HK$'000 | Effective interest rate % | HK$'000 |
| **At fixed rate** | | | | |
| Bank loans | 8 | 9,143 | 6.75 | 15,057 |
| Trust receipt loans | 8 | 15,569 | 6.75 | 15,508 |
| | | 24,712 | | 30,565 |
| **At variable rate** | | | | |
| Bank loans | 4.65 | 11,842 | 0.19 | 8,586 |
| | | 36,554 | | 39,151 |
| Net fixed rate borrowings as a percentage of total debts | | 68% | | 78% |

At 31 March 2016, it is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would increase/decrease the Group's loss before tax by approximately HK$59,000 (2015: decrease/increase the Group's profit before tax by approximately HK$43,000).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of reporting period and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. The 50 basis points increase/decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next end of reporting period. The analysis is performed on the same basis for 2015.

## 39. FINANCIAL RISK MANAGEMENT – *Continued*

### Financial risk factors – *Continued*

***(d) Foreign exchange risk***

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to United States dollars ("US$") and Renminbi ("RMB"). Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. The Group currently does not hedge its foreign exchange exposure.

The following table details the Group's exposure at the end of reporting period to currency risk arising from forecast transactions or recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

| | **2016** | | 2015 | |
|---|---|---|---|---|
| | **RMB'000** | **US$'000** | RMB'000 | US$'000 |
| Trade and other receivables | **–** | **2,540** | – | 2,911 |
| Cash and cash equivalents | **4,767** | **8,556** | 1,271 | 6,940 |
| Available-for-sale investments | **60,180** | **16,240** | 56,964 | 16,728 |
| Borrowings | **–** | **–** | – | (4,476) |
| Overall net exposure | **64,947** | **27,336** | 58,235 | 22,103 |

## 39. FINANCIAL RISK MANAGEMENT – *Continued*

### Financial risk factors – *Continued*

***(d) Foreign exchange risk*** – *Continued*

The following table indicates the approximate change in the Group's loss/profit for the year in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the end of reporting period.

| | **2016** | | 2015 | |
|---|---|---|---|---|
| | **Increase/ (decrease) in foreign exchange rates** | **Increase/ (decrease) in loss for the year HK$'000** | Increase/ (decrease) in foreign exchange rates | Increase/ (decrease) in profit for the year HK$'000 |
| RMB | **5%** | **(3,380)** | 5% | 3,086 |
| | **(5%)** | **3,380** | (5%) | (3,086) |
| US$ | **5%** | **(378)** | 5% | (403) |
| | **(5%)** | **378** | (5%) | 403 |

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of reporting period and had been applied to each of the group entities; exposure to currency risk for both derivative and non-derivative financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the end of next annual reporting period. In this respect, it is assumed that the pegged rate between the Hong Kong dollars and the United States dollars would be materially unaffected by any changes in movement in value of the United States dollars against Hong Kong dollars. Results of the analysis as presented in the above table represent an aggregation of the effects on each of the group entities' profit or loss for the year and equity measured in the respective functional currencies, translated into Hong Kong dollars at the exchange rate ruling at the end of reporting period for presentation purposes. The analysis is performed on the same basis for 2015.

39. FINANCIAL RISK MANAGEMENT – *Continued*

**Financial risk factors** – *Continued*

***(e) Fair value***

The fair value of financial assets and financial liabilities are determined as follows:

– the fair value of the financial assets and financial liabilities with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices and ask prices respectively;

– the fair value of other financial assets and financial liabilities (excluding derivative financial instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions; and

– the fair value of available-for-sale investments is calculated using quoted prices.

*(i) Recurring fair value measurements recognised in the consolidated statement of financial position*

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Level 1 based on the degree to which the fair value is observable.

– Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

| | **2016** | 2015 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Available-for-sale investments | **199,017** | 201,680 |

*(ii)* The directors considered that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate to their fair value due to their short term maturities.

## 40. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The carrying amounts of the Group's financial assets and financial liabilities as recognised at 31 March 2016 and 2015 may be categorised as follows:

| | **2016** | 2015 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| **Financial assets** | | |
| Loans and receivables (including cash and cash equivalents) | **207,415** | 213,586 |
| Available-for-sale investments | **199,017** | 201,680 |
| | **406,432** | 415,266 |
| **Financial liabilities** | | |
| Financial liabilities measured at amortised cost | **148,879** | 96,263 |

## 41. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved and authorised for issue by the Board of Directors on 30 June 2016.

**HAIER HEALTHWISE HOLDINGS LIMITED**

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