RUIXIN INTERNATIONAL HOLDINGS LIMITED
瑞鑫國際集團有限公司

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

Annual Report 2016

Contents

Corporate Information

EXECUTIVE DIRECTORS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

INVESTMENT COMMITTEE

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

COMPANY SECRETARY

Ms. Tsang Man Sze

AUDITOR

SHINEWING (HK) CPA Limited

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton, HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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133 Wan Chai Road
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Corporate Services (Bermuda) Limited
Clarendon House
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PO Box HM1022
Hamilton HM DX
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
Level 22, Hopewell Centre
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Hong Kong

SHARE LISTING

The Stock Exchange of Hong Kong Limited
Stock Code: 724

WEBSITE

www.irasia.com/listco/hk/ruixin

Results Overview and Financial Highlights

RESULTS OVERVIEW

For the year ended 31 December 2016 (the "Reporting Period"), Ruixin International Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") reported revenue of approximately HK$478.8 million, representing a decrease of 12.2% as compared with approximately HK$545.1 million for the year ended 31 December 2015 (the "Corresponding Period").

Loss for the Reporting Period increased to approximately HK$66.7 million from approximately HK$23.2 million for the Corresponding Period. Loss attributable to owners of the Company was approximately HK$66.7 million for the Reporting Period as compared with approximately HK$23.2 million for the Corresponding Period. The increase in loss for the Reporting Period was mainly due to, among others, (i) the gain on modification of terms of convertible notes in the Corresponding Period but not in the Reporting Period; (ii) the recognition of tax expenses in relation to the Hong Kong Inland Revenue Department (the "IRD") enquiries of the Hong Kong Profits Tax of a subsidiary of the Company in respect of the years of assessment 2006/07 to 2014/15 (the "Tax Enquiries") in the Reporting Period; and (iii) the increased operating loss. The increase in operating loss was mainly due to the expansion of loss from the electronic products business as a result of, among others, the drop in revenue and the increase in the cost of raw materials. The Group's loss for the Reporting Period, however, was partly offset by the recovery of partial amounts due from former subsidiaries and the write-back of amounts due to former subsidiaries as a result of the completion of the winding-up of CITIC Logistics (International) Company Limited ("CLI") and certain of its subsidiaries subsequent to the Reporting Period.

The gain on modification of terms of convertible notes and the imputed interest expenses on convertible notes (collectively, the "Non-cash Items") arose as a result of accounting treatment under the provisions of the applicable accounting standards and were of non-cash nature. Before the Non-cash Items, the Group made a loss of approximately HK$54.3 million for the Reporting Period, as compared with a loss of approximately HK$38.7 million for the Corresponding Period.

FINANCIAL HIGHLIGHTS

	2016	2015
	HK$'000	HK$'000
Revenue	**478,845**	545,055
Gross profit	**20,976**	32,620
Loss for the year	**(66,703)**	(23,211)
Gain on modification of terms of convertible notes	**–**	27,821
Imputed interest expenses on convertible notes	**(12,422)**	(12,287)
Loss for the year before gain on modification of terms of convertible notes and imputed interest expenses on convertible notes	**(54,281)**	(38,745)

Management Discussion and Analysis

BUSINESS AND FINANCIAL REVIEW

The electronic products business reported a drop of approximately 12.2% in revenue from approximately HK$545.1 million for the Corresponding Period to approximately HK$478.8 million for the Reporting Period. As indicated in the Company's annual report for the year ended 31 December 2015, the global economy was expected to be weakened in the Reporting Period, competition was keen together with the shrink in demand, and the electronic products business was struggling in a very tough business environment. The gross profit for the electronic products business for the Reporting Period was approximately HK$21.0 million, a decrease of approximately 35.6% as compared with the Corresponding Period, while the gross profit margin was approximately 4.4%, a drop from approximately 6.0% for the Corresponding Period. Along with the decreased revenue, the gross profit for the Reporting Period was eroded significantly by the increase in the cost of raw materials.

In respect of the Tax Enquiries for the years of assessment 2006/07 to 2014/15, as disclosed in the Company's interim report for the six months ended 30 June 2016 and set out in note 10 to the consolidated financial statements, in avoiding further lengthy objection process regarding the dispute with the IRD, during the Reporting Period, the subsidiary has withdrawn the objections in July 2016 and compromised with the IRD on the Tax Enquiries. The IRD has issued final tax assessments in respect of the Tax Enquiries in aggregate of approximately HK$16.7 million (the "Assessed Amount"). The Assessed Amount was recognised as tax expenses for the Reporting Period.

As at 31 December 2016 and the date of this report, the principal amount of the convertible notes remained outstanding was HK$260.4 million with a conversion price of HK$0.035 per share. The Company and the holder of the outstanding convertible notes entered into the deed of further variation on 14 December 2016, pursuant to which it is agreed that, subject to the fulfilment of conditions precedent, the maturity date of the outstanding convertible notes in the principal amount of HK$260.4 million will be extended from 31 December 2016 to 31 January 2019. On 16 January 2017, the ordinary resolution of the special general meeting was duly passed and the extension of the maturity date of the outstanding convertible notes became effective. For details, please refer to the announcements of the Company dated 14 December 2016 and 16 January 2017 and the circular of the Company dated 29 December 2016. Accordingly, the consolidated financial statements for the Reporting Period have been prepared on a going concern basis, as set out in notes 1 and 38 to the consolidated financial statements. The Company is considering various alternatives to more permanently improve the Group's financial position.

Management Discussion and Analysis

During the Reporting Period, the Group has recovered partial amounts due from former subsidiaries of approximately HK$9.2 million from the liquidators of CLI and its subsidiaries. Subsequent to the Reporting Period, the winding-up of CLI and certain of its subsidiaries was completed, according to the liquidators of CLI. As a result, amounts due to former subsidiaries of approximately HK$4.4 million were written back as other income for the Reporting Period.

The Group is seeking and exploring business opportunities in Vietnam including infrastructure projects to improve the prospect of the Group. An indirect wholly-owned subsidiary of the Company was incorporated in Vietnam on 23 March 2017 and, as at the date of this report, the Company is in the process of preparing for commencement of operation of the said subsidiary in Vietnam. As at the date of this report, the Company is in an early stage of studying a potential investment opportunity for the development of an expressway project in Vietnam (the "Potential Investment"). The Company wishes to highlight that no binding agreement in relation to the Potential Investment has been entered into as at the date of this report. For details, please refer to the announcements of the Company dated 12 January 2017 and 21 March 2017.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

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

As at 31 December 2016, the Group had bank balances and cash of approximately HK$64.4 million (2015: HK$66.8 million). The Group's current ratio (measured as total current assets to total current liabilities) was 1.0 time (2015: 1.2 times).

As at 31 December 2016, the Company had outstanding zero coupon convertible notes due on 31 December 2016 with an aggregate principal amount of HK$260.4 million (2015: HK$260.4 million) and a conversion price of HK$0.035 per share. Subsequent to the Reporting Period, the maturity date of the convertible notes was extended to 31 January 2019. Details are set out in notes 1 and 38 to the consolidated financial statements and the paragraphs headed "Business and Financial Review" in the Management Discussion and Analysis on page 4 of this report.

As at 31 December 2016, the Group had no outstanding bank borrowings (2015: nil). The gearing ratio, which is calculated by total interest bearing borrowings to total equity, was nil as at 31 December 2016 and 2015.

As at 31 December 2016, the Group had no capital expenditure commitments (2015: nil).

Management Discussion and Analysis

SIGNIFICANT INVESTMENTS

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

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

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

CHARGE ON GROUP'S ASSETS

As at 31 December 2016, the Group did not have any assets pledged (2015: nil).

FOREIGN EXCHANGE EXPOSURES

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

CONTINGENT LIABILITIES

Details of the contingent liabilities of the Group are set out in note 36 to the consolidated financial statements.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2016, the Group had 592 (2015: 664) full time employees in Hong Kong and the People's Republic of China (the "PRC" or "China") (including 552 (2015: 622) subcontractor's staff for the outsourced production of electronic products). Total staff costs (including Directors' remuneration) for the Reporting Period amounted to approximately HK$28.5 million (2015: HK$27.4 million). The employees are remunerated with reference to the qualification, experience, responsibility and performance of the individual, the performance of the Group and the market practices. Apart from the basic remuneration package, the mandatory provident fund scheme and the central provident scheme in the PRC, the Company also operates a share option scheme based on which the Board may, at its discretion, grant options to eligible employees of the Group.

Management Discussion and Analysis

FUTURE OUTLOOK

According to the International Monetary Fund (the "IMF"), after a lackluster outturn in 2016, economic activity is forecast to accelerate in 2017 and 2018, with global growth projected to be 3.4% and 3.6%, respectively, versus 3.1% in 2016 and 3.2% in 2015. The outlook for advanced economies has improved, reflecting somewhat stronger activity in the second half of 2016 as well as a projected fiscal stimulus in the United States. Growth prospects have marginally worsened for emerging market and developing economies, where financial conditions have generally tightened. However, there is a wide dispersion of possible outcomes around the projections, given uncertainty surrounding the policy stance of the new administration in the United States and its global ramifications. Risks to the global growth outlook are two sided but are assessed to be skewed to the downside including a possible shift toward inward-looking policy platforms and protectionism, a sharper than expected tightening in global financial conditions, increased geopolitical tensions and a more severe slowdown in China. According to a report dated 7 March 2017 in the Financial Times (the "FT"), the Organisation for Economic Co-operation and Development (the "OECD") warns that global economy will stuck in a "low growth trap". The OECD expects the global growth rates to improve over the next two years but only to around the average level of the past few decades.

The U.S. economy grew by 1.6% in 2016, making it the weakest in five years as trade deficit dragged on the economy, according to a report dated 28 January 2017 in the FT. Growth is expected to accelerate to more than 2.0% in 2017, with the IMF projecting at 2.3%. Economists are largely optimistic about the growth prospect this year on expectations of more expansionary fiscal policies including tax cuts and infrastructure spending. Adding to signs of improvement in the economy, the U.S. factory sector expanded at its quickest pace since August 2014 with the Institute for Supply Management's purchasing manager's index (the "PMI") rising to 57.7 in February 2017 from 56.0 in January 2017 and 54.7 in December 2016, according to the FT reports dated 3 January 2017 and 1 March 2017. However, economists warned against considerable uncertainties in the U.S. economic outlook. Among others, substantial easing could trigger a big increase in inflation and much faster rate hikes choking off the recovery and hitting corporate profitability, and higher interest rates would probably mean a stronger dollar which would hurt U.S. manufacturers and lead to a bigger U.S. trade deficit, according to the FT reports dated 16 January 2017, 18 and 23 February 2017.

Management Discussion and Analysis

China's economy expanded by 6.7% in 2016, its slowest growth in 26 years but within the central government's target range. Despite a sharp slowdown in investment by private businesses, property and infrastructure construction together with a credit boom played key role in stabilizing the economy last year, according to reports dated 20 January 2017 in the South China Morning Post (the "SCMP") and the FT. China's economic growth looks stronger so far this year amid a recovery in manufacturing and exports. The official PMI rose to a three-month high of 51.6 in February 2017 and has already stayed in the expansionary territory for seven consecutive months. China's manufacturing sector has been buoyed by a government infrastructure building spree and a housing boom, which have fueled demand for building materials from cement to steel. However, some analysts question whether the growth will be sustainable once the impact of earlier stimulus measures begins to wear off and as the property market starts to cool, according to reports dated 1 February 2017 and 1 March 2017 in the SCMP. China's exports rose 7.9% year-on-year in January 2017 in U.S. dollar terms and 4.2% year-on-year in February 2017 in RMB terms, according to reports dated 10 February 2017 and 8 March 2017 in the SCMP. Worrying about potential disruptions from the rising tide of protectionism, however, economists warn that overseas demand faces major uncertainties and strong external demand may not be sustained, according to a report dated 1 March 2017 in the SCMP.

The strong performance has prompted a number of institutions to revise up their estimates for China's economic growth in 2017 with the IMF upgrading its forecast to 6.5% (0.3 percentage points above the October forecast) on expectations of continued policy support. The IMF highlighted that continued reliance on policy stimulus measures, with rapid expansion of credit and slow progress in addressing corporate debt, especially in hardening the budget constraints of state-owned enterprises, raised the risk of a sharper slowdown or a disruptive adjustment. These risks can be exacerbated by capital outflow pressures, especially in a more unsettle external environment, according to the IMF. Notably, China has lowered its annual economic growth target to around 6.5% in 2017 from the range of 6.5-7.0% in 2016, reinforcing a shift from supporting debt-fueled growth to pushing supply-side structural reform and reducing financial risks. Monetary policy will be "prudent and neutral" in 2017, signaling a bias towards tightening with the addition of "neutral". According to a report dated 20 January 2017 in the FT, economists say that rather than a trade war, the biggest threat to China's economy is its continued reliance on debt-fueled investment to drive growth, but lower exports could force policy makers to rely even more on this model to defend its growth target. On concerns about rising debt levels and other structural problems, the IMF forecasts that China's economic growth will slow to 6.0% in 2018.

Against this backdrop, the Group believes that the operating environment for manufacturers is likely to remain challenging and would continue to have an impact on the performance of the Group's electronic products business in the future. The challenges may include persistent increase in labour costs in the PRC, keen competition in the electronic component market, selling price pressure on electronic component products as well as increasing costs of materials. All these could affect the revenue and profit margin of the electronic products business. To tackle with these challenges, the Group will impose severe cost control measures including the outsourcing of some labour intensive process as well as the sourcing for production materials and products at a more competitive cost.

Biographical Details of Directors

EXECUTIVE DIRECTORS

Mr. Wang Zhaofeng ("Mr. Wang"), aged 47, was appointed as an executive Director and the chairman of the Company (the "Chairman") on 10 July 2013 and 26 February 2016, respectively. Mr. Wang holds master and doctor of law degrees from Renmin University of China. He went to University of Cambridge in England, Cornell University in the United States and Max Planck Institute in Germany in 2004, 2009 and 2015, respectively as a visiting scholar. Mr. Wang has about 18 years of experience working in the judiciary department and as a practicing lawyer in the PRC. He is currently a legal counsel to several major media and large enterprises. Mr. Wang was a deputy director for the Public Prosecution Department of the People's Procuratorate of Haidian District in Beijing from 1998 to 2002, and a deputy director for the Legal Policy Research Office of the People's Procuratorate of Beijing from 2002 to 2006. Currently, Mr. Wang is a managing partner of and a director-general of the Litigation and Arbitration Professional Committee of Beijing DeHeng Law Offices. Mr. Wang is also a member of the Lawyers Development Strategy Research Committee of All China Lawyers Association in the PRC, a deputy director of the Lawyer Business Research Centre of Renmin University of China and a part-time professor of China University of Political Science and Law.

Mr. Lam Yat Keung ("Mr. Lam"), aged 59, was appointed as an executive Director on 13 December 2003. Mr. Lam was the president of the Company from 13 December 2003 to 2 March 2010 and from 1 December 2012 to 1 December 2015. Mr. Lam has over 30 years of experience in business development, strategic planning, policy making and research and development in the manufacturing industry in Hong Kong and the PRC, particularly in the consumer products and electronic components sectors. Mr. Lam and his wife, Ms. Lam Pik Wah, are currently the directors of certain subsidiaries of the Company.

Mr. Huang Hanshui ("Mr. Huang"), aged 46, was appointed as an executive Director on 9 March 2010. Mr. Huang holds a Master of Business Administration (MBA) degree from the National University of Singapore and a Bachelor of Arts degree from Xiamen University. Mr. Huang has over 21 years of experience in various areas, including financial and risk management, equity research, strategic management, human resources services and sales & marketing. Prior to joining the Company, he worked as an equity analyst in Nomura Securities and Standard & Poor's. Mr. Huang is currently the chief financial officer of the Company and a director of certain subsidiaries of the Company.

Biographical Details of Directors

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ho Chi Fai ("Mr. Ho"), aged 60, was appointed as an independent non-executive Director on 15 January 2004. Mr. Ho graduated from the Hong Kong Polytechnic University in 1979 with a Higher Diploma in Accountancy. Prior to joining the Company, he had over 20 years of experience working in an international bank with particular expertise in money market operations and accounting and was the financial controller of a computer manufacturer and an electronic components manufacturer.

Ms. Liu Yanfang ("Ms. Liu"), aged 52, was appointed as an independent non-executive Director on 24 June 2010. Ms. Liu holds a bachelor's degree in law from China University of Political Science and Law. She has over 20 years of experience working as a corporate legal counsel and in financial crimes investigations. Ms. Liu is currently a PRC practicing attorney and she has been a senior partner with Allbright Law Offices situated in Shanghai since 2004. From 1992 to 2003, Ms. Liu served various positions with the Ministry of Public Security including as director of the Securities Crime Investigation Department and as deputy director of the Finance Department under the Economic Protection Bureau. From 1989 to 1992, she worked in the All-China Women's Federation. From 1987 to 1989, she worked as an attorney for a law firm in Hebei province.

Mr. Zhang Jue ("Mr. Zhang"), aged 31, was appointed as an independent non-executive Director on 20 February 2016. Mr. Zhang obtained a bachelor's degree with a major in Financial Management from Shanghai University of Finance and Economics in 2007 and a Master's degree of Accounting from Tsinghua University in 2015. Mr. Zhang has over 9 years of experience in various areas, including investment, financial management, market research and auditing. Mr. Zhang worked as a senior manager from December 2012 to December 2013 and as the financial controller from December 2013 to June 2014 in China New Town Development Company Limited, the shares of which are dual-listed on the main boards of The Singapore Exchange Securities Trading Limited (stock code: D4N.si) and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (stock code: 1278). Since 2012, he served as a vice president in Beijing Black Eagle Fu Cheng Investment Management Co. Ltd.*（北京黑鷹富成投資管理有限公司）and/or its related companies. Mr. Zhang is currently a director of CCL Cold Storage Logistics Co. Ltd.*（北京中冷物流股份有限公司）, the shares of which are quoted on the National Equities Exchange and Quotations of the PRC (stock code: 835382).

* *For identification purpose only*

Report of the Directors

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

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries as at 31 December 2016 are set out in note 37 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the Reporting Period are set out in the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income on pages 43 and 44 of this report.

The Board does not recommend the payment of final dividend for the Reporting Period (2015: nil).

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and of the assets, liabilities and non-controlling interests of the Group for the past five financial years is set out on page 118 of this report.

SHARE CAPITAL

Details of movements in the share capital of the Company during the Reporting Period are set out in note 30 to the consolidated financial statements.

CONVERTIBLE NOTES

Details of movements in the convertible notes of the Company during the Reporting Period are set out in note 27 to the consolidated financial statements.

RESERVES

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

Report of the Directors

DISTRIBUTABLE RESERVES

As at 31 December 2016, the Company did not have any reserves available for distribution, as computed in accordance with the Companies Act 1981 of Bermuda (2015: nil). The Company's share premium account of HK$2,271,283,000 (2015: HK$2,271,283,000) could be distributed in the form of fully paid bonus shares.

PRE-EMPTIVE RIGHTS

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

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

During the Reporting Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

PROPERTY, PLANT AND EQUIPMENT

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

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the largest customer and the five largest customers of the Group accounted for 15.88% and 34.93%, respectively, of the total revenue of the Group for the Reporting Period.

The aggregate purchases attributable to the largest supplier and the five largest suppliers of the Group accounted for 13.45% and 50.33%, respectively, of the total purchases of the Group for the Reporting Period.

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

Report of the Directors

DIRECTORS

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

Executive Directors

Mr. Wang Zhaofeng	
Mr. Lam Yat Keung	
Mr. Huang Hanshui	
Mr. Li Weimin	(resigned on 26 February 2016)

Independent non-executive Directors

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

Pursuant to Bye-law 87, Mr. Wang Zhaofeng and Ms. Liu Yanfang will retire by rotation at the forthcoming annual general meeting of the Company (the "2017 AGM") and, being eligible, will offer themselves for re-election at the 2017 AGM.

None of the Directors being proposed for re-election at the 2017 AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensations, other than statutory compensation.

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

Report of the Directors

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

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

DIRECTORS' INTEREST IN COMPETING BUSINESS

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

DIRECTORS' REMUNERATION AND THE FIVE HIGHEST PAID INDIVIDUALS

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

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

As at 31 December 2016, the interests and short positions of the Directors and chief executives of the Company (the "Chief Executives") in the shares, underlying shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO); or (ii) to be entered in the register pursuant to Section 352 of the SFO; or (iii) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules, were as follows:

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

Name of Director	Capacity	Number of shares and underlying shares held	Percentage of shareholding
Mr. Huang Hanshui (Note)	Beneficial owner	86,827,895	0.63%

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

Report of the Directors

Save as disclosed above, as at 31 December 2016, none of the Directors, the Chief Executives or their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO), or which had to be recorded in the register required to be kept under Section 352 of the SFO, or otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the paragraph headed "Directors' and Chief Executives' interests in shares and underlying shares" above and "Share option scheme" as set out in note 31 to the consolidated financial statements, at no time during the Reporting Period was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate and neither the Directors nor the Chief Executives, or any of their spouses or children under the age of 18, had any rights to subscribe for the equity or debt securities of the Company, or had exercised any such rights.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2016, the register of substantial Shareholder maintained by the Company pursuant to Section 336 of the SFO shows that the following Shareholder had notified the Company of relevant interests in the issued share capital of the Company.

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

Name of substantial Shareholder	Capacity	Number of shares and underlying shares held	Percentage of shareholding
Mr. Li Weimin (Note)	Beneficial owner	9,182,985,823	66.12%

Note: Mr. Li Weimin ("Mr. Li") is interested in 9,182,985,823 shares, consisting of (i) an interest in 1,742,985,823 shares beneficially owned and held in his own name; and (ii) a derivative interest in 7,440,000,000 conversion shares to be allotted and issued upon full conversion of the outstanding convertible notes issued to him by the Company with an aggregate principal amount of HK$260,400,000.

Save as disclosed above, the Company had not been notified any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO as at 31 December 2016.

Report of the Directors

SHARE OPTION SCHEME

At the Company's annual general meeting held on 8 June 2012, the Company terminated the old share option scheme and adopted a new share option scheme. Details are set out in note 31 to the consolidated financial statements.

MANAGEMENT CONTRACTS

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

CONNECTED TRANSACTION

Reference is made to the announcements dated 23 September 2009, 14 November 2014, 17 November 2014 and 9 January 2015, and the circulars dated 19 October 2009 and 19 December 2014 of the Company in relation to, among other things, (1) the issue of the convertible notes; and (2) the alteration of certain terms and conditions of the then outstanding convertible notes. Pursuant to the sale and purchase agreement dated 13 September 2009 entered into among the Company, Top Victory Industries Limited (which was a wholly-owned subsidiary of the Company and the purchaser) and Mr. Li (as the vendor) in relation to acquisition of the entire issued share capital of CLI, on 16 November 2009, the Company issued the convertible notes in the total principal amount of HK$950,400,000 for partial settlement of the consideration for the acquisition of CLI. Pursuant to the deed of variation dated 14 November 2014 entered into between the Company and Mr. Li, the holder of the outstanding convertible notes, in relation to the alteration of certain terms and conditions of the then outstanding convertible notes, on 9 January 2015, the maturity date of the then outstanding convertible notes was extended from 15 November 2014 to 31 December 2016 and the original conversion price of HK$0.12 per share was adjusted to the conversion price of HK$0.035 per share.

On 14 December 2016, the convertible notes in an aggregate principal amount of HK$260,400,000 are outstanding and held by Mr. Li, the sole convertible notes holder. The Company and Mr. Li entered into the deed of further variation (the "Deed of Further Variation"), pursuant to which it was agreed that, subject to the fulfilment of conditions precedent, the maturity date of the outstanding convertible notes in the principal amount of HK$260,400,000 would be extended from 31 December 2016 to 31 January 2019. On 16 January 2017, the ordinary resolution of the special general meeting was duly passed and the extension of the maturity date of the outstanding convertible notes became effective. For details, please refer to paragraphs headed "Business and Financial Review" in the Management Discussion and Analysis on page 4 of this report, notes 1 and 27 to the consolidated financial statement, the announcements of the Company dated 14 December 2016 and 16 January 2017, as well as the circular of the Company dated 29 December 2016.

Report of the Directors

As at 14 December 2016, Mr. Li was interested in approximately 12.55% of the total issued share capital of the Company and a substantial Shareholder. In addition, he resigned as the Chairman and an executive Director with effect from 26 February 2016. As Mr. Li is a connected person of the Company, the entering into of the Deed of Further Variation constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. Therefore, the entering into of the Deed of Further Variation and the transactions contemplated thereunder were subject to reporting, announcement and the independent Shareholders' approval requirements pursuant to the Listing Rules.

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The environmental, social and governance report (the "ESG Report") mainly covers the environmental and social responsibility aspects underlying the Group's business operations in Hong Kong for the Reporting Period. The ESG Report is prepared with reference to the Environmental, Social and Governance Reporting Guide as set out in Appendix 27 of the Listing Rules (the "Appendix 27"). The Company has complied with the "comply or explain" provisions as set out in the Appendix 27 during the Reporting Period. For details of the Group's corporate governance matters, please refer to the Corporate Governance Report on pages 25 to 36 of this report.

The Group has been consistently striving to realise the long-term sustainable development of the Group's business in electronic products. The Group's core values are legal and regulatory compliance, cooperation with integrity and care for society. While maintaining the interests of its stakeholders, the Group simultaneously shows concern for environmental, social and governance issues.

Communication with Stakeholders

To allow stakeholders, such as employees, customers, suppliers, investors and business partners etc., to gain a better understanding of the Group's business philosophy, business performance, development and environmental, social and governance practices, the Group communicates with stakeholders in a timely, comprehensive and efficient manner through a variety of channels, including interviews, telephone conferences and email etc.. The Group also proactively discloses more information about the Group via announcements, notices, circulars, company publications and reports etc.. Stakeholders may browse the Group's website at www.irasia.com/listco/hk/ruixin or contact the Group to obtain more information.

Report of the Directors

Environment

Climate change is becoming increasingly serious. Curbing global warming has become an important issue globally. In coordination with the global goal of reducing emissions of greenhouse gases, the Group complies strictly with the environmental laws and regulations of Hong Kong and has prepared comprehensive environmental policies to serve as a foundation for environmental management. The Group considers the relevant environmental aspects in its operating activities, formulating effective measures for conserving energy and water, reducing waste generation and investing resources proactively to reduce the impact of its operations on the environment. During the Reporting Period, the Group was not prosecuted for violations of environmental laws and regulations, nor did it receive other environmental complaints.

Energy conservation and emissions reduction

For energy management, power consumption is the Group's main source of greenhouse gas emissions. The Group focuses on improving energy efficiency, including selecting products with better energy efficiency when replacing electrical equipment, partitioning lighting areas based on actual operating needs, turning off unnecessary electrical appliances or setting them in a sleep state during idle periods, maintaining a room temperature of 25.5°C and installing timing devices in some equipment for automatic shutdown during non-office hours to avoid unnecessary energy consumption. By regularly cleaning, maintaining and repairing equipment, the Group increases its operational efficiency and reduces energy wastage caused by abnormal operations.

For waste management, the Group advocates the management approaches of efficient use of resources to reduce waste. The Group's business operations during the Reporting Period did not produce any hazardous waste. Where feasible, all harmless materials are sorted and recycled for reuse, including single-sided paper, envelopes and folders etc.. Recyclable waste is sorted and environmental recyclers are engaged to come to recycle such waste. Additionally, non-recyclable waste is disposed of properly.

For management of business travelling, technological developments help the Group promote conservation management in business travels. The Group actively uses video conference call system platforms and email discussions to replace unnecessary business travels, indirectly reducing the emissions of exhaust and greenhouse gases generated by transportation.

During operations, the Group provides all of its employees with guidelines for energy conservation and emission reduction via policy promotion, posts reminders telling employees to conserve energy more frequently and encourages employees to attend environmental training held by environmental groups and professionals to keep pace with contemporary developments. By establishing a culture of environmental protection and developing habitual behaviours within the Group, environmental awareness is promoted to families and the community.

Report of the Directors

Resource usage

Earth's resources are limited. While promoting its business in electronic products, the Group is also constantly probing its own operations to determine how to use resources, such as drinking water and paper etc., more efficiently to avoid waste.

For water management, although the Group's business operations involve only the use of general drinking water, the Group remains concerned about the use of water resources. It posts tips in prominent locations in the workplace to remind employees to conserve water more frequently.

For paper conservation, in coordination with society's advocacy of the environmental concepts of "Use Less, Waste Less", the Group actively promotes green filing and records, encouraging its employees to use their computers to review files rather than printing them and to print on both sides of the paper when possible. Where feasible, a green procurement model adopting the Internet or email is used.

Environment and natural resources

The Group strives to reduce the impact of its operations on the environment and natural resources. It implements management controls with regard to relevant environmental factors with the participation of employees and the cooperation of suppliers with a view to effective environmental management.

For employee participation, the Group appoints dedicated staff to emphasise actions for conserving energy and reducing emissions in work, deliver timely environmental information and publicise the details on seminars and events held by environmental groups and policy institutions to the employees via email, notices and meetings from time to time. The Group hopes to strengthen employees' environmental awareness, establish a corporate culture and cultivate habits via education and promotion, allowing employees to embed environmental considerations in operating activities and policy development. For example, employees are already accustomed to purchasing refillable consumables, actively reducing plastic waste.

For supplier cooperation, with regard to external partners, while meeting its operating requirements, the Group gives priority to local suppliers and prefers to cooperate with suppliers who have obtained the ISO 14001 environmental management system certification for the joint promotion of environmental protection work.

Workplace

The Group respects the rights of all of its employees and strives to provide a safe and fair working environment free of discrimination and harassment, actively building harmonious employment relationships. During the Reporting Period, the Group was not prosecuted for violations of relevant employment laws and regulations, nor did it receive other complaints related to employment relations.

Report of the Directors

Employment

The Group strives to provide its employees with fair treatment with regard to appointments, promotions, pay, benefits and development training etc.. The Group has complete and highly transparent employment policies. Attractive compensation is provided based on local policies, performance and related market remuneration data while balancing the circumstances within and outside of the Group. In step with the principle of equal employment opportunities, any person can receive equal employment opportunities regardless of their ethnicity, skin colour, religion, sex, nationality, age, marital status, sexual orientation, disability or physical condition etc.. This includes recruitment, development, promotion, training and other employment decisions.

The Group provides employees with reasonable and legal remuneration based on their contracts, including salary and various types of allowances. It also provides employees with retirement protection plans in accordance with the law. The Group dismisses employees based solely on reasonable and legitimate reasons and provides notification of the termination of the employment contract between the parties in writing. All remuneration and compensation are consistent with legal and regulatory requirements.

The Group readily builds a working environment that balances work and life for its employees. It does not force employees to work overtime and holds birthday parties, festive gatherings and other activities for employees to strengthen team cohesion. In addition to providing the basic employee benefits required by laws and regulations, the Group provides employees with additional medical insurance and annual leave, sick leave, marriage leave and funeral leave etc..

Through the annual performance review system, employees can review their work practice over the previous year and plan their future work development. This is a key aspect of management in the Group’s operations.

Equal opportunity

The Group continues to promote policies for equal opportunity and pluralism. There is no discrimination or harassment with regard to ethnicity, skin colour, religion, sex, nationality, age, marital status, sexual orientation, disability or physical condition etc. in any work, allowing employees to work in an equal workplace. The Group also uses a performance-based review system as the basis for evaluating pay and promotion. There is no discrimination, allowing all employees to obtain fair development opportunities.

Through sound recruitment mechanisms, the Group is able to verify the ages of applicants effectively, eliminating the use of child labour. The Group also prohibits any servitude or forced labour, ensuring that employees are participating in work voluntarily. Recruitment is based on impartiality and free will. The recruitment of employees through coercion or deception is prohibited.

Occupational safety and health

The Group consistently places the occupational safety and health of its employees first, complying strictly with the requirements of all applicable occupational safety and health laws and regulations and proactively building safe working environments to achieve the goal of "zero accidents" in the workplace. During the Reporting Period, the Group did not have any work deaths or work injury/losses. It was also not prosecuted for violations of relevant occupational safety and health laws and regulations, nor did it receive other complaints related to working conditions.

For safety and health management, while complying with the requirements of existing occupational safety and health laws and regulations, where feasible, the Group also implements further improvements, such as installing air purifiers to improve indoor air quality, regularly cleaning carpets, drinking fountains and air conditioning systems, and regularly arranging pest control to prevent pests from breeding etc..

For employee participation, by establishing mutual trust and sincere communication with employees, the Group strives to improve the standard of safety and health in the workplace to develop a positive, safe and healthy culture. The Group requires employees to execute strictly the Group's established occupational safety and fire safety regulations. Through knowledge and experience sharing, the Group continually improves employees' knowledge, awareness and behaviour with regard to safety and hazard management.

For mutual monitoring, the Group encourages employees to report safety and health risks in the workplace, arranging dedicated staff to follow up issues immediately and implementing effective corrective or control measures. Additionally, when contractors are working in the Group's workplace, the Group also dispatches personnel to supervise contractors and prevent any unsafe activities from endangering employee safety.

For emergency preparedness, the Group trusts that its complete emergency planning and preparations can reduce the casualties that may be caused by accidents. The Group posts exit route maps in prominent locations in the workplace, encourages employees to participate in the fire testing and escape drills organised by the building's management office each year, frequently confirms that fire escapes are unobstructed, provides sufficient firefighting equipment and conducts periodic inspections to ensure that such equipment is located in a position where it can be used at all times and remains in good condition. When necessary, replacements are arranged. All employees must undergo training on the use of the firefighting equipment. In accordance with statutory requirements, the Group also places first aid kits in the workplace that are equipped with the first aid items required by the law for use by employees when necessary.

Report of the Directors

Employee training and development

The Group is deeply aware that improving human resource quality and inspiring staff potential are keys to the sustainable long-term development of its business. The Group provides on-the-job training and guidance for new employees, arranging experienced employees to supervise them until they have the ability to work independently. The Group also continually reviews the training and education needs of employees, helping employees plan their career development and encouraging employees to participate in professional lectures, seminars and training courses to enhance their ability to respond to different challenges.

Business partners

The Group's supplier management approaches emphasise communication, cooperation and joint growth. The outsourced electronic products production workshop located in Dongguan is the main subcontractor for the Group's business in electronic products. It is also a key partner of the Group. The Group assigns personnel to go on site to supervise production quality and track delivery times, providing a foundation for high-quality products for the Group's customers. At the same time, the outsourced production workshop has also obtained the ISO 9001 quality management system and ISO 14001 environmental management system certifications. The potential environmental impact of the production process is effectively monitored and managed. The Group encourages its suppliers to continue to improve and meet the relevant environmental, occupational safety and health and employment laws and regulations of their countries. Imported products must satisfy local laws and regulations.

The Group also pays attention to the views of customers regarding the products sold by the Group. Customers may convey their opinions or complaints via established communication channels. The Group deeply investigates and creates reports based on this feedback to take corrective measures when necessary. The Group also maintains close contact with suppliers, strengthening cooperation with suppliers to enhance their capability to supply environmentally friendly products. The Group further evaluates the performance of its suppliers annually to make improvement requests.

The Group complies strictly with the relevant product liability legislation. During the Reporting Period, there were no cases of prosecution for violating product liability or privacy-related legislation.

Society

As a company that conducts business with a responsible attitude, the Group is well aware that it must shoulder its social responsibility and join forces to promote the sustainable, long-term development of Hong Kong. The Group focuses on understanding social needs and responds to interested parties as a strategy for community development.

Report of the Directors

Community development

The Group focuses on supporting the fundraising activities of local social welfare institutions and encourages employees to participate in volunteer work, nurturing a culture of care and mutual support.

The Group supports the Mooncakes for Charity fundraising activity of the Community Chest of Hong Kong by ordering mooncake coupons. Through the Community Chest of Hong Kong, the Group transmits care to social welfare institutions, benefiting the needy.

Ethical conduct

The Group adheres to the values of cooperation with integrity, promoting honest business, fair competition and joining forces to maintain a fair and honest society. Through the internal control manuals approved by the Board, the Group specifies the ethical conduct of its employees. Employees must complete a declaration form upon joining the Group and annually thereafter to declare any existing or potential conflicts of interest with the Group. In accordance with the Listing Rules, the Group also considers the diversity of the members of its Board. The Group does not permit any corruption or bribery. In the director contract, the Group demands that directors not use the Group's property or status for personal gain in any way or act in any way detrimental to the Group. Directors and employees are also required to comply with agreements on confidential information. Simultaneously, the Group has established internal reporting channels and encourages employees to provide feedback on potential fraud or other ethical issues. Such reports are transmitted directly to the executive Director for follow-up, investigation and reporting. Corrective measures are taken. Complainants do not suffer any consequences and their identities are kept confidential. The Group also encourages employees to attend anti-corruption lectures held by the Independent Commission Against Corruption, strengthening their awareness of corruption prevention and allowing them to learn more operating routines.

The Group implements continuous risk management. The Audit Committee performs annual risk assessments to identify potential risks in operations (such as financial risks) and formulate corresponding management measures. At the same time, the Group also uses a comprehensive internal control system, setting operational standards for the Group's various financial activities. For example, service contracts of different amounts must be approved by authorised personnel on different levels based on the Group's internal control manuals. During the Reporting Period, the Group engaged an external independent consultant to review the Group's risk management and internal control systems. Additionally, the Group appoints independent auditor to carry out audits annually and ensure that the financial statements give a true and fair view.

Any employee who violates relevant laws and regulations may be fined, publicly announced or subject to disciplinary action. The Group strictly complies with the relevant anti-bribery laws and regulations. During the Reporting Period, the Group was not prosecuted for violations of relevant legislation.

Report of the Directors

Outlook

The Group will continue to aim to become a sustainable enterprise, to shoulder its responsibility to improve its environmental, social and governance performance, to cooperate actively with government policy and to encourage participation in activities held by related groups. In accordance with the Appendix 27, the Group will deepen its reports to key performance indicators in the future, sharing the Group's environmental, social and governance information with the public.

SUFFICIENCY OF PUBLIC FLOAT

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

AUDITOR

SHINEWING (HK) CPA Limited will retire and, being eligible, will offer themselves for re-appointment as auditor of the Company at the 2017 AGM.

On behalf of the Board

Wang Zhaofeng
Chairman

Hong Kong, 24 March 2017

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

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

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

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

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

BOARD OF DIRECTORS

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

Corporate Governance Report

During the Reporting Period, the attendance of the Directors at the Board meetings, Audit Committee meetings, Remuneration Committee meetings, Nomination Committee meetings, Investment Committee meeting and the Company's annual general meeting held on 6 June 2016 ("2016 AGM") is given below and their respective responsibilities are discussed later in this report.

		No. of meetings attended/held					
		2016 AGM	Board meetings	Audit Committee meetings	Remuneration Committee meetings	Nomination Committee meetings	Investment Committee meeting
Executive Directors							
Mr. Wang Zhaofeng		1/1	11/11	N/A	N/A	3/3	N/A
Mr. Lam Yat Keung		1/1	11/11	N/A	N/A	N/A	N/A
Mr. Huang Hanshui		1/1	11/11	N/A	N/A	N/A	N/A
Mr. Li Weimin	(resigned on 26 February 2016)	note 1	2/11	N/A	N/A	N/A	N/A
Independent non-executive Directors							
Mr. Ho Chi Fai		1/1	11/11	2/2	4/4	N/A	1/1
Ms. Liu Yanfang		1/1	11/11	2/2	4/4	3/3	1/1
Mr. Zhang Jue	(appointed on 20 February 2016)	1/1	10/11	2/2	3/4	2/3	1/1
Professor Ma Hongwei	(resigned on 20 February 2016)	note 2	1/11	note 2	1/4	1/3	note 2

Notes:

1. Mr. Li Weimin resigned as the Chairman and an executive Director before holding of the 2016 AGM.

2. Professor Ma Hongwei resigned as an independent non-executive Director, a member of each of the Audit Committee and the Nomination Committee, and the chairman and a member of each of the Remuneration Committee and the Investment Committee before holding of the 2016 AGM, the Audit Committee meetings and the Investment Committee meeting.

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

Corporate Governance Report

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

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

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

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

The Company has received from each independent non-executive Director an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules and the Company is of the opinion that the independent status of them remains intact as at 31 December 2016.

DIRECTORS' TRAINING

The Director newly appointed during the Reporting Period has received induction on the first occasion of his appointment, so as to ensure that he has appropriate understanding of the business and operations of the Company and that he is fully aware of his responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

Corporate Governance Report

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

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

DIRECTORS' INSURANCE

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

Corporate Governance Report

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

During the Reporting Period, as announced by the Company on 26 February 2016, with effect from 26 February 2016, Mr. Li Weimin resigned as the Chairman and an executive Director and Mr. Wang Zhaofeng was appointed as the Chairman.

APPOINTMENT, RE-ELECTION AND REMOVAL

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

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

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

Corporate Governance Report

NOMINATION COMMITTEE

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

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

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

During the Reporting Period, three Nomination Committee meetings were held to review the structure, size and composition of the Board, the retirement and re-appointment arrangement of the Directors in the 2016 AGM, review the effectiveness of the Board Diversity Policy and make recommendations to the Board for consideration of appointment of a new Director. The terms of reference of the Nomination Committee are consistent with the terms set out in the relevant section of the CG Code.

Corporate Governance Report

REMUNERATION COMMITTEE

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

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

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

AUDIT COMMITTEE

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

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

During the Reporting Period, two Audit Committee meetings were held to review the interim and final results of the Group, the financial reporting matters as well as the risk management and internal control systems of the Group. The terms of reference of the Audit Committee are consistent with the terms set out in the relevant section of the CG Code.

Corporate Governance Report

AUDITOR'S REMUNERATION

The statement of the external auditor of the Company about its reporting responsibilities on the financial statements is set out in the "Independent Auditor's Report" on pages 37 to 42 of this report.

For the Reporting Period, the fee paid/payable to the external auditor of the Company, SHINEWING (HK) CPA Limited and its affiliate company in respect of audit and non-audit services provided by them to the Group, are set out below:

	HK$'000
Audit services	736
Non-audit services:	
– Taxation services	98
– 2016 interim review	66
– Others	29
	193
	929

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as its own code of conduct regarding securities transactions by Directors. Having made specific enquiry of the Directors, all the Directors confirmed that they had complied with the required standards as set out in the Model Code for the Reporting Period.

Corporate Governance Report

CORPORATE GOVERNANCE FUNCTIONS

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

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

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

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

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

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

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

GOING CONCERN BASIS

Under the Code Provision C.1.3 of the CG Code, the Directors are responsible for preparing the accounts, and where the Directors are aware of material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern, this should be disclosed and discussed.

The convertible notes with outstanding principal amount of HK$260.4 million were matured on 31 December 2016. In addition, the Group incurred a loss of approximately HK$66.7 million, resulting in net current liabilities of approximately HK$3.2 million as at 31 December 2016. However, subsequent to the Reporting Period, the maturity date of the convertible notes was extended to 31 January 2019. Accordingly, the consolidated financial statements for the Reporting Period have been prepared on a going concern basis. Details are set out in the paragraphs headed "Business and Financial Review" in Management Discussion and Analysis on page 4 of this report and in note 1 to the consolidated financial statements.

Corporate Governance Report

RESPONSIBILITY FOR PREPARATION AND REPORTING OF FINANCIAL STATEMENTS

The management has regularly provided explanation and information to the Board so as to enable the Board to make an informed assessment of the financial and other information put before the Board for approval. The Directors acknowledge their responsibility for preparing the financial statements and presenting a balanced, clear and understandable assessment of the Company's annual and interim reports, other financial disclosures required under the Listing Rules and reports to regulators. The statement by the auditor of the Company regarding their reporting responsibilities on the consolidated financial statements of the Group is set out in the "Independent Auditor's Report" on pages 37 to 42 of this report.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges its responsibility for the risk management and internal control systems and for reviewing their effectiveness. The Group emphasises the importance of sound risk management and internal control systems which are indispensable for mitigating the Group's key risk exposures. The Group's risk management and internal control systems include a defined management structure with limits of authority, and are designed for the Group to identify and manage the significant risks to achieve its business objectives. The systems are designed to provide reasonable, but not absolute, assurance against material misstatement or loss, and to manage rather than eliminate risks of failure in the Group's operational systems and in the achievement of the Group's business objectives.

The Group has adopted a three-tier risk management approach to identify, assess and manage different types of risks. The Group is committed to the identification, evaluating, and management of risks associated with its business activities through ongoing assessment of a risk register, by considering the likelihood and impact of each identified risk. For any identified significant risks, the Group will evaluate its financial or operational impacts to the Group and adopt mitigation measures to manage such risks.

The Group has developed an internal control system, which covers major financial, operational and compliance controls to safeguard its assets against unauthorised use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensure compliance with relevant laws and regulations. The internal control system is reviewed on an ongoing basis by the Board and the Audit Committee annually. For any identified internal control weaknesses or defects, the Group will enhance control measures to rectify such control weaknesses or defects.

Under the Code Provision C.2.5 of the CG Code, the Group should have an internal audit function. The Group has conducted an annual review of the need for setting up an internal audit department. Given the Group's simple operating structure, it was decided that the Board, supported by the Audit Committee, would be directly responsible for risk management and internal control systems of the Group.

Corporate Governance Report

During the Reporting Period, the Company engaged an external independent consultant to conduct an independent review on the risk management and internal control systems of the Group. Appropriate measures have been put in place to manage the risks and no material control weaknesses or defects were found. Risk assessment report and internal control report were submitted to and approved by the Board and the Audit Committee.

The Board through the Audit Committee and the external independent consultant had conducted an annual review on the risk management and internal control systems of the Group. The review covered material controls, including financial, operational and compliance controls and risk management functions of the Group. The Board considered that the risk management and internal control systems of the Group were effective during the Reporting Period. The improvement of the systems of risk management and internal control is an ongoing process and the Board maintains a continuing commitment to strengthen the Group's control environment and processes.

Procedures and internal controls for the handling and dissemination of inside information

The Group has put in place the procedures and internal controls for the handling and dissemination of inside information. The Group complies with requirements of the SFO and the Listing Rules during the Reporting Period. The Group discloses inside information to the public as soon as reasonably practicable unless the information falls within any of the safe harbours as provided in the SFO. Before the information is fully disclosed to the public, the Group ensures the information is kept strictly confidential. If the Group believes that the necessary degree of confidentiality cannot be maintained or that confidentiality may have been breached, the Group would immediately disclose the information to the public. The Group is committed to ensure that information contained in announcements or circulars are not false or misleading as to a material fact, or false or misleading through the omission of a material fact in view of presenting information in a clear and balanced way, which requires equal disclosure of both positive and negative facts.

COMPANY SECRETARY

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

COMMUNICATION WITH SHAREHOLDERS

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

Corporate Governance Report

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

SHAREHOLDERS' RIGHTS

Convening a special general meeting by Shareholders

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

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

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

Putting forward proposals at general meetings

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

Putting forward enquiries to the Board

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

Independent Auditor's Report

信永中和 ShineWing

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

TO THE MEMBERS OF
RUIXIN INTERNATIONAL HOLDINGS LIMITED
(FORMERLY KNOWN AS SINO-TECH INTERNATIONAL HOLDINGS LIMITED)
(incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Ruixin International Holdings Limited (formerly known as Sino-Tech International Holdings Limited) (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 43 to 117, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code") and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independent Auditor's Report

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Recoverability of trade and bills receivables

Refer to note 20 to the consolidated financial statements and the accounting policies on pages 67 to 68.

The key audit matter	How the matter was addressed in our audit
As at 31 December 2016, the Group had significant trade and bills receivables of approximately HK$167,682,000. In view of the significant balance which accounted for approximately 53% of total current assets, the recoverability of trade receivables posed significant risk on the Group's liquidity. Besides, the impairment assessment of the trade and bills receivables required a significant level of management judgement.	Our audit procedures were designed to review the management's assessment of the indicators of impairment and challenge the reasonableness of the methods and assumptions used to estimate the allowance for doubtful debts. We have discussed the indicators of possible impairment with the management and, where such indicators were identified, assessed the management's impairment testing. We have challenged the assumptions and critical judgement used by the management by assessing the reliability of the management's past estimates and taking into account the ageing at year end and subsequent settlements received after year end, as well as the recent creditworthiness of each debtor.

Independent Auditor's Report

Valuation of inventories

Refer to note 19 to the consolidated financial statements and the accounting policies on page 65.

The key audit matter	How the matter was addressed in our audit
As at 31 December 2016, the Group maintained a significant level of inventories of approximately HK$80,847,000, which accounted for approximately 26% of total current assets. The demand for the products and the ability of the Group to sell these inventories in the future may be adversely affected by many factors including changes in customer and consumer preferences, competitor activity including pricing and the introduction of new products and technology. The level of judgement involved in determining whether a provision should be recognised and how it should be measured which resulted in inventory provisions being one of the key areas audit matters.	Our audit procedures were designed to assess the methodology and assumptions used by the management in calculating the inventory provisions. We reviewed management's identification of slow moving and obsolete inventories, and critically assessed whether appropriate provisions had been established for slow moving and obsolete items. When considering management's assessment, we have also taken into account the most recent prices achieved on sales across the products lines. We considered whether we would expect a change to the methodology and assumptions based on any changes compared to those used in prior years. We also assessed the reliability of management's assessment by considering the utilisation or release of previously recorded provisions.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Independent Auditor's Report

RESPONSIBILITIES OF DIRECTORS OF THE COMPANY AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion, solely to you, as a body, in accordance with Section 90 of the Bermuda Company Act and our agreed terms of 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of the Company.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Independent Auditor's Report

The engagement partner on the audit resulting in this independent auditor's report is Wong Hon Kei, Anthony.

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

Hong Kong
24 March 2017

Consolidated Statement of Profit or Loss

For the year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
Revenue	7	**478,845**	545,055
Cost of sales		**(457,869)**	(512,435)
Gross profit		**20,976**	32,620
Other income	8	**14,447**	192
Gain on modification of terms of convertible notes	27	**–**	27,821
Distribution costs		**(20,938)**	(20,375)
Administrative expenses		**(50,356)**	(50,079)
Share of results of joint ventures		**(1,712)**	(678)
Other expenses		**(6)**	(424)
Finance costs	9	**(12,422)**	(12,288)
Loss before taxation		**(50,011)**	(23,211)
Taxation	10	**(16,692)**	–
Loss for the year attributable to owners of the Company	11	**(66,703)**	(23,211)
Loss per share			
Basic and diluted (HK cents)	14	**(0.48)**	(0.18)

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016

	2016 HK$'000	2015 HK$'000
Loss for the year	**(66,703)**	(23,211)
Other comprehensive income for the year		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of foreign operations	**548**	264
Total comprehensive expenses for the year attributable to owners of the Company	**(66,155)**	(22,947)

Consolidated Statement of Financial Position

As at 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
Non-current assets			
Property, plant and equipment	17	**15,407**	25,248
Interests in joint ventures	18	**2,594**	4,306
		18,001	29,554
Current assets			
Inventories	19	**80,847**	86,098
Trade and bills receivables	20	**167,682**	212,304
Prepayments, deposits and other receivables	21	**3,385**	2,975
Tax recoverable		**–**	10,127
Amounts due from former subsidiaries	22	**–**	–
Deposits in other financial institutions	23	**446**	446
Bank balances and cash	24	**64,387**	66,813
		316,747	378,763
Current liabilities			
Trade and bills payables	25	**46,664**	60,144
Other payables and accruals	26	**10,414**	12,342
Amount due to a joint venture	35(a)	**2,495**	2,519
Amounts due to former subsidiaries	22	**–**	4,417
Convertible notes	27	**260,400**	247,978
		319,973	327,400
Net current (liabilities) assets		**(3,226)**	51,363
Total assets less current liabilities		**14,775**	80,917

Consolidated Statement of Financial Position

As at 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
Non-current liability			
Employee benefits	28	157	144
Net assets		14,618	80,773
Capital and reserves			
Share capital	30	138,892	138,892
Reserves		(124,274)	(58,119)
Total equity		14,618	80,773

The consolidated financial statements on pages 43 to 117 were approved and authorised for issue by the board of directors on 24 March 2017 and are signed on its behalf by:

Director	*Director*
Lam Yat Keung	**Huang Hanshui**

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

	Attributable to owners of the Company							
	Share capital HK$'000	Share premium HK$'000	Contributed surplus (note a) HK$'000	Share-based compensation reserve HK$'000	Foreign exchange reserve HK$'000	Convertible notes reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2015	119,667	2,210,494	5,800	40,046	(33)	92,707	(2,437,183)	31,498
Loss for the year	–	–	–	–	–	–	(23,211)	(23,211)
Other comprehensive income for the year								
Exchange differences arising on translation of foreign operations	–	–	–	–	264	–	–	264
Total comprehensive income (expense) for the year	–	–	–	–	264	–	(23,211)	(22,947)
Derecognition upon modification of terms of convertible notes (note 27)	–	–	–	–	–	(92,707)	92,707	–
Recognition upon modification of terms of convertible notes (note 27)	–	–	–	–	–	57,442	(57,442)	–
Issue of new shares upon conversion of convertible notes (note 27 and note 30(a))	12,000	34,866	–	–	–	(7,978)	–	38,888
Issue of new shares on subscriptions	7,225	26,733	–	–	–	–	–	33,958
Transaction costs attributable to issue of new shares on subcriptions	–	(810)	–	–	–	–	–	(810)
Share options lapsed	–	–	–	(18,378)	–	–	18,378	–
Unclaimed dividend forfeited (note b)	–	–	–	–	–	–	186	186
At 31 December 2015 and 1 January 2016	138,892	2,271,283	5,800	21,668	231	49,464	(2,406,565)	80,773
Loss for the year	–	–	–	–	–	–	(66,703)	(66,703)
Other comprehensive income for the year								
Exchange differences arising on translation of foreign operations	–	–	–	–	548	–	–	548
Total comprehensive income (expense) for the year	–	–	–	–	548	–	(66,703)	(66,155)
At 31 December 2016	138,892	2,271,283	5,800	21,668	779	49,464	(2,473,268)	14,618

Notes:

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

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	2016 HK$'000	2015 HK$'000
OPERATING ACTIVITIES		
Loss before taxation	**(50,011)**	(23,211)
Adjustments for:		
Bank interest income	**(10)**	(8)
Finance costs	**12,422**	12,288
Depreciation of property, plant and equipment	**9,863**	13,312
Gain on modification of terms of convertible notes	**–**	(27,821)
Share of results of joint ventures	**1,712**	678
Impairment loss on property, plant and equipment	**–**	224
(Reversal of) impairment loss on trade receivables	**(193)**	1,385
Reversal of impairment loss on amounts due from former subsidiaries	**(9,161)**	–
Write-back of accruals	**(613)**	–
Net (gain) loss on disposals of property, plant and equipment	**(11)**	198
Write-offs of property, plant and equipment	**6**	2
Write-back of amounts due to former subsidiaries	**(4,417)**	–
Operating cash flows before working capital changes	**(40,413)**	(22,953)
Decrease in inventories	**5,251**	22,141
Decrease (increase) in trade and bills receivables	**44,712**	(8,911)
Increase in prepayments, deposits and other receivables	**(410)**	(276)
(Decrease) increase in trade and bills payables	**(13,377)**	12,597
Decrease in other payables and accruals	**(1,315)**	(1,334)
Increase in non-current employee benefits	**13**	1
Cash (used in) generated from operations	**(5,539)**	1,265
Purchase of tax reserve certificate	**–**	(5,217)
Hong Kong Profits Tax refunded	**960**	–
Hong Kong Profits Tax paid	**(7,525)**	–
NET CASH USED IN OPERATING ACTIVITIES	**(12,104)**	(3,952)

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	2016 HK$'000	2015 HK$'000
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(425)**	(10,517)
(Advance to) repayment from a joint venture	**(24)**	31
Proceeds from disposals of property, plant and equipment	**361**	136
Bank interest received	**10**	8
Repayment from former subsidiaries	**9,161**	–
NET CASH FROM (USED IN) INVESTING ACTIVITIES	**9,083**	(10,342)
FINANCING ACTIVITIES		
Net proceeds from issue of shares on subscriptions	**–**	33,148
Advance from a joint venture	**–**	2,519
Repayment of obligations under finance leases	**–**	(4)
Interest paid on obligations under finance leases	**–**	(1)
NET CASH FROM FINANCING ACTIVITIES	**–**	35,662
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(3,021)**	21,368
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**66,813**	45,097
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**595**	348
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, representing bank balances and cash	**64,387**	66,813

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

1. GENERAL AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

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

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

Pursuant to a special resolution passed at the Company's annual general meeting held on 6 June 2016, the English name of the Company was changed from Sino-Tech International Holdings Limited to Ruixin International Holdings Limited and the adoption of the Chinese name 瑞鑫國際集團有限公司 as the secondary name of the Company which took effect on 7 June 2016.

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

The Company is an investment holding company and the principal activities of its subsidiaries (together with the Company hereinafter referred to as the "Group") are set out in note 37.

Going concern basis

In preparing the consolidated financial statements, the directors of the Company (the "Director(s)") have given consideration to the future liquidity of the Group.

The Group incurred a loss attributable to the owners of the Company of approximately HK$66,703,000 for the year ended 31 December 2016. In addition, the convertible notes with outstanding principal amount of HK$260,400,000 were matured on 31 December 2016, resulting in net current liabilities of approximately HK$3,226,000 as at 31 December 2016.

Subsequent to the year ended 31 December 2016, the maturity date of the abovementioned convertible notes was extended to 31 January 2019 pursuant to the relevant ordinary resolution duly passed on 16 January 2017 at a special general meeting of the Company. Details of the alternation of terms of convertible notes are set out in the announcements of the Company dated 14 December 2016 and 16 January 2017, and the circular of the Company dated 29 December 2016. The Directors consider that the Group will be able to finance its future working capital and to fulfill its financial obligations when they fall due.

The Directors are of the opinion that it is still appropriate to prepare the consolidated financial statements for the year ended 31 December 2016 on a going concern basis by taking into consideration of the above. The consolidated financial statements do not include any adjustments relating to the carrying amounts and reclassification of assets and liabilities that might be necessary should the Group be unable to continue as a going concern.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)")

In the current year, the Group has applied for the first time the following amendments to HKFRSs which include HKFRSs, Hong Kong Accounting Standards ("HKAS(s)"), amendments and interpretations, issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Amendments to HKFRSs	Annual Improvements to HKFRSs 2012 – 2014 Cycle
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKAS 27	Equity Method in Separate Financial Statements
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations

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

New and revised HKFRSs issued but not yet effective

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

HKFRS 9 (2014)	Financial Instruments[2]
HKFRS 15	Revenue from Contracts with Customers[2]
HKFRS 16	Leases[3]
Amendments to HKAS 7	Disclosure Initiative[1]
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[2]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[2]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2014-2016 Cycle[5]

1 Effective for annual periods beginning on or after 1 January 2017.

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

3 Effective for annual periods beginning on or after 1 January 2019.

4 Effective date not yet been determined.

5 Amendments to HKFRS 12 are effective for annual periods beginning on or after 1 January 2017, and amendments to HKFRS 1 and amendments to HKAS 28 are effective for annual periods beginning on or after 1 January 2018.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)") *(Continued)*

New and revised HKFRSs issued but not yet effective *(Continued)*

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

HKFRS 9 (2014) Financial Instruments

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)") *(Continued)*

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)") *(Continued)*

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

The Directors do not anticipate that the adoption of HKFRS 9 (2014) in the future may have significant impact on amounts reported in respect of the Group's financial assets and financial liabilities.

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

HKFRS 15 Revenue from Contracts with Customers

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

(i) Identify the contract with the customer;

(ii) Identify the performance obligations in the contract;

(iii) Determine the transaction price;

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

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

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

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

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)") *(Continued)*

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

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

HKFRS 16 Leases

HKFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessors and lessees.

In respect of the lessee accounting, the standard introduces a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases with the lease term of more than 12 months, unless the underlying asset has a low value.

At the commencement date of the lease, the lessee is required to recognise a right-of-use asset at cost, which consists of the amount of the initial measurement of the lease liability, plus any lease payments made to the lessor at or before the commencement date less any lease incentives received, the initial estimate of restoration costs and any initial direct costs incurred by the lessee. A lease liability is initially recognised at the present value of the lease payments that are not paid at that date.

Subsequently, the right-of-use asset is measured at cost less any accumulated depreciation and any accumulated impairment losses, and adjusted for any remeasurement of the lease liability. Lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payment made, and remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments. Depreciation and impairment expenses, if any, on the right-of-use asset will be charged to profit or loss following the requirements of HKAS 16 Property, Plant and Equipment, while interest accrual on lease liability will be charged to profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)") *(Continued)*

HKFRS 16 Leases *(Continued)*

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

HKFRS 16 will supersede the current lease standards including HKAS 17 Leases and the related interpretations when it becomes effective. HKFRS 16 replaces all existing lease accounting requirements and represents a significant change in the accounting and reporting of leases, with more assets and liabilities to be reported on the consolidated statement of financial position and a different recognition of lease costs.

As at 31 December 2016, the Group has non-cancellable operating lease commitments of approximately HK$25,343,000. HKAS 17 does not required the recognition of any right-of-use asset or liability for further payments for these leases; instead, certain information is disclosed as operating lease commitments in note 33. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. The new requirement to recognise a right-of-use asset and a related lease liability is expected to have a significant impact on the amount recognised in the Group's consolidated financial statements and the Directors are currently assessing its potential impact. It is not practicable to provide a reasonable estimate of the effect until the Group performs a detailed review.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation

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

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

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

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

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

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

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

Interests in joint ventures

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Interests in joint ventures *(Continued)*

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Interests in joint ventures *(Continued)*

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

Revenue recognition

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment

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

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

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

Leasing

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

The Group as lessee

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits

(a) Defined contribution retirement benefit plans

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

(b) Termination benefits

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

(c) Employee entitlements

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

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

(d) Long service payment

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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

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

Inventories

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

Cash and cash equivalents

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

Financial instruments

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets

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

Effective interest method

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

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

Loans and receivables

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets (Continued)

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

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

Financial liabilities and equity instruments

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

Equity instruments

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

Financial liabilities

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments (Continued)

Effective interest method

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

Convertible notes

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments (Continued)

Convertible notes (Continued)

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

Derecognition

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

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

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

Provisions

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Provisions *(Continued)*

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

Equity-settled share-based payment transactions

Share options granted to employees

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

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

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

Share options granted to suppliers and other eligible persons

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

4. CRITICAL JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Critical judgements in applying accounting policies

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

Impairment on amounts due from former subsidiaries

The Directors assessed the recoverability of the amounts due from former subsidiaries based on their estimation in assessing the ultimate realisation of these receivables. Such estimation was based on certain assumptions, which are subject to uncertainty and may materially differ from the actual results. The carrying amount of amounts due from former subsidiaries was nil as at 31 December 2015, net of accumulated impairment loss of approximately HK$172,244,000. During the year ended 31 December 2016, impairment loss of approximately HK$9,161,000 had been reversed. Subsequent to the year ended 31 December 2016, the winding-up of CITIC Logistics (International) Company Limited ("CLI") and certain of its subsidiaries was completed and the remaining amounts of approximately HK$163,083,000 were written off for the year ended 31 December 2016. Details are disclosed in note 22.

Write-back of amounts due to former subsidiaries

The carrying amount of amounts due to former subsidiaries was approximately HK$4,417,000 as at 31 December 2015. Subsequent to the year ended 31 December 2016, the winding-up of CLI and certain of its subsidiaries was completed. The corresponding amounts of approximately HK$4,417,000 were written back as other income during the year ended 31 December 2016. Details are disclosed in note 22.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

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

Key sources of estimation uncertainty

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

Estimated useful life of property, plant and equipment

The Group depreciates the property, plant and equipment on a straight-line basis between the rates of 10% to 30% per annum, commencing from the date the property, plant and equipment are available for use. The estimated useful lives that the Group places the property, plant and equipment into productive use reflects the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment. Depreciation of approximately HK$9,863,000 (2015: HK$13,312,000) has been recognised for the year.

Impairment of trade and other receivables

The policy for impairment on trade and other receivables of the Group is based on the evaluation of collectability and ageing analysis of the trade and other receivables and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in impairment of their ability to make payments, additional impairment may be required. During the year ended 31 December 2016, no impairment loss on trade and other receivables (2015: approximately HK$1,385,000) has been recognised. As at 31 December 2016, the carrying amount of trade and other receivables was approximately HK$171,067,000 (2015: HK$215,279,000), net of accumulated impairment loss of approximately HK$20,889,000 (2015: HK$21,132,000).

Allowance of inventories

The management of the Group reviews an ageing analysis at the end of each reporting period, and makes provision for obsolete and slow-moving inventory items identified. The management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. During the years ended 31 December 2016 and 2015, no allowance of inventories has been recognised. As at 31 December 2016, the carrying amount of inventories was approximately HK$80,847,000 (2015: HK$86,098,000).

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

Key sources of estimation uncertainty *(Continued)*

Impairment on property, plant and equipment

Determining whether property, plant and equipment are impaired requires an estimation of the recoverable amount of the property, plant and equipment. Such estimation was based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. During the year ended 31 December 2016, no impairment loss was recognised in respect of property, plant and equipment (2015: approximately HK$224,000) in the consolidated statement of profit or loss. As at 31 December 2016, the carrying amount of property, plant and equipment was approximately HK$15,407,000 (2015: HK$25,248,000), net of accumulated impairment losses of approximately HK$402,000 (2015: HK$402,000).

Impairment on interests in joint ventures

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

During the years ended 31 December 2016 and 2015, no impairment loss on interests in joint ventures was recognised. As at 31 December 2016, the carrying amount of interests in joint ventures was approximately HK$2,594,000 (2015: HK$4,306,000).

Deferred taxes

As at 31 December 2016, deferred tax assets in relation to unused tax losses of approximately HK$225,000 (2015: HK$363,000) has been recognised in the Group's consolidated statement of financial position. No deferred tax asset has been recognised on other tax losses and deductible temporary differences of approximately HK$128,939,000 (2015: HK$96,082,000) due to the unpredictability of future profit streams. The realisation of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal takes place.

Notes to the Consolidated Financial Statements
For the year ended 31 December 2016

5. CAPITAL RISK MANAGEMENT

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

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

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2016 HK$'000	2015 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	233,498	280,757
Financial liabilities		
Other financial liabilities at amortised cost	317,465	325,702

(b) Financial risk management objective and policies

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk

As at 31 December 2016 and 2015, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

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

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

The Group's concentration of credit risk by geographical locations is mainly in the People's Republic of China (the "PRC"), which accounted for 66% (2015: 74%) of the total trade receivable as at 31 December 2016.

The Group has concentration of credit risk as 20% (2015: 18%) and 46% (2015: 50%) of the trade receivables was due from the Group's largest trade debtor and the five largest trade debtors respectively.

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

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For the year ended 31 December 2016

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Currency risk

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

Several subsidiaries of the Company have sales and purchases denominated in currencies other than the respective functional currency, which expose the Group to foreign currency risk. Approximately 72% (2015: 78%) of the Group's sales and 91% (2015: 92%) of the Group's purchases are denominated in currencies other than the functional currency of the group entity making the sales and purchases. The Group currently does not have a foreign currency hedging policy. The Group will monitor foreign exchange exposure and consider hedging significant foreign currency exposure should the need arise.

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

	Assets		**Liabilities**	
	2016 HK$'000	2015 HK$'000	**2016 HK$'000**	2015 HK$'000
HK$	**69,909**	80,322	**4,417**	14,957
US$	**512**	511	**50**	–
RMB	**75,107**	122,309	**42,561**	46,841

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Currency risk (Continued)

Sensitivity analysis

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

The following table details the Group's sensitivity to a 5% (2015: 5%) increase and decrease in exchange rates of the relevant foreign currencies against the respective reporting entity's functional currency. 5% (2015: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items, and adjusts their translation at the end of the reporting period for a 5% (2015: 5%) change in foreign currency rates.

A positive number below indicates a decrease in post-tax loss where the respective functional currencies of the reporting entity weaken 5% (2015: 5%) against the relevant foreign currencies. For a 5% (2015: 5%) strengthening of the respective functional currencies against the relevant foreign currencies, there would be an equal and opposite impact on the loss, and the balances below would be negative.

	HK$		US$		RMB	
	2016	2015	**2016**	2015	**2016**	2015
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Profit or loss	**2,734**	2,729	**19**	21	**1,359**	3,151

Interest rate risk

As at 31 December 2016 and 2015, the Group is exposed to cash flow interest rate risk in relation to variable-rate deposits in other financial institutions (note 23) and bank balances (note 24).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Interest rate risk (Continued)

Sensitivity analysis

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

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

Liquidity risk

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

The Group is exposed to liquidity risk as at 31 December 2016 as the Company's convertible notes with outstanding principal amount of HK$260,400,000 which was matured on 31 December 2016. As detailed in note 1, the Directors are of the opinion that the Company will be able to finance its future working capital and to fulfill its financial obligations when they fall due.

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

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For the year ended 31 December 2016

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Liquidity risk (Continued)

	Repayable on demand or within 1 year HK$'000	Total undiscounted cash flows HK$'000	Carrying amount HK$'000
At 31 December 2016			
Non-derivative financial liabilities			
Trade and bills payables	46,664	46,664	46,664
Other payables and accruals	7,906	7,906	7,906
Amount due to a joint venture	2,495	2,495	2,495
Convertible notes	260,400	260,400	260,400
	317,465	317,465	317,465

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Fair value measurements of financial instruments

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

7. REVENUE AND SEGMENT INFORMATION

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

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

(a) Geographical information

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

7. REVENUE AND SEGMENT INFORMATION *(Continued)*

(a) Geographical information *(Continued)*

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

	Revenue from external customers		Non-current assets	
	Year ended 31 December 2016 HK$'000	Year ended 31 December 2015 HK$'000	**As at 31 December 2016 HK$'000**	As at 31 December 2015 HK$'000
Hong Kong	**159,290**	156,993	**2,971**	4,926
Elsewhere in the PRC	**243,027**	311,109	**15,030**	24,628
Asia Pacific	**60,439**	62,556	**–**	–
Others	**16,089**	14,397	**–**	–
Total	**478,845**	545,055	**18,001**	29,554

(b) Information about major customers

During the year ended 31 December 2016, there was a Group's individual customer contributed revenue of approximately HK$76,040,000 (2015: HK$55,866,000), which accounted for more than 10% to the total revenue of the Group.

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For the year ended 31 December 2016

8. OTHER INCOME

	2016 HK$'000	2015 HK$'000
Bank interest income	10	8
Insurance compensation received	–	11
Net gain on disposals of property, plant and equipment	11	–
Reversal of impairment loss on trade receivables	193	–
Reversal of impairment loss on amounts due from former subsidiaries (note 22)	9,161	–
Write-back of accruals	613	–
Write-back of amounts due to former subsidiaries (note 22)	4,417	–
Others	42	173
	14,447	192

9. FINANCE COSTS

	2016 HK$'000	2015 HK$'000
Borrowing costs on obligations under finance leases	–	1
Imputed interest expenses on convertible notes (note 27)	12,422	12,287
	12,422	12,288

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

10. TAXATION

	2016 HK$'000	2015 HK$'000
Hong Kong Profits Tax:		
Under-provision in prior years	16,692	–

No provision for Hong Kong Profits Tax has been made for the years ended 31 December 2016 and 2015 as the Group has no assessable profits arising in Hong Kong for both reporting periods. The tax rate of Hong Kong Profits Tax is 16.5% (2015: 16.5%).

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

During the year ended 31 December 2016, in respect of the Tax Enquiries, as the assessment for the year of assessment 2009/10 would be statutorily time-barred by 31 March 2016, a protective assessment of approximately HK$1,488,000 was raised by the IRD on 15 March 2016. The subsidiary lodged an objection against the assessment and the IRD held over the payment of the profits tax and an equal amount of tax reserve certificates were purchased.

In avoiding further lengthy objection process regarding the dispute with the IRD, the subsidiary has withdrawn the objections in July 2016 and compromised with the IRD on the Tax Enquiries. The IRD has issued final tax assessments in respect of the Tax Enquiries in aggregate of approximately HK$16,692,000 (the "Assessed Amount"). The Assessed Amount was recognised as tax expenses in the Consolidated Statement of Profit or Loss for the year ended 31 December 2016. The Assessed Amount was settled by the tax reserve certificates purchased in an aggregate of approximately HK$10,655,000 and the remaining amount of approximately HK$6,037,000 was settled during the year ended 31 December 2016 by the subsidiary.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the subsidiary registered in the PRC is 25% from 1 January 2008 onwards. No provision for the Enterprise Income Tax have been made for the years ended 31 December 2016 and 2015 as the subsidiary of the Company has no assessable profits for both reporting periods.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

10. TAXATION *(Continued)*

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

	2016 HK$'000	2015 HK$'000
Loss before taxation	(50,011)	(23,211)
Tax calculated at the domestic income tax rate of 16.5% (2015: 16.5%)	(8,252)	(3,830)
Tax effect of different tax rates	(172)	(243)
Tax effect of expenses not deductible for tax purpose	4,894	3,363
Tax effect of income not taxable for tax purpose	(2,345)	(4,594)
Tax effect of other deductible temporary differences not recognised	129	197
Tax effect of share of loss of joint ventures	282	112
Tax effect of tax losses not recognised	5,464	4,995
Under-provision in prior years	16,692	–
Taxation	16,692	–

Details of deferred tax are set out in note 29.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

11. LOSS FOR THE YEAR

Loss for the year has been arrived at after charging:

	2016 HK$'000	2015 HK$'000
Cost of inventories recognised as expenses	457,869	512,435
Staff costs (note 12)	28,490	27,449
Depreciation of property, plant and equipment		
– owned assets	9,863	13,308
– assets held under finance leases	–	4
Auditor's remuneration	736	695
Write-offs of property, plant and equipment (included in other expenses)	6	2
Net exchange loss	3,881	4,285
Net loss on disposals of property, plant and equipment (included in other expenses)	–	198
Impairment loss on property, plant and equipment (included in other expenses)	–	224
Impairment loss on trade receivables (included in administrative expenses)	–	1,385

12. STAFF COSTS

	2016 HK$'000	2015 HK$'000
Staff costs (including directors' emoluments) comprise:		
Salaries, allowances and benefits	26,918	26,660
Retirement benefits scheme contributions	728	938
Provision (reversal of provision) for other employee benefits and long service payments	844	(149)
	28,490	27,449

13. DIVIDENDS

No dividend was paid or proposed for the year ended 31 December 2016, nor has any dividend been proposed since the end of the year ended 31 December 2016 (2015: nil).

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14. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss for the year attributable to owners of the Company of approximately HK$66,703,000 (2015: HK$23,211,000) and the weighted average number of approximately 13,889,199,000 (2015: 12,765,308,000) ordinary shares in issue during the year ended 31 December 2016.

For the years ended 31 December 2016 and 2015, the diluted loss per share is the same as the basic loss per share.

The computation of diluted loss per share for the years ended 31 December 2016 and 2015 did not assume the exercise of the Company's share options as the exercise prices of the share options were higher than the average market price for shares. The computation of diluted loss per share for the years ended 31 December 2016 and 2015 did not assume the conversion of the Company's outstanding convertible notes as the conversion of convertible notes would result in a decrease in loss per share.

15. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to each of the eight (2015: seven) directors and the chief executive were as follows:

For the year ended 31 December 2016

Name of directors	Fees HK$'000	Salaries, allowances and benefits HK$'000	Retirement benefits scheme contributions HK$'000	Total HK$'000
Executive Directors				
Wang Zhaofeng	600	–	18	618
Lam Yat Keung	600	5,039	36	5,675
Huang Hanshui	600	1,963	180	2,743
Li Weimin ("Mr. Li") (note a)	93	439	44	576
Independent non-executive Directors				
Ho Chi Fai	90	–	–	90
Liu Yanfang	90	–	–	90
Zhang Jue (note b)	78	–	–	78
Ma Hongwei (note c)	12	–	–	12
	2,163	7,441	278	9,882

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For the year ended 31 December 2016

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

For the year ended 31 December 2015

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

Notes:

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

(b) Appointed on 20 February 2016.

(c) Resigned on 20 February 2016.

No director and chief executive waived or agreed to waive any emoluments for the years ended 31 December 2016 and 2015.

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16. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2015: two) were Directors whose emoluments are disclosed in note 15. The emoluments of the remaining three (2015: three) individuals were as follows:

	2016 HK$'000	2015 HK$'000
Salaries, allowances and benefits	4,599	4,991
Retirement benefits scheme contributions	54	54
	4,653	5,045

Their emoluments were within the following bands:

	Number of employees	
	2016	2015
HK$1,000,001 to HK$1,500,000	1	1
HK$1,500,001 to HK$2,000,000	2	2
	3	3

During the years ended 31 December 2016 and 2015, no emoluments were paid by the Group to the five highest paid individuals (including directors and employees) or other directors as an inducement to join or upon joining the Group, or as compensation for loss of office.

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17. PROPERTY, PLANT AND EQUIPMENT

	Plant and machinery HK$'000	Leasehold improvements and others HK$'000	Total HK$'000
COST			
At 1 January 2015	164,735	74,603	239,338
Exchange realignment	(662)	–	(662)
Additions	10,141	376	10,517
Write-offs	–	(54)	(54)
Disposals	(10,013)	(196)	(10,209)
At 31 December 2015 and 1 January 2016	164,201	74,729	238,930
Exchange realignment	(751)	(1)	(752)
Additions	–	425	425
Write-offs	–	(27)	(27)
Disposals	(6,252)	(701)	(6,953)
At 31 December 2016	**157,198**	**74,425**	**231,623**
DEPRECIATION AND IMPAIRMENT			
At 1 January 2015	139,148	71,503	210,651
Exchange realignment	(578)	–	(578)
Depreciation provided for the year	11,915	1,397	13,312
Impairment loss recognised in profit or loss	224	–	224
Eliminated on write-offs	–	(52)	(52)
Eliminated on disposals	(9,679)	(196)	(9,875)
At 31 December 2015 and 1 January 2016	141,030	72,652	213,682
Exchange realignment	(704)	(1)	(705)
Depreciation provided for the year	8,756	1,107	9,863
Eliminated on write-offs	–	(21)	(21)
Eliminated on disposals	(6,252)	(351)	(6,603)
At 31 December 2016	**142,830**	**73,386**	**216,216**
CARRYING VALUES			
At 31 December 2016	**14,368**	**1,039**	**15,407**
At 31 December 2015	23,171	2,077	25,248

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

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

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

As at 31 December 2015, the Directors conducted a review of the Group's property, plant and equipment and determined that certain plant and machinery was impaired. Accordingly, impairment loss of approximately HK$224,000 has been recognised for the year ended 31 December 2015 (2016: nil). The recoverable amounts of the relevant assets have been determined on the basis of fair value less costs to disposal using the market approach with reference to the recent sales prices of similar assets within the same industry, adjusting differences such as condition and timing of transaction, which is within Level 3 fair value hierarchy.

18. INTERESTS IN JOINT VENTURES

	2016 **HK$'000**	2015 HK$'000
Cost of unlisted investment in joint ventures	**5,998**	5,998
Share of post-acquisition losses and other comprehensive expenses and impairment loss	**(3,404)**	(1,692)
	2,594	4,306

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18. INTERESTS IN JOINT VENTURES *(Continued)*

Details of each of the Group's joint ventures, which are accounted for using the equity method in the consolidated financial statements, as at 31 December 2016 and 2015, are as follows:

Name	Form of business structure	Place of incorporation	Principal place of operation	Class of shares held	Proportion of ownership interest and voting power held by the Group				Principal activities
					2016		2015		
					Direct	Indirect	Direct	Indirect	
Semtech International (B.V.I.) Limited ("Semtech BVI")	Corporation	British Virgin Islands	Hong Kong	Ordinary	50%	–	50%	–	Investment holding
Semtech Electronics Limited ("Semtech Electronics")	Corporation	Hong Kong	Hong Kong	Ordinary	–	50%	–	50%	Trademark holding

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

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

	2016 HK$'000	2015 HK$'000
Current assets	2,496	2,526
Non-current assets	2,700	6,100
Current liabilities	(8)	(14)

	2016 HK$'000	2015 HK$'000
Net assets of Semtech BVI Group	5,188	8,612
Proportion of the Group's ownership interest in Semtech BVI Group	50%	50%
Carrying amount of the Group's interest in Semtech BVI Group	2,594	4,306

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18. INTERESTS IN JOINT VENTURES *(Continued)*

As at 31 December 2016 and 2015, the management of the Group reviewed the interests in joint ventures for impairment and determined that interests in joint ventures was impaired based on a valuation on trademarks held by the joint ventures. The fair value of trademarks, measured by an independent professional valuer not connected with the Group, was determined using the income approach based on financial budgets prepared by the management. The unobservable inputs used in level 3 fair value measurements included the following:

(i) royalty rate of 0.38% (2015: 0.38%);

(ii) after tax discount rate of 20.20% (2015: 18.11%) per annum; and

(iii) negative revenue growth rate of 25% per annum for year 2017 to 2019 and 20% per annum for year 2020 and 15% per annum for periods beyond 2021 (2015: negative revenue growth rate of 8% per annum for year 2016 and 3% per annum for periods beyond 2016).

Based on the results of the valuation, the management of the Group determined that no impairment losses on interests in joint ventures recognised for the years ended 31 December 2016 and 2015.

19. INVENTORIES

	2016 **HK$'000**	2015 HK$'000
Raw materials	**33,709**	32,356
Work-in-progress	**195**	924
Finished goods	**46,943**	52,818
	80,847	86,098

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20. TRADE AND BILLS RECEIVABLES

The Group allows an average credit period of 30 to 120 days (2015: 30 to 120 days) to its trade customers.

	2016 HK$'000	2015 HK$'000
Trade and bills receivables	**168,986**	213,851
Less: Accumulated impairment	**(1,304)**	(1,547)
	167,682	212,304

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

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

	2016 HK$'000	2015 HK$'000
Current	**149,986**	172,076
Overdue:		
– within 3 months	**14,110**	34,654
– 4-6 months	**3,402**	4,406
– 7-12 months	**184**	1,114
– over 12 months	**–**	54
	17,696	40,228
	167,682	212,304

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

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20. TRADE AND BILLS RECEIVABLES *(Continued)*

Included in the Group's trade and bills receivables balance are debtors with an aggregate carrying amount of approximately HK$17,696,000 (2015: HK$40,228,000) which were past due at the end of the reporting period for which the Group has not provided for impairment loss. Receivables that were past due but not impaired related to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

Movement in the impairment on trade receivables:

	2016	2015
	HK$'000	HK$'000
Balance at beginning of the year	**1,547**	162
Impairment loss recognised	**–**	1,385
Impairment loss reversed	**(193)**	–
Amount written off as uncollectible	**(50)**	–
Balance at end of the year	**1,304**	1,547

Included in the impairment on trade receivables are individually impaired trade receivables with an aggregate balance of approximately HK$1,304,000 (2015: HK$1,547,000) since the management considered the prolonged outstanding balances were uncollectible.

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

	2016	2015
	'000	'000
HK$	**68,475**	73,872
RMB	**67,228**	102,409

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21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2016 HK$'000	2015 HK$'000
Prepayments, deposits and other receivables	22,970	22,560
Less: Accumulated impairment	(19,585)	(19,585)
	3,385	2,975

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

Included in the impairment on prepayments, deposits and other receivables are individually impaired other receivables with an aggregate balance of approximately HK$19,585,000 (2015: HK$19,585,000) since the management considered the prolonged outstanding balances were uncollectible.

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

	2016 '000	2015 '000
HK$	5	5

22. AMOUNTS DUE FROM (TO) FORMER SUBSIDIARIES

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

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

	2016 HK$'000	2015 HK$'000
Amounts due from former subsidiaries (note)	–	–
Amounts due to former subsidiaries	–	4,417

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22. AMOUNTS DUE FROM (TO) FORMER SUBSIDIARIES *(Continued)*

Note:

	2016 HK$'000	2015 HK$'000
Amounts due from former subsidiaries	–	172,244
Less: Accumulated impairment	–	(172,244)
	–	–

Movement in the impairment on amounts due from former subsidiaries:

	2016 HK$'000	2015 HK$'000
Balance at beginning of the year	172,244	172,244
Impairment loss reversed (note 8)	(9,161)	–
Amounts written off as uncollectible	(163,083)	–
Balance at end of the year	–	172,244

As at 31 December 2015, included in the impairment on amounts due from former subsidiaries were individually impaired amounts due from former subsidiaries with an aggregate balance of approximately HK$172,244,000 (2016: nil) which had been placed under liquidation.

During the year ended 31 December 2016, the Group has recovered partial amounts due from former subsidiaries of approximately HK$9,161,000 from the liquidators of CLI and its subsidiaries.

Subsequent to the year ended 31 December 2016, the winding-up of CLI and certain of its subsidiaries has been completed according to the liquidators of CLI. As a result, the corresponding amounts due from former subsidiaries were written off as uncollectible and amounts due to former subsidiaries of approximately HK$4,417,000 were written back as other income during the year ended 31 December 2016.

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23. DEPOSITS IN OTHER FINANCIAL INSTITUTIONS

The amounts at 31 December 2016 and 2015 represented deposits placed with securities brokers for trading securities and carried interest at prevailing market rates.

24. BANK BALANCES AND CASH

At 31 December 2016 and 2015, cash at bank carried interest at floating rates based on daily bank deposits rates.

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

	2016 '000	2015 '000
HK$	1,429	6,445
US$	66	66
RMB	29	32

25. TRADE AND BILLS PAYABLES

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

	2016 HK$'000	2015 HK$'000
Current	46,306	55,259
Overdue:		
– within 3 months	347	3,801
– 4 – 6 months	11	979
– 7 – 12 months	–	4
– over 12 months	–	101
	46,664	60,144

The average credit period on purchases is 30 to 120 days (2015: 30 to 120 days). The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

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25. TRADE AND BILLS PAYABLES *(Continued)*

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

	2016	2015
	'000	'000
HK$	**3,484**	10,991
RMB	**36,025**	36,056

26. OTHER PAYABLES AND ACCRUALS

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

	2016	2015
	'000	'000
HK$	**933**	1,447
US$	**7**	–
RMB	**2,088**	3,177

27. CONVERTIBLE NOTES

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

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27. CONVERTIBLE NOTES *(Continued)*

Details of the Group's convertible notes outstanding as at 31 December 2016 and 2015 are set out below:

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

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

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

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

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27. CONVERTIBLE NOTES *(Continued)*

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

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

Movements of the liability and equity components of the convertible notes for the years ended 31 December 2016 and 2015 are set out below:

	Liability component HK$'000	**Equity component** HK$'000	**Total** HK$'000
At 1 January 2015	302,400	92,707	395,107
Derecognition of original liability/equity component upon modification of terms of convertible notes	(302,400)	(92,707)	(395,107)
Recognition of new liability/equity component upon modification of terms of convertible notes	274,579	57,442	332,021
Conversion into shares of the Company (note 30(a))	(38,888)	(7,978)	(46,866)
Imputed interest charged to the consolidated statement of profit or loss (note 9)	12,287	–	12,287
At 31 December 2015 and 1 January 2016	247,978	49,464	297,442
Imputed interest charged to the consolidated statement of profit or loss (note 9)	12,422	–	12,422
At 31 December 2016	260,400	49,464	309,864

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27. CONVERTIBLE NOTES *(Continued)*

As at 31 December 2016, the principal amount of convertible notes remained outstanding is HK$260,400,000 (2015: HK$260,400,000).

On 14 December 2016, the Company and Mr. Li entered into a deed of further variation, pursuant to which it was agreed that, subject to the fulfillment of conditions precedent, the maturity date of the outstanding convertible notes with an aggregate principal amount of HK$260,400,000 would be extended from 31 December 2016 to 31 January 2019. Save for the above alteration, all other terms and conditions of the outstanding convertible notes remained unchanged. Details are disclosed in note 38.

28. EMPLOYEE BENEFITS

	2016 HK$'000	2015 HK$'000
Liabilities for employee benefit comprise:		
Annual leave payments accrual	2,350	1,518
Long service payments obligation (note 34(a))	157	144
	2,507	1,662
Categorised as:		
Due within one year (included in other payables and accruals)	2,350	1,518
Due after one year (shown under non-current liabilities)	157	144
	2,507	1,662

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29. DEFERRED TAX

The followings are the major deferred tax liabilities (assets) recognised and movements thereon during the years ended 31 December 2016 and 2015:

	Accelerated tax depreciation HK$'000	**Tax losses** HK$'000	**Total** HK$'000
At 1 January 2015	14	(14)	–
Charged (credited) to profit or loss	46	(46)	–
At 31 December 2015 and 1 January 2016	60	(60)	–
(Credited) charged to profit or loss	(23)	23	–
At 31 December 2016	37	(37)	–

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

	2016 **HK$'000**	2015 HK$'000
Deferred tax liabilities	**37**	60
Deferred tax assets	**(37)**	(60)
	–	–

As at 31 December 2016, the Group has unused estimated tax losses of approximately HK$128,096,000 (2015: HK$96,161,000). A deferred tax asset has been recognised in respect of such tax losses of approximately HK$225,000 (2015: HK$363,000). No deferred tax asset has been recognised in respect of the remaining tax losses of approximately HK$127,871,000 (2015: HK$95,798,000) due to the unpredictability of future profits streams.

Included in unrecognised tax losses are losses of approximately HK$12,385,000 (2015: HK$10,367,000) that will expire after five years from the year of assessment to which they relate to. Other losses may be carried forward indefinitely.

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29. DEFERRED TAX *(Continued)*

As at 31 December 2016, the Group has deductible temporary differences of approximately HK$1,068,000 (2015: HK$284,000). No deferred tax asset is recognised in respect of these deductible temporary differences as at 31 December 2016 and 2015 due to the unpredictability of future profits streams.

30. SHARE CAPITAL

	Number of shares '000	HK$'000
Authorised ordinary shares of HK$0.01 each:		
At 1 January 2015, 31 December 2015, 1 January 2016 and 31 December 2016	30,000,000	300,000
Issued and fully paid ordinary shares of HK$0.01 each:		
At 1 January 2015	11,966,699	119,667
Issue of new shares upon conversion of convertible notes (note a)	1,200,000	12,000
Issue of new shares on subscriptions (note b)	722,500	7,225
At 31 December 2015, 1 January 2016 and 31 December 2016	13,889,199	138,892

Notes:

(a) On 4 June 2015, convertible notes of the Company with an aggregate principal amount of HK$42,000,000 were converted into 1,199,999,998 new ordinary shares of HK$0.01 each at a conversion price of HK$0.035 per share. These new shares issued ranked pari passu with other shares then in issue in all aspects. Details of the convertible notes are set out in note 27.

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

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31. SHARE OPTION SCHEME

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

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

Terms of 2012 Share Option Scheme

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

(a) any eligible employee;

(b) any non-executive director (including independent non-executive directors) of the Company, any of its subsidiaries or any Invested Entity;

(c) any supplier of goods or services to any member of the Group or any Invested Entity;

(d) any customer of the Group or any Invested Entity;

(e) any person or entity that provides research, development or technological support or services to the Group or any Invested Entity;

(f) any shareholder or any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity; and

(g) any ex-employee who has contributed to the development and growth of the Group and any Invested Entity.

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31. SHARE OPTION SCHEME *(Continued)*

Terms of 2012 Share Option Scheme *(Continued)*

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

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

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

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31. SHARE OPTION SCHEME *(Continued)*

Terms of 2012 Share Option Scheme *(Continued)*

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

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

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

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

At 31 December 2016, the number of shares in respect of which options had been granted and remained outstanding and exercisable under the 2002 Share Option Scheme was 399,940,000 (2015: 399,940,000) representing 3% (2015: 3%) of the shares of the Company in issue at that date. No option is granted under the 2012 Share Option Scheme during the year ended 31 December 2016 (2015: nil).

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31. SHARE OPTION SCHEME *(Continued)*

Terms of 2012 Share Option Scheme *(Continued)*

The following table disclosed the movements of the Company's share options for the years ended 31 December 2016 and 2015:

			Number of share options		
Participants	Date of grant	Exercise price per share	Outstanding at 1 January 2015 '000	Lapsed during the year '000	Outstanding at 31 December 2015, 1 January 2016 and 31 December 2016 '000
Directors					
Mr. Huang Hanshui	6 December 2010	HK$0.305	86,828	–	86,828
Employees (in aggregate)	30 November 2011	HK$0.098	565,711	(565,711)	–
Customers, suppliers and	6 December 2010	HK$0.305	86,828	–	86,828
other eligible persons (in aggregate)	30 November 2011	HK$0.098	226,284	–	226,284
			965,651	(565,711)	399,940
Exercisable at the end of the reporting period					399,940
Weighted average exercise price			HK$0.135	HK$0.098	HK$0.188

The options outstanding at 31 December 2016 had an exercisable period of 10 years from the date of grant and a weighted average remaining contractual life of 4.5 years (2015: 5.5 years).

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32. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2016 HK$'000	2015 HK$'000
Non-current asset		
Investments in subsidiaries	**46,400**	46,400
Current assets		
Prepayments, deposits and other receivables	**1,796**	1,109
Amount due from subsidiaries (note a)	**182,642**	182,642
Amounts due from former subsidiaries (note a)	**–**	–
Bank balances and cash	**40,598**	42,906
	225,036	226,657
Current liabilities		
Other payables and accruals	**2,703**	2,119
Convertible notes	**260,400**	247,978
	263,103	250,097
Net current liabilities	**(38,067)**	(23,440)
Total assets less current liabilities	**8,333**	22,960
Net assets	**8,333**	22,960
Capital and reserves		
Share capital	**138,892**	138,892
Reserves (note b)	**(130,559)**	(115,932)
Total equity	**8,333**	22,960

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

32. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Notes:

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

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

	Share premium HK$'000	Contributed surplus HK$'000	Share-based compensation reserve HK$'000	Convertible notes reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2015	2,210,494	62,315	40,046	92,707	(2,575,455)	(169,893)
Profit and total comprehensive expense for the year	–	–	–	–	964	964
Derecognition upon modification of terms of convertible notes (note 27)	–	–	–	(92,707)	92,707	–
Recognition upon modification of terms of convertible notes (note 27)	–	–	–	57,442	(57,442)	–
Issue of new shares upon conversion of convertible notes (notes 27 and 30(a))	34,866	–	–	(7,978)	–	26,888
Issue of new shares on subscriptions	26,733	–	–	–	–	26,733
Transaction costs attributable to issue of new shares on subscriptions	(810)	–	–	–	–	(810)
Share options lapsed	–	–	(18,378)	–	18,378	–
Unclaimed dividend forfeited	–	–	–	–	186	186
At 31 December 2015 and 1 January 2016	2,271,283	62,315	21,668	49,464	(2,520,662)	(115,932)
Loss and total comprehensive expense for the year	–	–	–	–	(14,627)	(14,627)
At 31 December 2016	**2,271,283**	**62,315**	**21,668**	**49,464**	**(2,535,289)**	**(130,559)**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

33. LEASE COMMITMENTS

The Group as lessee

	2016 HK$'000	2015 HK$'000
Lease payments paid under operating leases in respect of:		
– land and buildings	10,527	10,059
– others	7,617	10,717
	18,144	20,776

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

	2016 HK$'000	2015 HK$'000
Within one year	15,535	15,208
In the second to fifth years inclusive	9,808	11,316
	25,343	26,524

Operating lease payments represent rentals payable by the Group for certain of its godowns, offices, production plant and motor vehicles. Leases are negotiated for original terms ranging from 1 to 6 years (2015: 2 to 6 years). Rentals are fixed over the terms of respective leases.

34. RETIREMENT BENEFIT OBLIGATIONS

(a) Long service payments obligation

	2016 HK$'000	2015 HK$'000
Long service payments obligation (note 28)	157	144

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

34. RETIREMENT BENEFIT OBLIGATIONS *(Continued)*

(a) Long service payments obligation *(Continued)*

Under the Hong Kong Employment Ordinance, the Group is obliged to make lump sum payments on cessation of employment in certain circumstances to certain employees who have completed at least five years of service with the Group. The amount payable is dependent on the employees' final salary and years of service and is reduced by entitlements accrued under the Group's retirement plans that are attributable to contributions made by the Group at a discount rate of 8% (2015: 8%) and an assumed retirement age of 65 years old. The Group does not set aside any assets to fund any remaining obligations.

Movement for the year:

	2016 HK$'000	2015 HK$'000
Balance at beginning of the year	**144**	143
Increase in obligation (included in staff costs under administrative expenses)	**13**	1
Balance at end of the year	**157**	144

(b) Retirement benefit scheme contributions

Hong Kong

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

34. RETIREMENT BENEFIT OBLIGATIONS *(Continued)*

(b) Retirement benefit scheme contributions *(Continued)*

The PRC

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

35. RELATED PARTY TRANSACTIONS

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

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

	Amounts due to related parties	
	2016	2015
	HK$'000	HK$'000
A joint venture (note)	**2,495**	2,519
Directors' emoluments payable (included in other payables)	**991**	1,178

Note:

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

(b) Semtech BVI Group is the registered owner of various trademarks. Those trademarks are provided for the Group's use at nil consideration for both years ended 31 December 2016 and 2015.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

35. RELATED PARTY TRANSACTIONS *(Continued)*

(c) Compensation of key management personnel

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

	2016	2015
	HK$'000	HK$'000
Short-term benefits	**9,604**	9,385
Post-employment benefits	**278**	478
	9,882	9,863

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

36. CONTINGENT LIABILITIES

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

37. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31 December 2016 and 2015 are as follows:

Name	Form of business structure	Place of incorporation/ registration and operations	Issued and paid-up ordinary share/ registered capital	Proportion of ownership interest and voting power held by the Company				Principal activities
				2016		2015		
				Direct %	Indirect %	Direct %	Indirect %	
Sino-Tech International (B.V.I.) Limited	Corporation	British Virgin Islands	US$2	100	–	100	–	Investment holding
Ruixin Universal Limited	Corporation	Hong Kong	HK$1	–	100	–	100	Provision of sub-letting service
Fast Harvest Limited	Corporation	Hong Kong	HK$2	–	100	–	100	Provision of management service
LWM Management Limited	Corporation	Hong Kong	HK$1	–	100	–	100	Provision of management service
Semtech RFID Limited	Corporation	Hong Kong	HK$100	–	100	–	100	Trading of radio-frequency identification tag and antenna
Super Victory Enterprises Limited	Corporation	Hong Kong	HK$2	–	100	–	100	Manufacture and trading of electronic and electrical parts and components
東莞泰豐射頻識別有限公司 (note)	Corporation	PRC	US$1,500,000	–	100	–	100	Manufacture and trading of radio-frequency identification tag and antenna

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

37. PRINCIPAL SUBSIDIARIES *(Continued)*

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

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

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

Principal activities	**Principal place of business**	**Number of subsidiaries**	
		2016	2015
Investment holding	British Virgin Islands	**5**	5
Inactive	British Virgin Islands	**1**	2
Inactive/not commenced business yet	Hong Kong	**3**	3

38. EVENT AFTER THE REPORTING PERIOD

As at 31 December 2016, the principal amount of convertible notes that remained outstanding was HK$260,400,000. The Company and the convertible notes holder, a substantial shareholder of the Company, entered into a deed of further variation dated 14 December 2016, pursuant to which it was agreed that, subject to the fulfillment of conditions precedent, the maturity date of the outstanding convertible notes in the principal amount of HK$260,400,000 would be extended from 31 December 2016 to 31 January 2019. On 16 January 2017, the relevant ordinary resolution was duly passed at the special general meeting and the extension of the maturity date of the outstanding convertible notes became effective. Details are set out in the announcements of the Company dated 14 December 2016 and 16 January 2017, and the circular of the Company dated 29 December 2016. The extension of the maturity date will result in the extinguishment of the financial liability of the convertible notes and related equity component and the recognition of new financial liability and equity components.

Summary of Financial Information

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

RESULTS

	Year ended 31 December				
	2016	2015	2014	2013	2012
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**478,845**	545,055	599,867	660,388	572,451
Loss before taxation	**(50,011)**	(23,211)	(40,434)	(23,581)	(80,710)
Net loss attributable to owners of the Company	**(66,703)**	(23,211)	(40,434)	(24,675)	(339,412)

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2016	2015	2014	2013	2012
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**334,748**	408,317	399,871	469,046	662,123
Total liabilities	**(320,130)**	(327,544)	(368,373)	(397,136)	(565,509)
Non-controlling interests	**–**	–	–	–	–
	14,618	80,773	31,498	71,910	96,614

Note: The results of the Group for the years ended 31 December 2016, 31 December 2015, 31 December 2014, 31 December 2013 and 31 December 2012 have been extracted from the audited consolidated financial statements for the years ended 31 December 2016, 31 December 2015, 31 December 2014, 31 December 2013 and 31 December 2012.