



太 睿 國 際 控 股 有 限 公 司  
PacRay International Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 1010)

# ANNUAL REPORT 2016





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This annual report is printed on environmentally friendly paper

# Corporate Information

## BOARD OF DIRECTORS

### Executive Directors

Mr. Cheng Chow-Chun (*Chairman*)  
Mr. Lee Chao-Chun (*Chief Executive Officer*)  
Mr. Sun Tao-Heng  
Mr. Yuan Chun-Tang

### Independent Non-executive Directors

Mr. Li Kwan In  
Mr. Suen Sai Wah Simon  
Mr. Wang Chiang-Ming

## BOARD COMMITTEES

### Audit Committee

Mr. Suen Sai Wah Simon (*Chairman*)  
Mr. Li Kwan In  
Mr. Wang Chiang-Ming

### Remuneration Committee

Mr. Suen Sai Wah Simon (*Chairman*)  
Mr. Wang Chiang-Ming

### Nomination Committee

Mr. Suen Sai Wah Simon (*Chairman*)  
Mr. Wang Chiang-Ming

## COMPANY SECRETARY

Ms. Yuen Wing Yan, Winnie (FCIS, FCS)

## STOCK CODE

1010

## WEBSITE

<http://pacray.com.hk>

## AUDITORS

PricewaterhouseCoopers  
*Certified Public Accountants*

## LEGAL ADVISOR

King & Wood Mallesons

## PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited  
The Hongkong & Shanghai Banking Corporation Limited  
Dah Sing Bank, Limited

## REGISTERED OFFICE

Canon's Court  
22 Victoria Street  
Hamilton HM12  
Bermuda

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 408, 4/F., Nan Fung Tower  
88 Connaught Road Central  
Hong Kong

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

MUFG Fund Services (Bermuda) Limited  
The Belvedere Building  
69 Pitts Bay Road  
Pembroke HM08  
Bermuda

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

# Directors and Senior Management Biographies

## EXECUTIVE DIRECTORS

**Mr. Cheng Chow-Chun** (“Mr. Cheng”), aged 58, has been appointed as an executive director and elected as Chairman of PacRay International Holdings Limited (the “Company”) since 27 November 2014. He is the vice chairman of Pacific Electric Wire & Cable Co., Ltd. (“PEWC”), the chairman of Asia Pacific Wire & Cable Corporation Limited (“APWC”) (US NASDAQ listed company, stock code: APWC) and a director of Charoong Thai Wire & Cable Public Company Limited (“CTW”) (Thailand listed company, stock code: CTW) which is under the PEWC group. He had been a director of Allis Electric Co., Ltd. (Taiwan listed company, stock code: 1514) since 1987. By 1996, his position was changed to supervisor, and he held the position until June 2009.

Mr. Cheng is a shareholder of PEWC, and is currently also a director of Full Global International Limited (“Full Global”), Developer Global Limited (“Developer Global”), Dragon Conqueror Limited (“Dragon Conqueror”) and PEWC, all being major shareholders of the Company within the meaning of Part XV of the Securities and Futures Ordinance (the “SFO”).

Mr. Cheng holds a bachelor’s degree in business administration from the University of Southern California, United States of America.

**Mr. Lee Chao-Chun** (“Mr. Lee”), aged 65, has been appointed as an executive director and elected as Chief Executive Officer of the Company since 27 November 2014. He is a member of the board of directors and the chief executive officer of PEWC, chairman of Pacific USA Holdings Inc., a subsidiary of PEWC, director of APWC and CTW, which are under the PEWC group.

Mr. Lee is a shareholder of PEWC, and is currently also a director of Full Global, Developer Global, Dragon Conqueror and PEWC, all being major shareholders of the Company within the meaning of Part XV of the SFO.

Mr. Lee holds a bachelor’s degree in business administration from the Boston University, United States of America.

**Mr. Sun Tao-Heng** (“Mr. Sun”), aged 63, has been appointed as an executive director of the Company since 27 November 2014. He is the president of PEWC, and has held the position since December 2003. Mr. Sun had been a director of CTW, which is under the PEWC group, since June 1993 and by November 1994, he has been promoted to the position of managing director, a position which he still holds at present. He is also a director of APWC.

Mr. Sun is a shareholder of PEWC, and is currently also a director of Full Global, Developer Global, Dragon Conqueror and PEWC, all being major shareholders of the Company within the meaning of Part XV of the SFO.

Mr. Sun holds a master’s degree in business administration from the University of Southern California, United States of America.

# Directors and Senior Management Biographies

**Mr. Yuan Chun-Tang** (“Mr. Yuan”), aged 56, has been appointed as an executive director of the Company since 27 November 2014. He has been elected as chairman of PEWC since February 2004, and is also the chairman of Tai Ho Investment Co., Ltd. which is wholly-owned by the PEWC group, chairman of Yu Chi Investment Co., Ltd. which is owned by the PEWC group, and chairman of Yang-Yi Investment Co., Ltd. which is owned by the PEWC group. Mr. Yuan is a member of the board of directors of APWC, and is also the chief executive officer of APWC. Mr. Yuan is currently a supervisor of Pacific Construction Company Limited (Taiwan listed company, stock code: 2506) and a director of United Fiber Optic Communication Inc. (Taiwan listed company, stock code: 4903). From April 2014 to March 2016, Mr. Yuan was a director of CTW.

Mr. Yuan is a shareholder of PEWC, and is currently also a director of Full Global, Developer Global, Dragon Conqueror and PEWC, all being major shareholders of the Company within the meaning of Part XV of the SFO.

Mr. Yuan holds a master’s degree in electrical engineering from the University of Waterloo, Canada.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Suen Sai Wah Simon** (“Mr. Suen”), aged 57, has been appointed as an independent non-executive director of the Company since 27 November 2014. Mr. Suen was appointed as chairman of the Company’s audit committee, remuneration committee and nomination committee on 7 January 2015. He is an experienced and well proven chief executive officer in the financial as well as the travel industry in Thailand.

Mr. Suen has been the independent director of CTW, Bangna, Thailand since August 2009, and the director of Delta Holiday Company Limited, Bangkok, Thailand since June 1997.

Mr. Suen holds a master’s degree in business administration from the Chaminade University of Honolulu, United States of America.

**Mr. Li Kwan In** (“Mr. Li”), aged 65, has been appointed as an independent non-executive director and member of audit committee of the Company since 27 November 2014. He is an associate member of the Institute of Chartered Accountants of British Columbia Canada and a fellow member of the Hong Kong Institute of Certified Public Accountants. Mr. Li has over 20 years of experience in accounting & auditing, finance and taxation in Hong Kong and Canada. Since March 2009, Mr. Li is a director of Chengdu Zhongtie Erju Yongjingtang Printing Company Limited in Sichuan Province, the People’s Republic of China.

Mr. Li holds a bachelor of commerce degree from Concordia University in Montreal, Canada.

**Mr. Wang Chiang-Ming** (“Mr. Wang”), aged 57, has been appointed as an independent non-executive director of the Company since 7 January 2015. He was appointed as member of the Company’s audit committee, remuneration committee and nomination committee at the same time. Between 1984 and 1987, Mr. Wang worked in the scope of deposit, foreign exchange, credit, etc., in City Bank of Taipei in Taipei City. Between 1988 and 2001, he was the finance department head, manager and assistant manager of Tuntex Distinct Corp. (Taiwan listed company, stock code: 1462). He was the managing director of China’s Xianglu Petrochemicals Co., Ltd. from 2002 to 2007, the general manager of head office of Xiang Lu Dragon Group from 2007 to 2008, and the chairman of China’s Xianglu Petrochemicals Co., Ltd. and its subsidiaries from 2008 to 2014.

Mr. Wang graduated from the Institute of National Chengchi University, Taiwan, in Finance and Taxation in 1982.

# Financial Summary

## CONSOLIDATED RESULTS

	2016 HK\$'000	2015 HK\$'000	2014 HK\$'000	2013 HK\$'000	2012 HK\$'000
<b>Continuing operations:</b>					
Revenue	17,337	13,614	13,646	12,218	10,916
(Loss)/profit before income tax	(4,895)	(25,798)	17,268	46,015	38,588
Income tax (expense)/credit	(99)	545	–	–	28
(Loss)/profit for the year from continuing operations	(4,994)	(25,253)	17,268	46,015	38,616
<b>Discontinued operations:</b>					
Loss for the year from discontinued operations	–	–	–	–	(1,087)
Gain on disposal of a subsidiary	–	–	–	–	14,134
(Loss)/profit for the year	(4,994)	(25,253)	17,268	46,015	51,663
<b>Attributable to:</b>					
Owners of the Company	(4,994)	(25,253)	17,268	46,015	52,152
Non-controlling interests	–	–	–	–	(489)
	(4,994)	(25,253)	17,268	46,015	51,663



# Financial Summary

## CONSOLIDATED ASSETS AND LIABILITIES

	<b>31 December 2016 HK\$'000</b>	31 December 2015 HK\$'000	31 December 2014 HK\$'000	31 December 2013 HK\$'000	31 December 2012 HK\$'000
Non-current assets	<b>49,932</b>	3,618	3,294	3,454	2,084
Net current assets	<b>103,297</b>	163,824	190,240	173,208	128,566
Total assets less current liabilities	<b>153,229</b>	167,442	193,534	176,662	130,650
Non-current liabilities	-	-	(269)	(522)	(714)
Net assets	<b>153,229</b>	167,442	193,265	176,140	129,936
Shareholders' equity					
Share capital	<b>134,922</b>	134,922	134,922	134,922	134,922
Reserves	<b>18,307</b>	32,520	58,343	41,218	(4,986)
Non-controlling interest	-	-	-	-	-
	<b>153,229</b>	167,442	193,265	176,140	129,936
<b>OTHER DATA</b> (in HK cents)					
Basic & diluted (loss)/earnings per share					
– Continuing operations	<b>(1.48 cents)</b>	(7.50 cents)	5.13 cents	13.67 cents	11.47 cents
– Discontinued operations	-	-	-	-	4.02 cents
Shareholders' equity per share (excluding non-controlling interest)	<b>45.52 cents</b>	49.75 cents	57.42 cents	52.33 cents	38.60 cents

# Chairman's Statement

## RESULTS

The board (the "Board") of directors (the "Directors") is pleased to report the results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2016, together with the comparative figures for the year ended 31 December 2015.

For the year ended 31 December 2016, the Group achieved a turnover of approximately HK\$17.3 million, as compared to that of last year of approximately HK\$13.6 million. The loss attributable to owners of the Company amounted to approximately HK\$5.0 million, as compared to the loss of last year of approximately HK\$25.3 million.

## DIVIDEND

The Board does not recommend the payment of any dividend for the year ended 31 December 2016 (2015: Nil).

## BUSINESS REVIEW

In 2016, the global macro-economic environment was uncertain and volatile, but the People's Republic of China (the "PRC") continues to be under the world's spotlight and maintains a moderate growth. 2016 was overall a challenging year, but nevertheless the Group performed better than last year.

### Design and distribution of integrated circuit and semi-conductor parts

Our operation in Shanghai recorded a turnover of approximately HK\$17.3 million for the year ended 31 December 2016, as compared to approximately HK\$13.6 million for the year ended 31 December 2015. The gross profit margin of our operation in Shanghai was approximately 56% for the year ended 31 December 2016, which was similar to 2015 at approximately 57%. In 2016, the operation in Shanghai recorded a net profit of approximately HK\$1,059,000 (2015: approximately HK\$715,000), representing an increase of 48% as compared to that of last year. The increase in net profit was mainly due to net-off effect on (i) increase in revenue; and (ii) increase in operating costs due to inflation in the PRC.

Whilst economic development in China continues to slowdown, business growth has become increasingly challenging for our operation. Despite the difficult business climate, our management team in Shanghai recorded a respectable revenue growth of 27.3% in 2016. Nevertheless, the two main issues of our Shanghai operation are: scalability and diversification. We shall carry on our effort to improve the existing products over our competitors both in terms of performance as well as price. Meanwhile, we are diligently diversifying into other product lines in order to diversify our revenue source.

### Investment holding

As at 31 December 2015, the Group held 459,678 common shares of ChipMOS Technologies (Bermuda) Limited ("ChipMOS Bermuda") representing 1.7% of issued share capital of ChipMOS Bermuda. ChipMOS Bermuda was a company listed on the NASDAQ market with its company symbol "IMOS". On 31 October 2016 (United States time), ChipMOS Bermuda completed the merger (the "Merger"), with ChipMOS Technologies Inc. ("ChipMOS Taiwan"), a company incorporated in Taiwan and listed on the Taiwan Stock Exchange as "8150". ChipMOS Taiwan is a leading provider of semi-conductor testing and assembly services to customers in Taiwan, Japan and the United States of America. Upon completion of the Merger, the Group received approximately US\$1.7 million in cash and 430,027 ChipMOS Taiwan American depository shares ("ChipMOS Taiwan ADS") in exchange.

As at 31 December 2016, the Group held 430,027 ChipMOS Taiwan ADS, which is listed on the NASDAQ Global Select Market (ticker symbol "IMOS").



# Chairman's Statement

On 20 December 2016, ChipMOS Taiwan announced a cash dividend of approximately US\$1.027 per ChipMOS Taiwan ADS (net of the Taiwan withholding tax and depository fees) payable on 27 December 2016 to all ChipMOS Taiwan ADS holders. The Company received approximately US\$442,000 (approximately HK\$3,425,000) cash dividend in total.

As at 31 December 2016, the quoted market price of ChipMOS Taiwan ADS was approximately US\$14.11 per ADS. Consequently, a fair value loss of approximately HK\$8.5 million was debited to investment reserve due to mark-to-market valuation of such ChipMOS Taiwan ADS held for the year under review.

The quoted market price of ChipMOS Taiwan ADS as at 21 March 2017 was approximately US\$16.59 per ADS.

## **FUTURE PLANS AND PROSPECTS**

Facing economic uncertainties and cost inflation, the Group will continue with its prudent business approach. We will continue to enhance our existing business in the design and trading of integrated circuit products in China. Accordingly, we will remain cautiously optimistic about the outlook of the Group's business operation and financial performance in the coming year. In addition, we will continue to do our best to deploy our strengths and capabilities and to diversify and increase our top-line growth with the aim of improving the Group's value in order to benefit our shareholders.

## **APPRECIATION**

I would like to take this opportunity to thank our employees for their efforts taken in the past year and our shareholders for the continued support to our Group.

On behalf of the Board

**Cheng Chow-Chun**

*Chairman*

Hong Kong, 22 March 2017

# Management Discussion and Analysis

## LIQUIDITY AND FINANCIAL RESOURCES

During the year under review, the Company had no fund raising activities.

As at 31 December 2016, the cash and cash equivalents of the Group amounted to approximately HK\$81.7 million as compared to approximately HK\$87.8 million as at 31 December 2015, which included short-term bank deposits of approximately HK\$76.0 million (2015: approximately HK\$83.0 million).

For the year ended 31 December 2016, the Group recorded a net cash outflow of approximately HK\$6.1 million (2015: net cash inflow of approximately HK\$34.5 million).

## GEARING RATIO

The gearing ratio of the Group, defined as total liabilities expressed as a percentage of the total of equity and liabilities, was approximately 1.7% as at 31 December 2016 (2015: approximately 1.6%). The Group did not have any debt financing during the year, and no finance cost was incurred. As at 31 December 2016, the total liabilities of the Group were approximately HK\$2.6 million (2015: approximately HK\$2.7 million).

## FOREIGN CURRENCY EXPOSURE

The Group's results were exposed to exchange fluctuations of Renminbi as the Group had operations in the PRC.

In 2016, a net exchange gains of approximately HK\$13,000 (2015: net exchange losses of approximately HK\$76,000) was recognised in the consolidated income statement. Exchange differences, arising upon translation of PRC operations, amounted to approximately HK\$748,000 was debited to the exchange reserve (2015: approximately HK\$570,000).

## CAPITAL STRUCTURE

As at 31 December 2016, the Group had no bank borrowings (2015: Nil). As at 31 December 2016, the shareholders' fund amounted to approximately HK\$153.2 million (2015: approximately HK\$167.4 million).

## INVESTMENTS AND CAPITAL ASSETS

The Group acquired property, plant and equipment of approximately HK\$0.5 million for the year ended 31 December 2016 (2015: approximately HK\$0.9 million).

As at 31 December 2015, the Group held 459,678 common shares of ChipMOS Bermuda representing 1.7% of issued share capital of ChipMOS Bermuda. ChipMOS Bermuda was a company listed on the NASDAQ market with its company symbol "IMOS". On 31 October 2016 (United States time), ChipMOS Bermuda completed the Merger with ChipMOS Taiwan. Upon completion of the Merger, the Group received approximately US\$1.7 million in cash and 430,027 ChipMOS Taiwan ADS in exchange.

As at 31 December 2016, the Company held 430,027 ChipMOS Taiwan ADS and its quoted market price was US\$14.11 per ADS. On 21 March 2017, the quoted market price of ChipMOS Taiwan ADS was US\$16.59 per ADS.

As at 31 December 2016, the Group also held shares of a Hong Kong listed company amounted to approximately HK\$0.7 million (2015: approximately HK\$0.7 million).

# Management Discussion and Analysis

## **CHARGES ON ASSETS**

As at 31 December 2016, the Group had no charges on the Group's assets.

## **MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES**

The Group did not have any material acquisitions or disposals of subsidiaries, associates or joint ventures of the Company in the course of 2016.

## **FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS**

There was no specific future plans for material investments or capital assets of the Company as at 31 December 2016.

## **SEGMENT INFORMATION**

In 2016, the Hong Kong and PRC segments contributed mainly to the Group's business operation.

## **EMPLOYEES, TRAINING AND BENEFITS**

As at 31 December 2016, the Group had approximately 28 employees (2015: approximately 31 employees).

The remuneration packages of employees are reviewed annually with reference to market level and individual staff performance. The Group's remuneration packages include basic salaries, bonus, contributions to provident fund and medical benefits.

## **CONTINGENT LIABILITIES**

No material contingent liabilities of the Group were noted as at 31 December 2016.



# Environmental, Social and Governance Report

## 1. INTRODUCTION

This is the first Environmental, Social and Governance (“ESG”) report of the Company which focuses on disclosing the information of the Company and its subsidiaries in environmental and social aspects. This ESG report is prepared in compliance with the ESG Reporting Guide set out in Appendix 27 to the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Group has complied with the “Comply or Explain” provisions set out in the ESG Reporting Guide for the year ended 31 December 2016.

The initiatives of the Group in implementing environment and social-related policies are as follows:

- 1) To optimize efficient use of resources in efforts to minimize impact on the environment and natural resources;
- 2) To encourage employees to be environmentally conscientious; and
- 3) To contribute to the community’s well-being.

## 2. STAKEHOLDER ENGAGEMENT AND MATERIALITY

In order to identify the most significant ESG aspects for the Group to report on for this ESG report, key stakeholders such as investors, shareholders and employees have been taken into consideration.

The Group welcomes stakeholders’ feedback on our ESG approach and performance. Suggestions can be sent to us via e-mail at [ESG@pacray.com.hk](mailto:ESG@pacray.com.hk).

## 3. ENVIRONMENTAL

It is the Group’s policy to ensure compliance with applicable environmental laws and regulations and minimise the impact of our business activities on the environment and support environmental-protection initiatives. The Group endeavours to promote environmental conscientiousness to employees. The Group believes that increasing environmental awareness is the key to environmental protection and wellness to the general community.

The Group is committed to achieving environmental sustainability and incorporating it in daily operations, in strict compliance with the Environmental Protection Law of the PRC, the Energy Conservation Law of the PRC and other related regulations.

As the Group is principally engaged in the design and distribution of integrated circuits and semi-conductor parts in the PRC, its operating activities do not involve in the production of related air, water, land pollutions and hazardous waste that that would severely pollute the environment. Therefore, we are dedicated to maintain our energy consumption and emission at low level. We actively implemented eco-friendly measures to reduce carbon emission and water usage in our business operations, such as the followings:

- Using electricity-saving light bulbs or tube lights;
- Lights and air conditioners are turned off when they are not in use;

# Environmental, Social and Governance Report

- Electronic devices are set at energy-saving mode;
- Using email for internal approval to minimize the printing needs;
- Using double-sided printing and recycled paper;
- Eco-friendly papers are selected for printing the Annual Reports and Interim Reports; and
- Encourage staff for recycling plastic and paper.

The Group continues to review the environmental impact of their operations and make use of best practices across their function and to develop monitoring of resources consumption data and implementing better performance strategies as to enhance the contributions to environmental sustainability through good environmental practices.

We place high emphasis on complying with relevant environmental laws and regulations. We require our own employees and suppliers to comply with the relevant PRC laws and regulations relating to the environmental regulations.

We believe that we are in compliance with all material respects with applicable environmental laws and regulations in Hong Kong and the PRC.

## 4. SOCIAL

### (I) Employment and labour standards

Employees are the key to our business success. By providing a harmonious workplace with adequate advancement opportunities, the Group has maintained a professional team of employees working diligently to support the growth of the business.

All of our employees have employment contracts that cover matters such as wages, benefits and grounds for termination. The Group's emolument policies are reviewed regularly by the Board. Remuneration packages are structured to take into account the merit, qualifications and competence of individual employees as well as the general market conditions. The Group grants discretionary bonuses to qualified employees based on operation results and individual performance. The employees are also entitled to medical insurance, participation in the mandatory provident fund and various types of paid leave in accordance with the Labour Law of Hong Kong and the PRC.

In 2016, the Group has complied with all relevant labour laws and regulations in both Hong Kong and the PRC. The Group strictly prohibits the use of child or forced labour in our business operations. To prevent cases of child labour, stringent and cautious measures have been implemented by our human resources department, such as requiring all new joiners to submit their identification documents. For any employees who intentionally submit inaccurate information about their personal particulars, disciplinary action will be taken by the Group immediately. The Group is not aware of any material non-compliance with any relevant laws and regulations that have a significant impact on the Group relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare during the reporting period.

# Environmental, Social and Governance Report

## Employee composition

As at 31 December 2016, the Group had 28 employees and the composition is summarized as follows:

	Percentage (%)
(i) by geographical locations:	
— Hong Kong	11%
— PRC	89%
(ii) by gender:	
— Male	54%
— Female	46%
(iii) by age group:	
— 18 to 25	7%
— 26 to 35	22%
— 36 to 45	32%
— 46 to 55	25%
— 56 and above	14%
(iv) by years of service:	
— below 1 year	7%
— 1 to 4.99 years	29%
— 5 to 9.99 years	21%
— 10 years or above	43%

## Employee turnover rate

In 2016, the Group recorded employee turnover rate of approximately 16% and new hire rate of approximately 6%.

## (II) Occupational health and safety

The Group is committed to maintain a healthy workforce, in strict compliance with the Environmental Protection Law of the PRC, the Energy Conservation Law of the PRC and other related regulations. As the Group is principally engaged in the design and distribution of integrated circuits and semi-conductor parts in the PRC, its operating activities do not generate any emissions or wastes that would severely pollute the environment.

It is important that the Group is able to maintain a healthy workforce. By providing a safe and healthy working environment, not only does the Group benefit from increase of productivity, we are also able to protect and safeguard the health and well-being of our employees. At our business operations, all employees are required to comply and familiarize themselves with all related safety rules and regulations in the workplace.

During the reporting period, no work related fatalities or lost days due to work injury were recorded. The Group is not aware of any material non-compliance with the relevant laws and regulations that have a significant impact on the Group relating to providing a safe working environment and protecting employees from occupational hazards during the reporting period.



# Environmental, Social and Governance Report

## **(III) Staff development and training**

All new employees are required to attend orientation training session to ensure the employee is aware and familiarizes themselves with the Group's values and goals and to ensure the employee understands their role in the Group. Employees are encouraged to attend seminars relevant to their position to enhance their role within the Group.

## **5. OPERATING PRACTICES**

### **Supply Chain Management**

The Group has a transparent and competitive bidding system for the procurement. The Group has rigorous internal control measures to ensure the fairness of the process and the performance of all suppliers and sub-contractors are reported and monitored. In selecting suppliers and sub-contractors, the Group takes into consideration for the factors such as: price, quality of the product/service and specification and aftersales service. Before engaging a supplier/sub-contractor, we search on the potential supplier's background to ensure that it has properly registered with relevant authorities and obtained permits or licences according to applicable laws and regulations. Purchasing team, the general manager and Directors are responsible for each procurement. All major suppliers and sub-contractors are required to comply with the Environment Protection Law of the PRC.

### **Product Responsibility**

The Group is committed to providing quality products and services to our customers. Most of our product designs are registered under the Trademark Law of the PRC. We have experienced research and development team, sales team and after-sales supporting team with regular technical training. In addition, the Group values the Group's customers' comments very much. The Group believes that customers' comments can improve product quality effectively. The Group set up various channels for customers to express their comments and recommendations, such as, hotline, office and email. Sales staff is responsible to make a detailed record for each complaint and relevant follow-up actions will be taken immediately.

The Group had not received any complaints from the regulatory body or customers regarding product safety, nor had it recalled any product due to product safety or health, advertising, labelling and privacy matters issues during the reporting period.

### **Anti-Corruption**

The Group is committed to achieving the highest possible standards of openness and integrity. In 2016, the Group has abided by all the relevant anti-corruption laws in both Hong Kong and the PRC.

The Group is not aware of any material non-compliance with the relevant laws and regulations that have a significant impact on the Group relating to anti-corruption during the reporting period.

## **6. COMMUNITY INVESTMENT**

The Group encourages and promotes volunteerism and encourages our employees to serve their communities in their leisure time or even office hours.

# Report of the Directors

The Board of Directors of the Company submit their report together with the audited financial statements of the Group for the year ended 31 December 2016.

## **PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS AND BUSINESS REVIEW**

The principal activity of the Company is investments holding. The activities of its subsidiaries are set out in note 13 to the Consolidated Financial Statements of this Annual Report.

An analysis of the Group's performance for the year by operating segments is set out in note 5 to the Consolidated Financial Statements of this Annual Report.

Further discussion and analysis of business review as required by Schedule 5 to the Hong Kong Companies Ordinance, including a discussion of the principal risks and uncertainties facing the Group and an indication of likely future developments in the Group's business, can be found in the "Financial Summary", "Chairman's Statement" and "Management Discussion and Analysis" set out on pages 5 to 6, pages 7 to 8 and pages 9 to 10 respectively of this Annual Report. Additionally, the financial risk management objectives and policies of the Company can be found in Note 3 to the Consolidated Financial Statements of this Annual Report. Discussions on the Group's environmental policies, relationships with its key stakeholders, and compliance with relevant laws and regulations which have a significant impact on the Group are contained in the Environmental, Social and Governance Report on pages 11 to 14 of this Annual Report. The above discussion forms part of this Report of the Directors.

## **COMPLIANCE WITH THE LAWS AND REGULATIONS**

The Group recognises the importance of compliance with regulatory requirements and the risks of non-compliance with the applicable laws and regulations. During the year under review, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. There was no material breach or non-compliance with the applicable laws and regulations by the Group during the year under review.

## **RESULTS AND APPROPRIATIONS**

Details of the Group's results for the year ended 31 December 2016 are set out in the Consolidated Income Statement on page 39 of this Annual Report.

The Board does not recommend the payment of dividend for the year ended 31 December 2016.

## **RESERVES**

Details of the movements in reserves of the Group and the Company during the year are set out in the Consolidated Statement of Changes in Equity on page 43 and note 31(a) to the Consolidated Financial Statements of this Annual Report.

## **PROPERTY, PLANT AND EQUIPMENT**

Details of the movements in property, plant and equipment of the Group and of the Company are set out in note 14 to the Consolidated Financial Statements of this Annual Report.

# Report of the Directors

## **SHARE CAPITAL**

Details of the share capital of the Company are set out in note 23 to the Consolidated Financial Statements of this Annual Report.

## **CHARITABLE DONATIONS**

The Group did not make any charitable donations during the year.

## **DISTRIBUTABLE RESERVES**

As at 31 December 2016, no reserves are available for distribution to shareholders by the Company as calculated in accordance with the Companies Act 1981 of Bermuda.

## **PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY**

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities for the year ended 31 December 2016.

## **PRE-EMPTIVE RIGHTS**

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

## **FIVE-YEAR FINANCIAL SUMMARY**

A summary of the published results and of the assets and liabilities of the Group for the last five financial years is set out on pages 5 and 6 of this Annual Report.

## **TAX RELIEF**

The Company is not aware of any relief from taxation available to shareholders by reason of their holding of the Company's listed securities.

## **EQUITY-LINKED AGREEMENTS**

For the year ended 31 December 2016, the Group has not entered into any equity-linked agreement.

## **DIRECTORS**

The Directors who held office during the year and up to the date of this Annual Report are:

### **Executive Directors:**

Mr. Cheng Chow-Chun  
Mr. Lee Chao-Chun  
Mr. Sun Tao-Heng  
Mr. Yuan Chun-Tang

### **Independent non-executive Directors:**

Mr. Li Kwan In  
Mr. Suen Sai Wah Simon  
Mr. Wang Chiang-Ming



# Report of the Directors

In accordance with Bye-Law 99, Mr. Lee Chao-Chun, Mr. Sun Tao-Heng and Mr. Suen Sai Wah Simon will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

## **BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT OF THE COMPANY**

Biographical details of the Directors and senior management of the Company are set out on pages 3 and 4 of this Annual Report.

## **ANNUAL CONFIRMATION OF INDEPENDENCE**

The Company has received, from each independent non-executive Director, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all independent non-executive Directors to be independent in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules.

## **DIRECTORS' SERVICE CONTRACTS**

None of the Directors has a service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

## **DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE**

None of the Director or an entity connected with any of them is or was materially interested, either directly or indirectly, in any transactions, arrangements and contract of significance subsisting during or at the year ended 31 December 2016.

## **DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS**

Details of the emoluments of the Directors and senior management of the Company are set out in note 32 to the Consolidated Financial Statements of this Annual Report.

## **PERMITTED INDEMNITY PROVISION**

A permitted indemnity provision for the benefit of the Directors of the Company is currently in force and was in force throughout the financial year. The Company has taken out and maintained Directors and officers liability insurance which provides appropriate cover for, among others, the Directors of the Company.

## **DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

At no time during the year was the Company or any of its associated corporations a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and none of the Directors or their spouses or children under 18 years of age was granted any right to subscribe for any shares in, or debentures of, the Company or any of its associated corporations.

# Report of the Directors

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

As at 31 December 2016, none of the Directors nor the chief executive of the Company had any interests or short positions in any of the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules.

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

As at 31 December 2016, the interest and short positions in the shares and underlying shares of the Company (within the meaning of Part XV of the SFO) of the substantial shareholders (other than the Directors and chief executives of the Company) as recorded in the register required to be kept under Section 336 of Part XV of the SFO, or as otherwise notified to the Company and the Stock Exchange, were as set out below:

		Number of ordinary shares/Percentage of total issued shares as at 31 December 2016 (Note 1)						
Name of shareholders	Capacity	Long		Short		Lending		Note
		positions	%	positions	%	pool	%	
Full Global International Limited	Beneficial owner	145,609,999	43.3%	-	-	-	-	(2)
Pacific Electric Wire & Cable Company Limited	Interest of controlled corporation	145,609,999	43.3%	-	-	-	-	(2)
Vision2000 Venture Ltd.	Beneficial owner	106,043,142	31.5%	-	-	-	-	(3)
Mosel Vitelic Inc.	Interest of controlled corporation	106,043,142	31.5%	-	-	-	-	(3)

Notes:

- (1) Based on 336,587,142 ordinary shares of the Company in issue as at 31 December 2016.
- (2) The 145,609,999 shares relate to the same batch of shares of the Company. According to the form of disclosure of interests submitted by Full Global International Limited on 31 May 2012, Full Global International Limited is the controlled corporation of Pacific Electric Wire & Cable Co., Ltd and accordingly, Pacific Electric Wire & Cable Co., Ltd is deemed to be interested in the 145,609,999 shares of the Company held by Full Global International Limited.
- (3) The 106,043,142 shares relate to the same batch of shares of the Company. According to the form of disclosure of interests submitted by Mosel Vitelic Inc. on 27 June 1997, Vision2000 Venture Ltd. is the controlled corporation of Mosel Vitelic Inc. and accordingly, Mosel Vitelic Inc. is deemed to be interested in the 106,043,142 shares of the Company held by Vision2000 Venture Ltd.

Save for those disclosed above, as at 31 December 2016, no other persons had 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, or as otherwise notified to the Company and the Stock Exchange.

# Report of the Directors

## FINANCIAL ASSISTANCE AND GUARANTEES TO AFFILIATED COMPANIES

There is no advance, which is of non-trading nature, to any of the affiliated companies as at 31 December 2016 as defined under Chapter 13 of the Listing Rules.

## MANAGEMENT CONTRACTS

No contracts, other than a contract of service with any Director or any person engaged in the full-time employment of the Company, concerning the management and administration of the whole or any substantial part of any business of the Company were entered into or existed during the year.

## MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year ended 31 December 2016 attributable to the Group's major suppliers and customers are as follows:

	<b>Percentage of the total purchases/sales accounted for</b>
<b>Purchases</b>	
— the largest supplier	44%
— five largest suppliers combined	84%
<b>Sales</b>	
— the largest customer	26%
— five largest customers combined	92%

None of the Directors, or any of their close associates, or any shareholders (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) had an interest in any of the major customers and suppliers noted above.

## CONTRACTS OF SIGNIFICANCE AND RELATED PARTY TRANSACTIONS

No contract of significance had been entered between the Company or any of its subsidiaries, and the controlling shareholders of the Company (as defined in the Listing Rules) or any of its subsidiaries. No contract of significance for the provision of services to the Company or any of its subsidiaries by the controlling shareholders of the Company (as defined in the Listing Rules) or any of its subsidiaries.

Details of the related party transactions undertaken in the usual course of business are set out in note 30 to the Consolidated Financial Statements of this Annual Report. None of these related party transactions constitutes "connected transactions" or "continuing connected transactions" as defined under Chapter 14A of the Listing Rules and therefore there is no disclosure requirements in accordance with Chapter 14A of the Listing Rules.



# Report of the Directors

## **CORPORATE GOVERNANCE PRACTICES**

The Board confirms that the Company has adopted and complied with all code provisions of the Corporate Governance Code (the “CG Code”) as set out in Appendix 14 of the Listing Rules during the year ended 31 December 2016 except for the deviation from Code Provision A.4.1. Details of such deviation are disclosed in the Corporate Governance Report on pages 22 to 33 in this Annual Report.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS**

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules to regulate the directors’ securities transactions. The Company has made specific enquiry of all Directors regarding any non-compliance with the Model Code for the year ended 31 December 2016, and they have all confirmed their respective full compliance with the required standard set out in the Model Code.

## **EMOLUMENT POLICY OF THE GROUP**

The emolument policy of the employees of the Group is reviewed regularly by the Board. Remuneration packages are structured to take into account the merit, qualifications and competence of individual employees as well as the general market conditions.

The emoluments of Directors are recommended by the remuneration committee and determined by taking into consideration of their duties and responsibilities with the Company, the market rate and their time, effort and expertise to be input into the Group’s affairs and the Company’s performance.

## **SUFFICIENCY OF PUBLIC FLOAT**

On 19 May 2015, the Company published an announcement disclosing, inter alia, receipt by the Company an application (the “Application”) from Texan Management Limited (“Texan”) for the issue of 4 replacement share certificates for the share certificates numbered 91064, 91065, 90986 and 90987 in respect of the 36,024,000 shares (representing 10.7% of the entire issued shares) in the Company (the “Subject Shares”). Since then, the Company published announcements dated 19 May 2015, 20 May 2015, 9 July 2015, 24 July 2015, 27 August 2015, 7 October 2015, 3 November 2015, 3 December 2015, 11 January 2016, 2 February 2016, 17 March 2016, 19 April 2016, 30 June 2016, 29 July 2016 and 16 November 2016 to update the development of the Application from time to time. As said in the foregoing announcements, the statutory and/or necessary requirements and procedures for issue of 4 replacement share certificates (the “New Share Certificates”) for the share certificates numbered 91064, 91065, 90986 and 90987 (the “Original Share Certificates”) in respect of the Subject Shares to Texan under the Application commenced on 17 March 2016 and as at 31 December 2016, are yet to be completed and thus the New Share Certificates are yet to be issued to Texan (details of which please refer to the announcement of the Company published on 16 November 2016).

The Board wishes to state that if Texan succeeds in obtaining the New Share Certificates, the Subject Shares would not qualify as “public float” under the Listing Rules and thus less than 25% of the issued share capital of the Company would be held in public hands. The Company will consider various mechanisms as permitted under the Listing Rules to restore its public float. At the same time, the Board will continue to issue further regular update announcement to inform its shareholders and potential investors as and when justified and appropriate under the Listing Rules and/or the SFO.

# Report of the Directors

## **COMPETING BUSINESS**

None of the Directors is interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

## **DISCLOSURE OF CHANGE OF INFORMATION OF DIRECTORS AND CHIEF EXECUTIVES**

During the year, the changes in the information of the Directors and chief executives of the Company as required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules were as follows:

Mr. Yuan Chun-Tang was appointed as a supervisor of Pacific Construction Co., Ltd. (Taiwan listed company, stock code: 2506) on 16 June 2016. Also, Mr. Yuan resigned as a director of CTW on 15 March 2016.

Save as disclosed above, there was no change in information of the Directors and chief executives of the Company since the date of the 2015 annual report of the Company which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

## **AUDIT COMMITTEE**

The audit committee of the Company comprises solely independent non-executive Directors, namely Mr. Suen Sai Wah Simon (Chairman), Mr. Li Kwan In and Mr. Wang Chiang-Ming. The Group's annual results for the year ended 31 December 2016 have been reviewed by the audit committee of the Company.

## **AUDITOR**

Messrs. PricewaterhouseCoopers will retire and, being eligible, offer themselves for re-appointment as auditor of the Company at the conclusion of the forthcoming annual general meeting of the Company.

On behalf of the Board

**Cheng Chow-Chun**

*Chairman*

Hong Kong, 22 March 2017

# Corporate Governance Report

PacRay International Holdings Limited (the “Company”) and its subsidiaries (the “Group”) recognizes the value and importance to achieving high corporate governance standards to enhance corporate performance and accountability.

The Board of Directors of the Company is committed to maintain sound corporate governance standard and procedures to ensure integrity, transparency and quality of disclosure in order to enhance the shareholders’ value.

## **CORPORATE GOVERNANCE PRACTICES**

During the year 2016, the Company has applied the principles as set out in the CG Code contained in Appendix 14 to the Listing Rules and complied with the code provisions contained therein except for the following deviation:

### **Code Provision A.4.1**

This code provision stipulates that non-executive Directors should be appointed for a specific term and subject to re-election.

The independent non-executive Directors were not appointed for specific terms but are subject to retirement by rotation at least once every three years and re-election at the Company’s annual general meeting in accordance with the Bye-laws. At every annual general meeting of the Company, one-third of the Directors for the time being or, if their number is not three or a multiple of three, then the nearest but no less than one-third shall retire from office by rotation. Every Director should be subject to retirement by rotation at least once every three years.

## **DIRECTORS’ SECURITIES TRANSACTIONS**

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules to regulate the directors’ securities transactions. The Company has made specific enquiry of all Directors regarding any non-compliance with the Model Code during the year 2016, and they have all confirmed their respective full compliance with the required standards as set out in the Model Code.

## **THE BOARD**

As at 31 December 2016, the Board comprises 7 Directors, of which 4 are executive Directors and 3 are independent non-executive Directors. The number of independent non-executive Directors has met the minimum requirement of the Listing Rules and represented more than one-third of the total Board members. Further, one of the independent non-executive Directors possesses appropriate professional accounting qualifications and/or financial management expertise. As of the date of this Annual Report, the members of the Board are as follows:

### **Executive Directors**

Mr. Cheng Chow-Chun (*Chairman*)  
Mr. Lee Chao-Chun (*Chief Executive Officer*)  
Mr. Sun Tao-Heng  
Mr. Yuan Chun-Tang

### **Independent Non-executive Directors**

Mr. Li Kwan In  
Mr. Suen Sai Wah Simon  
Mr. Wang Chiang-Ming

# Corporate Governance Report

The biographical details of the Directors are contained in the section headed “Directors and Senior Management Biographies”.

Each of the Directors has entered into an appointment agreement with the Company. There is no fixed term or proposed length of service for each of the Directors (including the independent non-executive Directors) except that the appointment is subject to the requirements under the Listing Rules, the Bye-laws and any other applicable laws and regulations, and the appointment can be terminated by either party by giving the other party three months’ written notice in advance.

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

When the Board considers any material proposal or transaction in which a Director has a conflict of interest, the Director who has interests declares his interest and is required to abstain from voting and is not counted in the quorum.

Other than the regulatory and statutory responsibilities of the Board, the key functions of the Board are to formulate strategy and to monitor and control operating and financial performance in pursuit of the Group’s strategic objective. The Board, led by the Chairman, retains full responsibility for setting objective and business development plans. All Directors (including independent non-executive Directors) have been consulted on major and material matters of the Company and have made active contribution to the affairs of the Board. The Board is committed to make decisions in the best interest of the Group. The main responsibilities of the management of the Company is to manage, operate and co-ordinate the business of the Company, execute the strategies formulated by the Board and make decisions in respect of daily matters.

There is no relationship (including financial, business, family or other material/relevant relationship(s)) between Board members and in particular, between the Chairman and the Chief Executive Officer.

During the year 2016, six Board meetings were convened by the Company.



# Corporate Governance Report

The attendance of the Directors at the Board meetings and general meetings of the Company during the year 2016 is summarised below.

	Number of Meetings attended/held	
	Board meetings	General meetings
<b>Executive Directors</b>		
– Mr. Cheng Chow-Chun ( <i>Chairman</i> )	6/6	1/1
– Mr. Lee Chao-Chun ( <i>Chief Executive Officer</i> )	6/6	1/1
– Mr. Sun Tao-Heng	5/6	1/1
– Mr. Yuan Chun-Tang	5/6	1/1
<b>Independent Non-executive Directors</b>		
– Mr. Li Kwan In	5/6	1/1
– Mr. Suen Sai Wah Simon	5/6	1/1
– Mr. Wang Chiang-Ming	5/6	1/1

Apart from regular Board meetings, the Chairman also held meetings with the independent non-executive Directors without presence of executive Directors during the year 2016.

Notice of at least 14 days has been given of regular Board meetings to give all Directors an opportunity to attend. For all other Board meetings, reasonable notice has been given.

The agenda accompanying Board papers are sent to all Directors at least 3 days before the date of every Board meeting in order to allow sufficient time for the Directors to review the documents. All businesses transacted at the Board meetings were well-documented. Draft and final versions of Board minutes are sent to all Directors for their comments and records respectively.

Between Board meetings, the management provides to Directors from time to time updates and other information on the Group's business, operations and financial matters.

Directors are entitled to have access to Board papers and related materials and access to the advice and services of company secretary of the Company. Directors have the liberty to seek independent professional advice, if so required, at the Company's expenses as arranged by company secretary of the Company and they are at liberty to propose appropriate matters for inclusion in Board agendas.

For ensuring that Board procedures are followed and activities of the Board are efficient and effective, company secretary of the Company assists the Chairman to prepare agendas for regular board meetings and ensure the Board papers are disseminated to the Directors and Board Committees in a timely and comprehensive manner.

For the Group's compliance with the continuing obligations of the Listing Rules, The Codes on Takeovers and Mergers and Share Buy-backs, the SFO and the Companies Ordinance etc., including publication and dissemination of reports and financial statements and interim reports within the periods laid down in the Listing Rules, timely dissemination of announcements and information relating to the Group to the market and ensuring that proper notification is made of Director's dealings in securities of the Group, the Board engages the professional parties' input from time to time.

# Corporate Governance Report

Directors are aware of their obligations for disclosure of interests in securities, connected transactions and inside information and ensure that the standards and disclosures required by the Listing Rules and the SFO are observed.

The Company has maintained liability insurance for Directors and senior management officers with appropriate coverage for certain legal liabilities which may arise in the course of performing their duties.

## DIRECTORS' TRAINING

The Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company would provide each newly appointed director a comprehensive induction package covering the summary of the responsibilities and liabilities of a director of a Hong Kong listed company, the Group's business and the Company's constitutional documents and guides on directors' duties to ensure that he/she is sufficiently aware of his/her responsibilities and obligations under the Listing Rules and other regulatory requirements.

From time to time, relevant reading materials are provided to Directors with regard to regulatory and governance developments as well as organizes in-house training programme to refresh their knowledge and skills on the roles, functions and duties of a listed company's directors. The Company has devised a training record to assist the Directors to record the training they have undertaken.

During the year 2016, the Directors participated in the following trainings to develop and refresh their knowledge and skills:

### Types of training (Notes)

#### Executive Directors

Mr. Cheng Chow-Chun ( <i>Chairman</i> )	A/B
Mr. Lee Chao-Chun ( <i>Chief Executive Officer</i> )	A/B
Mr. Sun Tao-Heng	A/B
Mr. Yuan Chun-Tang	A/B

#### Independent Non-executive Directors

Mr. Li Kwan In	A/B
Mr. Suen Sai Wah Simon	A/B
Mr. Wang Chiang-Ming	A/B

Notes:

A: attending seminars and/or programmes and/or conferences

B: reading materials relating to the economy, general business or regulatory updates etc.

# Corporate Governance Report

## **DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS**

The Directors acknowledge that they are primarily responsible for the preparation of the financial statements for the year ended 31 December 2016 which give a true and fair view and that appropriate accounting policies are selected and applied consistently.

To the best knowledge of the Directors, there is no uncertainty relating to events or conditions that may cast significant count upon the Company's ability to continue as a going concern.

## **CHAIRMAN AND CHIEF EXECUTIVE OFFICER**

The Chairman and the Chief Executive Officer are Mr. Cheng Chow-Chun and Mr. Lee Chao-Chun respectively. The Chairman bears primary responsibility for the work of the Board, by ensuring its effective function, while the Chief Executive Officer bears executive responsibility for the Company's business and the management of the day-to-day operations of the Company.

## **BOARD COMMITTEES**

The Board has established three Board Committees, namely, the Audit Committee, the Remuneration Committee and the Nomination Committee, to assist the Board in discharging its duties and to oversee particular aspects of the Group's affairs. All the Board Committees have clear written terms of reference and have to report on their decisions and recommendation to the Board. These written terms of reference are available for access at the principal place of business of the Company in Hong Kong and each of the committee members was furnished with a copy of the respective terms of reference.

The written terms of reference of the Board Committees are also available on the websites of the Company (<http://pacray.com.hk>) and the Stock Exchange.

All business dealt with by the Board Committees were well-documented. Draft and final versions of the Board Committees minutes are sent to all the respective Board Committees members for comments and records within reasonable time.

# Corporate Governance Report

## 1. Audit Committee

The Audit Committee comprises solely independent non-executive Directors. As at 31 December 2016, the Audit Committee consists of three independent non-executive Directors, namely, Mr. Suen Sai Wah Simon (Chairman), Mr. Li Kwan In and Mr. Wang Chiang-Ming.

The Audit Committee is responsible for the following:

- reviewing and supervising the Company's financial reporting process, risk management and internal control systems;
- reviewing the accounting principles and practices adopted by the Group and other financial reporting matters and ensure the completeness, accuracy and fairness of the financial statements;
- making recommendations as to the effectiveness of internal control and risk management;
- monitoring the compliance with statutory and listing requirements and to oversee the relationship with the external auditors; and
- reviewing arrangements to enable employees of the Company to raise concerns about improprieties in financial reporting, internal control or other matters of the Company.

The Audit Committee meets the external auditor and the senior management twice a year to discuss any areas of concern during the audits.

During the year 2016, the Audit Committee has reviewed (i) the annual report of the Group for the year ended 31 December 2015, (ii) the interim report of the Group for the 6 months ended 30 June 2016, (iii) the external auditor's engagement letter with recommendation to the Board for approval, (iv) the determination and reporting of key audit matters, and (v) the effectiveness of the risk management and internal control systems and internal audit function.

During the year 2016, meetings were held with the management and/or the external auditor. Members of the Audit Committee and their respective attendance at committee meetings held during their term of office are listed below:

	<b>Number of Audit Committee Meetings attended/held</b>
<b>Committee members</b>	
— Mr. Suen Sai Wah Simon	4/4
— Mr. Li Kwan In	4/4
— Mr. Wang Chiang-Ming	4/4



# Corporate Governance Report

## 2. Remuneration Committee

The Remuneration Committee comprises solely independent non-executive Directors. As at 31 December 2016, the Remuneration Committee consists of two independent non-executive Directors, namely, Mr. Suen Sai Wah Simon (Chairman) and Mr. Wang Chiang-Ming. Its primary responsibilities include recommending, reviewing and determining the remuneration policy and packages of directors and senior management. Directors do not participate in the determination of their own remuneration.

During the year 2016, the Remuneration Committee has reviewed and recommended to the Board the Directors' remuneration. In making recommendations to the Board on the Directors' remuneration, the Remuneration Committee considered a number of factors including time commitment, responsibilities, qualification and the prevailing market rate. The remuneration of the Directors will be determined by the Board after obtaining authorization at its general meetings.

During the year 2016, one meeting was held on 30 March 2016. Members of the Remuneration Committee and their respective attendance at the committee meeting during their term of office are listed below:

	<b>Number of Remuneration Committee Meetings attended/held</b>
<b>Committee members</b>	
— Mr. Suen Sai Wah Simon	1/1
— Mr. Wang Chiang-Ming	1/1

## 3. Nomination Committee

The Nomination Committee comprises solely independent non-executive Directors. As at 31 December 2016, the Nomination Committee consists of two independent non-executive Directors, namely, Mr. Suen Sai Wah Simon (Chairman) and Mr. Wang Chiang-Ming.

Its primary responsibilities are to assist the Board to review the structure of the Board and make recommendations to the Board on the appointment or re-appointment of directors to the Board. It also reviews the Company's adopted board diversity policy, as appropriate, to ensure its continued effectiveness and make recommendations to the Board for consideration and approval.

The Company recognizes the benefits of a Board that possesses a balance of skills, experience, expertise and diversity of perspectives appropriate to the requirements of the business of the Company. The Company has adopted a board diversity policy since November 2013.

# Corporate Governance Report

Diversity of Board members can be achieved through consideration of a number of factors including, but not limited to, gender, age, race, experience, cultural and educational background, skills and other qualities considered relevant and applicable. It will also take into account factors based on the Company's business model and specific needs from time to time. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

During the year 2016, the Nomination Committee has reviewed the structure, size and composition of the Board and the independence of the independent non-executive Directors.

During the year 2016, one meeting was held with the management on 30 March 2016. Members of the Nomination Committee and their respective attendance at the committee meeting during their term of office are listed below:

	<b>Number of Nomination Committee Meetings attended/held</b>
<hr/>	
<b>Committee members</b>	
— Mr. Suen Sai Wah Simon	1/1
— Mr. Wang Chiang-Ming	1/1

## CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for determining the policy for the corporate governance of the Company. During the year 2016, the Board has discharged the following corporate governance duties:

- To develop and review the Company's policies and practices on corporate governance and make recommendations on changes and updating;
- To review and monitor the training and continuous professional development of directors and senior management;
- To review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- To develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors;
- To review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report; and
- To implement such other corporate governance duties and functions set out in the CG Code (as amended from time to time) for which the Board are responsible.

# Corporate Governance Report

## AUDITORS' REMUNERATION

The statement of the external auditors of the Company about their reporting responsibility on the Company's consolidated financial statements for the year ended 31 December 2016 is set out in the section headed "Independent Auditor's Report" of this Annual Report.

As at 31 December 2016, auditors' remuneration for audit services and non-audit services were approximately HK\$791,000 and HK\$155,000 respectively.

## COMPANY SECRETARY

During the year 2016, Ms. Yuen Wing Yan Winnie of Tricor Services Limited, external service provider, has been engaged by the Company as its Company Secretary. Its primary contact person at the Company is Mr. Cheng Chow-Chun, Chairman of the Company. Ms. Yuen has complied with Rule 3.29 of the Listing Rules of taking no less than 15 hours of relevant professional training.

## RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. Such systems and internal controls are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and establishing and maintaining appropriate and effective risk management and internal control systems.

The Audit Committee assists the Board in leading the management and overseeing their design, implementation and monitoring of the risk management and internal control systems.

The Company has established risk management manual to formulate the risk management process. The staff in all levels within the Group are also required to take the relevant responsibility on the risk management process. With reference to enterprise risk management – integrated framework issued by the Committee of Sponsoring Organisations of the Treadway Commission and the Company's enterprise risk management processes is summarised as follows:

1. Project initiation;
2. Risk identification
3. Risk analysis
4. Risk treatment
5. Risk monitoring
6. Risk reporting

# Corporate Governance Report

The risk management and internal control systems are reviewed at least annually to identify risks that potentially impact the business of the Group and various aspects including key operational and financial processes, regulatory compliance and information security to ensure appropriateness and effectiveness.

The management, in coordination with division/department heads, assessed the likelihood of risk occurrence, provided treatment plans, and monitored the risk management progress, and reported to the Audit Committee and the Board on all findings and the effectiveness of the systems.

The management has confirmed to the Board and the Audit Committee on the effectiveness of the risk management and internal control systems for the year ended 31 December 2016.

During the year under review, the Company has engaged the internal audit department of PEWC, the ultimate holding company of the Company for providing the internal audit function and performing independent review of the adequacy and effectiveness of the risk management and internal control systems. The internal audit department team members (the "Internal Auditors") of PEWC are all members of The Institute of Internal Auditors. The internal audit function examined key issues in relation to the accounting practices and all material controls and provided its findings and recommendations for improvement to the Audit Committee. No significant deficiency was identified during course of review and the systems were operating effectively and adequately.

The Audit Committee reviews and approves the annual internal audit plan and reviews the internal audit reports and activities. The Audit Committee is of the view that the Internal Auditor has adequate qualification and resources to perform its functions and have discharged its duties to the best of their abilities and is independent of the activities that it performs audit.

The Board, as supported by the Audit Committee as well as the management report and the internal audit findings, reviewed the effectiveness of risk management and internal control systems, including the financial, operational and compliance controls, for the year ended 31 December 2016, and considered that such systems are effective and adequate. The annual review also covered the financial reporting and internal audit function and staff qualifications, experiences and relevant resources. Based on the above, the Board is of the view that the Company has established proper risk management and internal control systems which are effective and adequate.

The Company has developed its disclosure policy which provides a general guide to the Company's Directors, officers, senior management and relevant employees in handling confidential information, monitoring information disclosure and responding to enquiries.

Control procedures have been implemented to ensure that unauthorized access and use of inside information are strictly prohibited.



# Corporate Governance Report

## COMMUNICATION WITH SHAREHOLDERS

The Company endeavours to maintain a high level transparency in communicating with its shareholders.

The Company welcomes the attendance of shareholders at general meetings to express their views. All the Directors are encouraged to attend the general meetings to have personal communication with shareholders. The Chairman of the Board as well as the chairmen of the Board Committees or other members of the respective committees are normally available to answer questions at general meetings. External auditor is also invited to attend the annual general meeting to answer questions about the conduct of the audit, the preparation and content of the auditor's report, the accounting policies adopted by the Company in relation to the preparation of the financial statements and independence of the auditor in relation to the conduct of the audit.

The Company is committed to maximizing the use of its website as a channel to provide updated information in a timely manner and strengthen the communication with shareholders.

Separate resolutions are proposed at the general meetings on each substantially separate issue, including the election of individual directors. The notice of general meeting is distributed to all shareholders and accompanying circular with details of each proposed resolution and other relevant information as required under the Listing Rules.

Resolutions put to vote at the general meetings (other than on procedural and administrative matters) are taken by poll. Procedures regarding the conduct of the poll are explained to the shareholders at the commencement of each general meeting. Poll results of the general meetings are published on the websites of the Company (<http://pacray.com.hk>) and the Stock Exchange.

The Company held an annual general meeting on 8 June 2016 ("2016 AGM"). All resolutions proposed at the 2016 AGM were passed.

## SHAREHOLDERS' ENQUIRIES

Shareholders of the Company may direct their enquiries about their shareholdings to the Company's branch share registrar through the online holding enquiry service at [www.tricoris.com](http://www.tricoris.com) or by email to [is-enquiries@hk.tricorglobal.com](mailto:is-enquiries@hk.tricorglobal.com) or hotline at (852) 2980 1333 or in person at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

Shareholders may also send written enquiries in respect of corporate governance or other matters of the Company to the Board to the following:

Address: Unit 408, 4/F., Nan Fung Tower, 88 Connaught Road Central, Hong Kong  
For the attention of Chairman of the Board/Chief Executive Officer

Telephone: (852) 2534 7888

Fax: (852) 2851 3055

# Corporate Governance Report

## SHAREHOLDERS' RIGHTS

### 1. Convening a special general meeting by shareholders

The Directors shall, on the requisition of shareholders of the Company holding at the date of the deposit of the requisition not less than one-tenth of such of the paid-up capital of the Company which as at the date of the deposit carries the right of voting at general meetings of the Company, convene a special general meeting. The requisition must state the purposes of the meeting, and must be signed by the requisitionists and deposited at the principal office of the Company at Unit 408, 4/F., Nan Fung Tower, 88 Connaught Road Central, Hong Kong (the "Principal Office"), and may consist of several documents in like form each signed by one or more requisitionists.

If the Directors do not within twenty-one days from the date of the deposit of the requisition proceed to convene a meeting, the requisitionists, or any of them representing more than one half of the total voting rights of all of them, may themselves convene a meeting, but any meeting so convened shall not be held after the expiration of three months from the said date.

The special general meeting convened by the requisitionists shall be convened in the same manner, as nearly as possible, as that in which meetings are to be convened by Directors.

### 2. Putting forward proposed resolution(s) to be considered at general meetings

Shareholders of the Company can submit a requisition in writing to the Company to requisite the Company (i) to give notice to the shareholders entitled to receive notice of the next annual general meeting in respect of any resolution which may properly be moved and is intended to be moved at an annual general meeting of the Company and/or (ii) to circulate a statement to shareholders entitled to have notice of any general meeting of the Company in respect of the matter referred to in any proposed resolution or business to be considered at any general meeting of the Company. These will be done at the expense of the requisitionist unless the Company resolves otherwise. The number of shareholders necessary for such requisition shall be (i) either any number of shareholders representing not less than one-twentieth of the total voting rights of all shareholders having at the date of the requisition a right to vote at the meeting to which the requisition relates; or (ii) not less than one hundred shareholders.

In the case of a requisition to circulate a statement to shareholders, please note that the statement shall contain no more than one thousand words. All requisition must be signed by all of the requisitionist(s) and be deposited at the Principal Office not less than six weeks before the general meeting in case of a requisition requiring notice of a resolution; and not less than one week before the general meeting in case of any other requisition.

The requisitionist(s) must deposit or tender with the requisition a sum of money reasonably sufficient to meet the Company's expenses in serving the notice of the resolution and/or circulating the statement (as applicable) in giving effect to the requisition.

## CONSTITUTIONAL DOCUMENTS

There was no change in the Company's constitutional documents during the year 2016. An up-to-date version of the Company's memorandum of association and Bye-laws are available on the websites of the Company and the Stock Exchange.

# Independent Auditor's Report



羅兵咸永道

## To the Shareholders of PacRay International Holdings Limited

*(incorporated in Bermuda with limited liability)*

### OPINION

#### What we have audited

The consolidated financial statements of PacRay International Holdings Limited (the “Company”) and its subsidiaries (the “Group”) set out on pages 39 to 87, which comprise:

- The consolidated statement of financial position as at 31 December 2016;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

#### Our opinion

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

#### Independence

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 the Code.

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*PricewaterhouseCoopers, 22/F, Prince’s Building, Central, Hong Kong  
T: +852 2289 8888, F: +852 2810 9888*

# Independent Auditor's Report

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, 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.

Key audit matter identified in our audit is related to provision for inventories as follows:

### Key Audit Matter

### How our audit addressed the Key Audit Matter

#### *Provision for inventories*

Refer to Note 4(a) (critical accounting estimates and judgements) and note 17 (inventories) to the consolidated financial statements for the related disclosures

At 31 December 2016, the Group held inventories of approximately HK\$4.3 million, net of impairment provision of approximately HK\$2 million. Inventories are carried at the lower of cost and net realisable value ("NRV"). The cost of inventories may not be recoverable if those inventories are damaged, if they have become obsolete, or if their selling prices have declined.

Management evaluates the NRV at each period end based on the estimated selling price less cost of disposal, which requires significant judgements and assumptions to be made to determine the estimated selling price of individual products, including historical experience of selling products of similar nature and expectation of future sales based on current market conditions and available information. The estimations are also subject to uncertainty as a result of future changes of market trends, customer demands and technology development.

We focused on this area due to the estimation of provision for inventories involves significant judgement.

Our audit procedures in relation to management's assessment on provision for inventories included:

- Understood, evaluated and tested the key controls on management's assessment on provision for inventories;
- Evaluated the Group's inventory count procedures on identifying damaged or obsolete inventory, and observed management's inventory count, on sample basis;
- Tested, on a sample basis, the accuracy of the ageing profile of individual inventory items by checking to the underlying delivery documents and purchase invoices;
- Tested, on a sample basis, the estimated selling price and sales quantity of selected inventory items to the actual selling price and sales quantity subsequent to the year end. For the inventory items with no subsequent sales after the year end, we discussed with management as to their NRV assessment and collaborated their explanations with sales orders on hand, current market price of similar products, historical margins and historical product life cycle of relevant inventory items, as appropriate;
- Compared, on a sample basis, the estimated selling price of selected inventory items against its carrying values.

Based on the procedures described above, we found that the judgement made by management in respect of the provision for inventories were supportable by available evidence.

# Independent Auditor's Report

## **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 other than 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.

## **RESPONSIBILITIES OF DIRECTORS 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 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 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 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. We report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. 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.



# Independent Auditor's Report

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism 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.
- 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.

## Independent Auditor's Report

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.

The engagement partner on the audit resulting in this independent auditor's report is Chan Tak Wai, Daniel.

**PricewaterhouseCoopers**

*Certified Public Accountants*

Hong Kong, 22 March 2017

# Consolidated Income Statement

For the year ended 31 December 2016

	Note	2016 HK\$'000	2015 HK\$'000
Revenue	5	17,337	13,614
Cost of sales	8	(7,697)	(5,790)
<b>Gross profit</b>		<b>9,640</b>	7,824
Distribution costs	8	(68)	(71)
General and administrative expenses	8	(16,771)	(21,312)
Other income	6	4,135	1,166
Other losses, net	7	(1,831)	(13,405)
<b>Loss before income tax</b>		<b>(4,895)</b>	(25,798)
Income tax (expense)/credit	10	(99)	545
<b>Loss for the year attributable to owners of the Company</b>		<b>(4,994)</b>	(25,253)
		<b>HK cents</b>	HK cents
Loss per share for loss attributable to owners of the Company			
— Basic and diluted	12	(1.48)	(7.50)

The notes on pages 45 to 87 are an integral part of these consolidated financial statements.

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2016

	2016 HK\$'000	2015 HK\$'000
<b>Loss for the year</b>	<b>(4,994)</b>	(25,253)
<b>Other comprehensive loss</b>		
<i>Items that may be reclassified to profit or loss</i>		
Fair value loss on available-for-sale financial assets	<b>(8,471)</b>	–
Currency translation differences	<b>(748)</b>	(570)
Total comprehensive loss for the year attributable to owners of the Company	<b>(14,213)</b>	(25,823)

The notes on pages 45 to 87 are an integral part of these consolidated financial statements.

# Consolidated Statement of Financial Position

As at 31 December 2016

	Note	2016 HK\$'000	2015 HK\$'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	14	2,288	2,560
Intangible assets	15	–	–
Deferred income tax assets	27	412	542
Available-for-sale financial assets	16	47,055	–
Long-term deposits	19	177	516
		<b>49,932</b>	3,618
<b>Current assets</b>			
Inventories	17	4,282	3,365
Trade and bills receivables	18	3,991	2,977
Deposits, prepayments and other receivables	19	15,124	1,100
Amount due from a related party	30(b)	3	3
Financial assets at fair value through profit or loss	21	718	71,256
Current income tax recoverable		51	58
Cash and cash equivalents	22	81,726	87,791
		<b>105,895</b>	166,550
<b>Total assets</b>		<b>155,827</b>	170,168
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital	23	134,922	134,922
Other reserves	24	(8,674)	545
Retained earnings		26,981	31,975
<b>Total equity</b>		<b>153,229</b>	167,442



# Consolidated Statement of Financial Position

As at 31 December 2016

	Note	2016 HK\$'000	2015 HK\$'000
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade payables	25	105	91
Other payables and accruals	26	2,493	2,635
<b>Total liabilities</b>		<b>2,598</b>	2,726
<b>Total equity and liabilities</b>		<b>155,827</b>	170,168

The consolidated financial statements on pages 39 to 87 were approved by the Board of Directors on 22 March 2017 and were signed on its behalf

**CHENG Chow-Chun**  
Director

**LEE Chao-Chun**  
Director

The notes on pages 45 to 87 are an integral part of these consolidated financial statements.

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

	Attributable to owners of the Company			
	Share capital HK\$'000	Other reserves HK\$'000	Retained earnings HK\$'000	Total HK\$'000
<b>Balance at 1 January 2015</b>	134,922	1,115	57,228	193,265
<b>Comprehensive loss</b>				
Loss for the year	–	–	(25,253)	(25,253)
<b>Other comprehensive loss</b>				
Currency translation differences	–	(570)	–	(570)
<b>Total comprehensive loss for the year</b>	–	(570)	(25,253)	(25,823)
<b>Balance at 31 December 2015</b>	134,922	545	31,975	167,442
<b>Balance at 1 January 2016</b>	<b>134,922</b>	<b>545</b>	<b>31,975</b>	<b>167,442</b>
<b>Comprehensive loss</b>				
Loss for the year	–	–	(4,994)	(4,994)
<b>Other comprehensive loss</b>				
Fair value loss on available-for-sale financial assets	–	(8,471)	–	(8,471)
Currency translation differences	–	(748)	–	(748)
<b>Total comprehensive loss for the year</b>	–	(9,219)	(4,994)	(14,213)
<b>Balance at 31 December 2016</b>	<b>134,922</b>	<b>(8,674)</b>	<b>26,981</b>	<b>153,229</b>

The notes on pages 45 to 87 are an integral part of these consolidated financial statements.

# Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	Note	2016 HK\$'000	2015 HK\$'000
<b>Cash flows from operating activities</b>			
Cash used in operations	28	(8,982)	(14,160)
Income tax refunded/(paid), net		5	(58)
Net cash used in operating activities		(8,977)	(14,218)
<b>Cash flows from investing activities</b>			
Purchases of property, plant and equipment	14	(491)	(851)
Proceeds from derecognition/disposal of financial assets at fair value through profit or loss		2,469	48,831
Interest received		317	282
Dividends received		686	543
Net cash generated from investing activities		2,981	48,805
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(5,996)</b>	<b>34,587</b>
Cash and cash equivalents at 1 January		87,791	53,326
Exchange losses on cash and cash equivalents		(69)	(122)
<b>Cash and cash equivalents at 31 December</b>		<b>81,726</b>	<b>87,791</b>

The notes on pages 45 to 87 are an integral part of these consolidated financial statements.

# Notes to the Consolidated Financial Statements

## 1 GENERAL INFORMATION

PacRay International Holdings Limited (the “Company”) and its subsidiaries (together the “Group”) are principally engaged in the design and distribution of integrated circuits and semi-conductor parts in the People’s Republic of China (the “PRC”) and investments holding.

The Company is a limited liability company incorporated in Bermuda. The address of its principal place of business is Unit 408, 4/F., Nan Fung Tower, 88 Connaught Road Central, Hong Kong.

The Company is listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

These consolidated financial statements are presented in thousands of units of Hong Kong Dollars (HK\$’000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 22 March 2017.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### 2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”). The consolidated financial statements have been prepared under the historical cost convention, as modified by available-for-sale financial assets and financial assets at fair value through profit or loss, which are carried at fair values.

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

# Notes to the Consolidated Financial Statements

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.1 Basis of preparation (Continued)

#### 2.1.1 Changes in accounting policy and disclosures

(a) *New and amended standards adopted by the Group*

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2016:

- Accounting for acquisitions of interests in joint operations — Amendments to HKFRS 11
- Clarification of acceptable methods of depreciation and amortisation — Amendments to HKAS 16 and HKAS 38
- Annual improvements to HKFRSs 2012–2014 cycle, and
- Disclosure initiative — amendments to HKAS 1.

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

(b) *New and amended standards not yet adopted by the Group*

The following new and amended standards have been issued, but are not effective for the financial year beginning 1 January 2016 and have not been early adopted.

		<b>Effective for annual periods beginning on or after</b>
HKAS 7 (Amendment)	Statement of Cash Flows	1 January 2017
HKAS 12 (Amendments)	Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017
HKFRS 9	Financial Instruments	1 January 2018
HKFRS 15	Revenue from Contracts with Customers	1 January 2018
HKFRS 16	Leases	1 January 2019

The Group is in the process of making an assessment of the impact of these new and amended standards upon initial application and is not yet in a position to state whether these new and amended standards will have any significant impact on the Group's result of operations and financial position.



# Notes to the Consolidated Financial Statements

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.2 Subsidiaries

#### 2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) *Business combinations*

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRSs.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

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

# Notes to the Consolidated Financial Statements

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.2 Subsidiaries *(Continued)*

#### 2.2.1 Consolidation *(Continued)*

(a) *Business combinations (Continued)*

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

Intra-Group transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

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

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

(c) *Disposal of subsidiaries*

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. It means the amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs.

#### 2.2.2 Separate financial statements

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

# Notes to the Consolidated Financial Statements

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chairman of the Board.

### 2.4 Foreign currency translation

#### (a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong Dollars ("HK\$"), which is the Company's functional and the Company and the Group's presentation currency.

#### (b) Transactions and balances

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

Foreign exchange gains and losses are presented in the consolidated income statement within 'Other losses, net'.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale, are included in other comprehensive income.

#### (c) Group companies

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

- (i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the reporting date;
- (ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (iii) all resulting currency translation differences are recognised in other comprehensive income.

# Notes to the Consolidated Financial Statements

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.4 Foreign currency translation *(Continued)*

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

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognised in other comprehensive income.

### 2.5 Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Depreciation is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Leasehold improvements	4–6 years or shorter of the lease term
Furniture, fixtures and equipment	4–5 years

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

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

### 2.6 Intangible assets

#### Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of two to five years. Cost associated with maintaining computer software programmes are recognised as expenses as incurred.

# Notes to the Consolidated Financial Statements

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.7 Impairment of interests in subsidiaries and non-financial assets

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

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

### 2.8 Financial assets

#### 2.8.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

(b) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "trade and bills receivables", "deposits and other receivables", "amount due from a related party" and "cash and cash equivalents" in the consolidated statement of financial position.

(c) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.



# Notes to the Consolidated Financial Statements

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.8 Financial assets *(Continued)*

#### 2.8.2 Recognition and measurement

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

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the consolidated income statement within 'Other losses, net' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated income statement as part of other income when the Group's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated income statement.

Dividends on available-for-sale equity instruments are recognised in the consolidated income statement as part of other income when the Group's right to receive payments is established.

#### 2.9 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

# Notes to the Consolidated Financial Statements

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.10 Impairment of financial assets

#### (a) Assets carried at amortised cost

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

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

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

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

#### (b) Assets classified as available-for-sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss — is removed from equity and recognised in profit or loss. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement.

# Notes to the Consolidated Financial Statements

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.11 Inventories

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

### 2.12 Trade and other receivables

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

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

### 2.13 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash in hand, deposit held at call with banks with original maturities of three months or less.

### 2.14 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

### 2.15 Trade payables

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

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

# Notes to the Consolidated Financial Statements

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.16 Current and deferred income tax

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

#### (a) Current income tax

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

#### (b) Deferred income tax

##### *Inside basis differences*

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

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

##### *Outside basis differences*

Deferred income tax liability is provided on taxable temporary differences arising from interests in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

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

#### (c) Offsetting

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

# Notes to the Consolidated Financial Statements

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.17 Employee benefits

**(a) Employee leave entitlements**

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the reporting date. Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

**(b) Bonus plans**

Provision for bonus plans is recognised when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

**(c) Retirement benefits schemes**

The Group contributes to various employee retirement benefit plans organised by municipal and provincial governments in Mainland China for its PRC based employees. Under these plans, the municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired PRC based employees of the Group. Contributions to these plans are expensed as incurred. The Group has no further payment obligations once the contributions have been paid.

The Group's contributions to the Mandatory Provident Fund Scheme established under the Hong Kong Mandatory Provident Fund Schemes Ordinance are expensed as incurred. Both the Group and its employees in Hong Kong are required to contribute 5% of each individual's relevant income with a maximum amount of HK\$1,500 per month as a mandatory contribution. Employees may also elect to contribute more than the minimum as a voluntary contribution. The assets of the scheme are held separately from those of the Group and managed by independent professional fund managers. The Group has no further payment obligations once the contributions have been paid.

### 2.18 Revenue and income recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

**(a) Sales of goods**

Sales of goods are recognised when the title to the goods has been passed to the customer, which is at the date when the customer receives and accepts the goods, and the collectability of the related receivables is reasonably assured.



# Notes to the Consolidated Financial Statements

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.18 Revenue and income recognition *(Continued)*

#### (b) Interest income

Interest income from bank deposits is recognised on a time-proportion basis using the effective interest method.

#### (c) Dividend income

Dividend income is recognised when the right to receive payment is established.

### 2.19 Leases (as the lessee for operating leases)

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

### 2.20 Dividend distribution

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

## 3 FINANCIAL RISK MANAGEMENT

### 3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by management. Management identifies and evaluates financial risks in close co-operation with the Group's operating units.

#### (a) Market risk

##### (i) Foreign exchange risk

The Group operates in both the PRC and Hong Kong. Most of the transactions for the PRC reporting entity is denominated in Renminbi ("RMB"), whereas that for Hong Kong reporting entities are denominated in HK\$ and United States dollar ("US\$"). Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. In addition, the conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government. Management is responsible for managing the net position in each foreign currency. The Group currently does not have a foreign currency hedging policy.

# Notes to the Consolidated Financial Statements

## 3 FINANCIAL RISK MANAGEMENT *(Continued)*

### 3.1 Financial risk factors *(Continued)*

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

##### (i) Foreign exchange risk *(Continued)*

As the assets and liabilities of the PRC reporting entity is mainly denominated in RMB, its functional currency, the directors are of the opinion that their volatility of their profits against changes in exchange rates of foreign currencies would not be significant. Accordingly, no sensitivity analysis is performed.

Moreover, as the assets and liabilities of the HK reporting entities are mainly denominated in HK\$, its functional currency, and US\$ are reasonably stable against the HK\$ under the Linked Exchange Rate System, the directors are of the opinion that the Group does not have significant foreign exchange risk. Accordingly, no sensitivity analysis is performed.

##### (ii) Interest rate risk

The Group did not have any bank borrowings during the year (2015: same). The Group's exposures to changes in interest rates are mainly attributable to its interest bearing bank deposits.

The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

The impact on post-tax loss of 10 basis-point shift would be a maximum decrease/increase of HK\$85,000 for the year ended 31 December 2016 (2015: HK\$71,000), mainly as a result of its interest bearing bank deposits.

##### (iii) Price risk

The Group is exposed to equity securities price risk because investments in listed equities held by the Group are classified in the consolidated statement of financial position either as available-for-sale financial assets or financial assets at fair value through profit or loss. No specific hedging of price risk has been carried out by the Group.

For the year ended 31 December 2016, if the price of the listed securities carried at financial assets at fair value through profit or loss as at year end had increased/decreased by 10% (2015: 10%), the impact on post-tax loss would be approximately HK\$72,000 (2015: approximately HK\$7,126,000) lower or higher and if the price of the listed securities carried at available-for-sale financial assets as at year end had increased/decreased by 10%, the Group's investment reserve would have increased/decreased by approximately HK\$4,706,000 (2015: No listed securities carried at available-for-sale financial assets).

# Notes to the Consolidated Financial Statements

## 3 FINANCIAL RISK MANAGEMENT *(Continued)*

### 3.1 Financial risk factors *(Continued)*

#### (b) Credit risk

Credit risk is managed on a group basis. The Group's credit risk arises from cash and cash equivalents, short-term bank deposits, deposits and other receivables as well as credit exposures to trade receivables. Management has policies in place to monitor the exposures to these credit risks on an on-going basis.

The Group's exposure to bad debts is not significant since the Group primarily trades with reputable and creditworthy customers. In addition, the Group has credit policies in place to ensure that sales of products are made on cash basis or to customers with appropriate credit history.

Top five customers accounted for approximately 99% (2015: 96%) of the Group's trade receivables as at 31 December 2016. The Group mitigates its concentration risk from its major customers by doing businesses with a number of customers for the same or similar products and the Group actively monitors the credit quality of its customers and adjusts the credit limits granted to the customers should their credit quality deteriorate or when there are signs of slow payment of outstanding receivables.

Exposure to credit risk arising from bank deposits is managed by placing the deposits at reputable banks attaining a minimum credit rating of "A" and through regular monitoring of the credit rating.

The Group's historical experience in collection of deposits and other receivables falls within recorded allowance and the management are of the opinion that adequate provision for uncollectible receivable has been made.

#### (c) Liquidity risk

The Group did not have any bank borrowings during the year (2015: same). Prudent liquidity risk management implies maintaining sufficient cash from operating activities. Due to the dynamic nature of the underlying businesses, management maintains flexibility in funding by maintaining an adequate amount of cash and cash equivalents.

Surplus cash held by the operating entities over and above balance required for working capital management are invested in time deposits and marketable securities, choosing instruments with appropriate maturities. As at 31 December 2016, the Group held cash and cash equivalents of HK\$81,726,000 (2015: HK\$87,791,000) that are expected to readily generate cash inflows for managing liquidity risk.

# Notes to the Consolidated Financial Statements

## 3 FINANCIAL RISK MANAGEMENT *(Continued)*

### 3.1 Financial risk factors *(Continued)*

#### (c) Liquidity risk *(Continued)*

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period from the reporting date to their respective contractual maturity dates. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year HK\$'000	Between 1 and 2 years HK\$'000	Total HK\$'000
<b>At 31 December 2016</b>			
Trade payables	105	–	105
Other payables and accruals	2,243	–	2,243
<b>At 31 December 2015</b>			
Trade payables	91	–	91
Other payables and accruals	2,588	–	2,588

### 3.2 Capital management

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

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total liabilities expressed as a percentage of the total equity and liabilities. As at 31 December 2016, the gearing ratio was approximately 2% (2015: approximately 2%). Management considers a ratio of not more than 30% as optimal.

# Notes to the Consolidated Financial Statements

## 3 FINANCIAL RISK MANAGEMENT *(Continued)*

### 3.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair values as at 31 December 2016 by level of the inputs to valuation techniques used to measure their fair values. Such inputs are categorised into three levels within a fair value hierarchy as follows:

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

The following table presents the Group's assets and liabilities that are measured at fair values at 31 December 2016.

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
<b>Assets</b>				
Available-for-sale financial assets	47,055	–	–	47,055
Financial assets at fair value through profit or loss	718	–	–	718
Total financial assets measured at fair values	47,773	–	–	47,773

The following table presents the Group's assets and liabilities that are measured at fair values at 31 December 2015.

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
<b>Assets</b>				
Financial assets at fair value through profit or loss	71,256	–	–	71,256

The fair values of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price.



# Notes to the Consolidated Financial Statements

## **3 FINANCIAL RISK MANAGEMENT** *(Continued)*

### **3.4 Offsetting financial assets and financial liabilities**

No financial assets or liabilities are subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2016 (2015: same).

### **3.5 Major customers and suppliers**

The five largest customers of the Group accounted for approximately 92% (2015: 84%) of the Group's total revenue while the largest customer of the Group accounted for approximately 26% (2015: 31%) of the Group's total revenue. In addition, for the year ended 31 December 2016, the five largest suppliers of the Group accounted for approximately 84% (2015: 90%) of the Group's total purchases while the largest supplier of the Group accounted for approximately 44% (2015: 48%) of the Group's total purchases.

The Group mitigates its concentration risk from its major customers by doing businesses with a number of customers for the same or similar products. The Group also maintains relationships with a number of accredited suppliers so as to reduce its reliance of any of them.

## **4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

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

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

### **(a) Inventories**

Inventories are carried at the lower of cost and net realisable value. The cost of inventories is written down to net realisable value when there is an objective evidence that the cost of inventories may not be recoverable. The cost of inventories may not be recoverable if those inventories are aged and damaged, if they have become wholly or partially obsolete, or if their selling prices have declined.

The amount provided for to the consolidated income statement is the difference between the carrying value and net realisable value of the inventories. In determining whether the inventories can be recoverable, significant judgement is required. Where the expectation is different from the original estimate, such difference will impact the carrying value of inventory and provision for inventories in the year in which such estimate has been changed.

# Notes to the Consolidated Financial Statements

## 5 SEGMENT INFORMATION

The Group is principally engaged in the design, distribution and trading of integrated circuits and semiconductor parts in the PRC, and investments holding.

For management purpose, the Group is organised into two main operations:

- (i) corporate administration and investment functions performed by the Hong Kong headquarter; and
- (ii) design and sales of integrated circuits used in industrial and household measuring tools conducted through the Group's subsidiary in the PRC, namely Shanghai SyncMOS Semiconductor Company Limited ("Shanghai SyncMOS").

These operating segments are the basis on which the Group reports its primary segment information to the chief operating decision-maker who is the Chairman of the Board.

The chief operating decision-maker assesses the performance of the operating segments based on a measure of revenue, operating profit and net profit.

	Hong Kong HK\$'000	PRC HK\$'000	Total HK\$'000
For the year ended 31 December 2016			
Revenues from external customers	–	17,337	17,337
Operating (loss)/profit	(6,399)	1,149	(5,250)
Interest income	346	9	355
(Loss)/profit before income tax	(6,053)	1,158	(4,895)
Income tax expense	–	(99)	(99)
(Loss)/profit for the year	(6,053)	1,059	(4,994)
Other losses — net, included in results for the year	(1,760)	(71)	(1,831)
Depreciation and amortisation, included in results for the year	41	508	549
Capital expenditures	9	482	491
As at 31 December 2016			
Segment assets	143,370	12,457	155,827
Segment liabilities	1,271	1,327	2,598

# Notes to the Consolidated Financial Statements

## 5 SEGMENT INFORMATION *(Continued)*

	Hong Kong HK\$'000	PRC HK\$'000	Total HK\$'000
For the year ended 31 December 2015			
Revenues from external customers	–	13,614	13,614
Operating (loss)/profit	(26,235)	155	(26,080)
Interest income	267	15	282
(Loss)/profit before income tax	(25,968)	170	(25,798)
Income tax credit	–	545	545
(Loss)/profit for the year	(25,968)	715	(25,253)
Other losses — net, included in results for the year	(13,385)	(20)	(13,405)
Depreciation and amortisation, included in results for the year	268	406	674
Capital expenditures	90	761	851
As at 31 December 2015			
Segment assets	158,139	12,029	170,168
Segment liabilities	1,316	1,410	2,726

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

	2016 HK\$'000	2015 HK\$'000
Customer A	4,584	4,268
Customer B	3,651	1,909
Customer C	3,501	1,495
Customer D	2,672	2,642

# Notes to the Consolidated Financial Statements

## 6 OTHER INCOME

	2016 HK\$'000	2015 HK\$'000
Interest income	355	282
Dividend income	3,471	543
Sundry income	309	341
	<b>4,135</b>	1,166

## 7 OTHER LOSSES, NET

Other (losses)/gains recognised during the year are as follows:

	2016 HK\$'000	2015 HK\$'000
Financial assets at fair value through profit or loss:		
– unrealised fair value gains/(losses)	4	(12,683)
– realised losses on derecognition/disposal	(1,790)	(38)
Exchange gains/(losses), net	13	(76)
Loss on disposal of property, plant and equipment	(58)	(608)
Other losses, net	<b>(1,831)</b>	(13,405)

# Notes to the Consolidated Financial Statements

## 8 EXPENSES BY NATURE

	2016 HK\$'000	2015 HK\$'000
Auditors' remuneration		
– Audit services	791	774
– Non-audit services	155	–
	946	774
Cost of inventories sold	7,361	5,050
Depreciation of property, plant and equipment (Note 14)	549	674
Employee benefit expenses (including directors' emoluments) (Note 9)	8,212	7,825
Legal and professional fee	2,328	5,875
Marketing costs	68	71
Operating lease rentals in respect of properties	1,681	2,400
Provision for inventories (Note 17)	336	740
Research and development costs	56	71
Other expenses	2,999	3,693
Total cost of sales, distribution costs and general and administrative expenses	24,536	27,173

# Notes to the Consolidated Financial Statements

## 9 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTOR'S EMOLUMENTS)

	2016 HK\$'000	2015 HK\$'000
Salaries, wages and other benefits	7,049	6,671
Bonuses and welfare fund	1,126	1,117
Pension costs — defined contribution plan	37	37
<b>Total employee benefit expense</b>	<b>8,212</b>	<b>7,825</b>

### (a) Five highest paid individuals

None of the five highest paid individuals is a director (2015: None) whose emoluments are reflected in Note 32(a). The emoluments payable to the five highest paid individuals (2015: five) during the year are as follows:

	2016 HK\$'000	2015 HK\$'000
Basic salaries and allowances	2,765	2,522
Bonuses	162	228
Pension costs — defined contribution plan	317	309
	<b>3,244</b>	<b>3,059</b>

The emoluments of these five (2015: five) highest paid individuals fell within the following bands:

	Number of individuals	
	2016	2015
Nil – HK\$1,000,000	4	4
HK\$1,000,001 – HK\$1,500,000	1	1
	<b>5</b>	<b>5</b>

During the year, no emolument was paid by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office.



# Notes to the Consolidated Financial Statements

## 10 INCOME TAX

The Company is exempted from taxation in Bermuda. No provision for Hong Kong profits tax has been made as its subsidiaries in Hong Kong have no estimated assessable profits for the year. According to the relevant PRC tax regulations, Shanghai SyncMOS, being qualified as a New and High Technology Enterprise during the year ended 31 December 2016, is entitled to a preferential Corporate Income Tax ("CIT") rate of 15% (2015: preferential CIT rate of 15%). Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates prevailing in the countries in which the Group operates.

	2016 HK\$'000	2015 HK\$'000
Current income tax	–	–
Deferred income tax (Note 27)	99	(545)
Income tax expense/(credit)	99	(545)

The tax on the Group's loss before income tax differs from the theoretical amount that would arise using domestic tax rates applicable to loss in the respective countries as follows:

	2016 HK\$'000	2015 HK\$'000
Loss before income tax	(4,895)	(25,798)
Tax calculated at domestic tax rates applicable to loss in the respective countries	226	43
Income not subject to tax	(53)	(78)
Expenses not deductible for tax purpose	12	35
Tax incentives for research and development expenses (Note)	(86)	(238)
Recognition of previously unrecognized tax losses and temporary differences	–	(310)
Tax losses for which no deferred tax asset was recognised	–	3
Income tax expense/(credit)	99	(545)

Note:

According to relevant laws and regulations promulgated by the State Administration of Tax of the PRC effective from 2008 onwards, enterprises engaging in research and development activities are entitled to claim 150% of their qualified research and development expenses so incurred as tax deductible expenses when determining their assessable profits for the year ("Super Deduction"). The additional deduction of 50% of qualified research and development expenses is subject to the approval from the relevant tax authorities in the annual CIT filling. The Group has made its best estimate for the Super Deduction to be claimed in ascertaining the assessable profits for the year ended 31 December 2016.

# Notes to the Consolidated Financial Statements

## 11 DIVIDEND

No dividends have been paid or proposed during the year ended 31 December 2016 nor has any dividend been proposed since the end of the reporting period (2015: Nil).

## 12 LOSS PER SHARE

### (a) Basic

Basic loss per share is calculated by dividing the consolidated loss attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

	2016	2015
Loss attributable to owners of the Company (HK\$'000)	(4,994)	(25,253)
Weighted average number of ordinary shares in issue (thousands)	336,587	336,587
	HK cents	HK cents
Basic loss per share	(1.48)	(7.50)

### (b) Diluted

The Company does not have any potentially dilutive ordinary shares.

# Notes to the Consolidated Financial Statements

## 13 SUBSIDIARIES

The following is a list of the principal subsidiaries as at 31 December 2016:

Name	Place of incorporation/ establishment and form of legal entity	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Percentage of equity interest attributable to the Group	
				Directly held	Indirectly held
Harvest Century Enterprises Limited	Hong Kong, limited liability company	Inactive	Issued and fully paid: HK\$10,000	100%	-
Rockey Company Limited	Hong Kong, limited liability company	Investment holding in Hong Kong	Issued and fully paid: HK\$2	100%	-
Shanghai SyncMOS	The PRC, wholly foreign owned enterprise	Design, distribution and trading of integrated circuit products and provision of related agency services in the PRC	Registered capital of US\$7,000,000	-	100%
SyncMOS Technologies, Inc. (BVI)	The British Virgin Islands, limited liability company	Investment holding in Hong Kong	1 ordinary share of US\$1	100%	-
Top Return Investments Limited	Hong Kong, limited liability company	Investment holding in Hong Kong	Issued and fully paid: HK\$1	100%	-
Wellba Investment Limited	Hong Kong, limited liability company	Inactive	Issued and fully paid: HK\$2,000,000	-	100%
Win Win Property Investments Limited	The British Virgin Islands, limited liability company	Inactive	1 ordinary share of US\$1	100%	-

# Notes to the Consolidated Financial Statements

## 14 PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Total HK\$'000
At 1 January 2015			
Cost	1,250	8,293	9,543
Accumulated depreciation	(405)	(6,026)	(6,431)
Net book amount	845	2,267	3,112
Year ended 31 December 2015			
Opening net book amount	845	2,267	3,112
Additions	35	816	851
Depreciation	(250)	(424)	(674)
Disposal	(604)	(4)	(608)
Exchange differences	–	(121)	(121)
Closing book amount	26	2,534	2,560
At 31 December 2015			
Cost	124	8,452	8,576
Accumulated depreciation	(98)	(5,918)	(6,016)
Net book amount	26	2,534	2,560
Year ended 31 December 2016			
Opening net book amount	<b>26</b>	<b>2,534</b>	<b>2,560</b>
Additions	<b>9</b>	<b>482</b>	<b>491</b>
Depreciation	<b>(21)</b>	<b>(528)</b>	<b>(549)</b>
Disposal	–	<b>(58)</b>	<b>(58)</b>
Exchange differences	–	<b>(156)</b>	<b>(156)</b>
Closing book amount	<b>14</b>	<b>2,274</b>	<b>2,288</b>
At 31 December 2016			
Cost	<b>104</b>	<b>7,818</b>	<b>7,922</b>
Accumulated depreciation	<b>(90)</b>	<b>(5,544)</b>	<b>(5,634)</b>
Net book amount	<b>14</b>	<b>2,274</b>	<b>2,288</b>

Depreciation expenses of HK\$549,000 (2015: HK\$674,000) has been charged in 'general and administrative expenses'.

# Notes to the Consolidated Financial Statements

## 15 INTANGIBLE ASSETS

	<b>Computer software</b> HK\$'000
At 1 January 2015, 31 December 2015 and 31 December 2016	
Cost	5,005
Accumulated amortisation	(5,005)
Net book amount	–

## 16 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	<b>2016</b> HK\$'000	2015 HK\$'000
<b>1 January</b>	–	–
Additions	<b>55,526</b>	–
Fair value loss transferred to other comprehensive income (Note 24)	<b>(8,471)</b>	–
<b>31 December</b>	<b>47,055</b>	–

  

	<b>2016</b> HK\$'000	2015 HK\$'000
Available-for-sale financial assets include the following:		
Listed investments		
– Equity securities listed in the United States of America	<b>47,055</b>	–

As at 31 December 2015, the Group owned 459,678 common shares of ChipMOS Technologies (Bermuda) Limited (“ChipMOS Bermuda”) representing 1.7% of issued share capital of ChipMOS Bermuda. The investment was classified as financial assets at fair value through profit or loss. On 31 October 2016, ChipMOS Bermuda completed the merger with ChipMOS Technologies Inc. (“ChipMOS Taiwan”) (the “Merger”). Upon the completion of the Merger, the financial assets at fair value through profit or loss in relation to the Group’s interest in ChipMOS Bermuda has been derecognised and the Group received approximately US\$1.7 million in cash and 430,027 ChipMOS Taiwan American depository shares (“ChipMOS Taiwan ADS”) in exchange, whose fair value approximated HK\$55,526,000 on the same date. The Group classified its investment in ChipMOS Taiwan ADS as an available-for-sale financial asset.

# Notes to the Consolidated Financial Statements

## 16 AVAILABLE-FOR-SALE FINANCIAL ASSETS *(Continued)*

As at 31 December 2016, the Group's available-for-sale financial assets are denominated in US\$. The fair value of the listed investments are based on their current quoted market prices.

As at 31 December 2016, approximately HK\$10,757,000 cash consideration as a result of the Merger was not yet received and was recorded as other receivables.

## 17 INVENTORIES

	2016 HK\$'000	2015 HK\$'000
Raw materials	935	811
Work in progress	1,528	1,353
Finished goods	3,843	3,023
	6,306	5,187
Less: provision for inventories	(2,024)	(1,822)
Inventories, net	4,282	3,365

The cost of inventories recognised as expense and included in 'cost of sales' amounted to HK\$7,361,000 (2015: HK\$5,050,000), which included provision for inventories of HK\$336,000 for the year ended 31 December 2016 (2015: HK\$740,000).

## 18 TRADE AND BILLS RECEIVABLES

	2016 HK\$'000	2015 HK\$'000
Trade receivables	2,285	737
Bills receivables	1,706	2,240
Less: allowance for impairment of receivables	–	–
Trade and bills receivables, net	3,991	2,977



# Notes to the Consolidated Financial Statements

## 18 TRADE AND BILLS RECEIVABLES *(Continued)*

The ageing analysis of trade receivables based on invoice date were as follows:

	<b>2016</b>	2015
	<b>HK\$'000</b>	HK\$'000
1–30 days	<b>383</b>	344
31–90 days	<b>1,755</b>	268
Over 90 days	<b>147</b>	125
	<b>2,285</b>	737

The carrying values of trade receivables approximated their fair values as at 31 December 2016 (2015: same). The Group's credit terms to trade debtors range from 60 to 90 days.

As at 31 December 2016, trade receivables of HK\$575,000 (2015: HK\$393,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default and based on past experience, the overdue amounts can be recovered. The ageing analysis of these trade receivables is as follows:

	<b>2016</b>	2015
	<b>HK\$'000</b>	HK\$'000
31–90 days	<b>428</b>	268
Over 90 days	<b>147</b>	125
	<b>575</b>	393

As at 31 December 2016, bills receivables of HK\$1,706,000 (2015: HK\$2,240,000) will mature as follows:

	<b>2016</b>	2015
	<b>HK\$'000</b>	HK\$'000
0–30 days	<b>251</b>	615
31–90 days	<b>748</b>	753
91–180 days	<b>707</b>	860
over 180 days	<b>–</b>	12
	<b>1,706</b>	2,240

The maximum exposure to credit risk at the reporting date is the carrying value of the trade and bills receivables disclosed above. The Group's trade and bills receivables are denominated in RMB.

# Notes to the Consolidated Financial Statements

## 19 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2016 HK\$'000	2015 HK\$'000
Deposits	708	748
Prepayments	919	851
Dividends receivable	2,785	–
Proceeds receivable from derecognition of financial assets at fair value through profit or loss	10,757	–
Other receivables	132	17
	<b>15,301</b>	1,616
Less: non-current portion — long-term deposits	<b>(177)</b>	(516)
Current portion	<b>15,124</b>	1,100

The carrying values of deposits and other receivables approximated their fair values as at 31 December 2016 (2015: same).

## 20 FINANCIAL INSTRUMENTS BY CATEGORY

	Loans and receivables HK\$'000	Financial assets at fair value through profit or loss HK\$'000	Available-for- sale financial assets HK\$'000	Total HK\$'000
At 31 December 2016				
Trade and bills receivables (Note 18)	3,991	–	–	3,991
Deposits and other receivables	14,382	–	–	14,382
Amount due from a related party (Note 30(b))	3	–	–	3
Financial assets at fair value through profit or loss (Note 21)	–	718	–	718
Available-for-sale financial assets (Note 16)	–	–	47,055	47,055
Cash and cash equivalents (Note 22)	81,726	–	–	81,726
Total	<b>100,102</b>	<b>718</b>	<b>47,055</b>	<b>147,875</b>

# Notes to the Consolidated Financial Statements

## 20 FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

	Loans and receivables HK\$'000	Financial assets at fair value through profit or loss HK\$'000	Available-for- sale financial assets HK\$'000	Total HK\$'000
At 31 December 2015				
Trade and bills receivables (Note 18)	2,977	–	–	2,977
Deposits and other receivables	765	–	–	765
Amount due from a related party (Note 30(b))	3	–	–	3
Financial assets at fair value through profit or loss (Note 21)	–	71,256	–	71,256
Cash and cash equivalents (Note 22)	87,791	–	–	87,791
<b>Total</b>	<b>91,536</b>	<b>71,256</b>	<b>–</b>	<b>162,792</b>

	<b>Other financial liabilities at amortised cost HK\$'000</b>
At 31 December 2016	
Trade payables (Note 25)	<b>105</b>
Other payables and accruals	<b>2,243</b>
<b>Total</b>	<b>2,348</b>

At 31 December 2015	
Trade payables (Note 25)	91
Other payables and accruals	2,588
<b>Total</b>	<b>2,679</b>

# Notes to the Consolidated Financial Statements

## 21 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2016 HK\$'000	2015 HK\$'000
Listed securities — held-for-trading		
— The United States of America (Note 16)	—	70,541
— Hong Kong	718	715
	<b>718</b>	71,256

Changes in fair value of the financial assets at fair value through profit or loss are recorded in “Other losses, net” in Note 7 of the consolidated income statement.

The fair value of all equity securities is based on their current quoted market prices.

## 22 CASH AND CASH EQUIVALENTS

	2016 HK\$'000	2015 HK\$'000
Cash at bank	5,744	4,758
Term deposits with original maturities of three months or less (Note a)	75,973	83,029
Cash on hand	9	4
	<b>81,726</b>	87,791
Denominated in:		
— HK\$	28,254	36,369
— US\$	52,868	49,551
— RMB (Note b)	604	1,871
	<b>81,726</b>	87,791

Note:

(a) As at 31 December 2016, the effective interest rate on term deposits was 0.45% (2015: 0.67%).

(b) As at 31 December 2016, funds of the Group denominated in RMB, amounting to HK\$599,000 (2015: HK\$1,868,000), were kept in bank accounts opened with banks in the PRC where the remittance of funds is subject to foreign exchange controls.

# Notes to the Consolidated Financial Statements

## 23 SHARE CAPITAL

	Number of shares (thousands)	Ordinary shares HK\$'000	Share premium HK\$'000	Total share capital HK\$'000
At 1 January 2015, 31 December 2015 and 31 December 2016	336,587	33,659	101,263	134,922

The total authorised number of ordinary shares is 1,000 million shares (2015: 1,000 million shares) with a par value of HK\$0.1 per share (2015: HK\$0.1 per share). All issued shares are fully paid.

## 24 OTHER RESERVES

	Exchange reserve HK\$'000	Investment reserve HK\$'000	Total HK\$'000
At 1 January 2015	1,115	–	1,115
Currency translation differences	(570)	–	(570)
At 31 December 2015	545	–	545
Fair value loss on available-for-sale financial assets (Note 16)	–	(8,471)	(8,471)
Currency translation differences	(748)	–	(748)
At 31 December 2016	(203)	(8,471)	(8,674)

## 25 TRADE PAYABLES

At 31 December 2016, the ageing analysis of trade payables based on invoice date is as follows:

	2016 HK\$'000	2015 HK\$'000
0–30 days	105	91

The carrying amounts of trade payables approximated their fair values as at 31 December 2016 (2015: same).

# Notes to the Consolidated Financial Statements

## 26 OTHER PAYABLES AND ACCRUALS

	2016 HK\$'000	2015 HK\$'000
Accrued staff benefits	835	857
Accrued professional fees	1,153	1,125
Advances from customers	250	47
Others	255	606
	<b>2,493</b>	<b>2,635</b>

## 27 DEFERRED INCOME TAX

The analysis of deferred income tax assets and deferred income tax liabilities is as follows:

	2016 HK\$'000	2015 HK\$'000
Deferred income tax assets to be recovered after more than 12 months	412	542

The gross movement on the deferred income tax account is as follows:

	2016 HK\$'000	2015 HK\$'000
At 1 January	542	–
(Debited)/credited to the consolidated income statement	(99)	545
Currency translation differences	(31)	(3)
At 31 December	412	542



# Notes to the Consolidated Financial Statements

## 27 DEFERRED INCOME TAX (Continued)

Deferred income tax assets:

	<b>Provisions</b> HK\$'000	<b>Tax losses</b> HK\$'000	<b>Total</b> HK\$'000
At 1 January 2015	–	–	–
Charged to the consolidated income statement	281	264	545
Currency translation differences	(2)	(1)	(3)
At 31 December 2015 and at 1 January 2016	<b>279</b>	<b>263</b>	<b>542</b>
Credited/(debited) to the consolidated income statement	<b>53</b>	<b>(152)</b>	<b>(99)</b>
Currency translation differences	<b>(20)</b>	<b>(11)</b>	<b>(31)</b>
At 31 December 2016	<b>312</b>	<b>100</b>	<b>412</b>

Unrecognised tax losses of approximately HK\$80 million (2015: HK\$80 million) is subject to the approval of the relevant tax authorities and have no expiry dates. The potential deferred tax assets in respect of these tax losses which have not been recognised amounted to approximately HK\$13 million (2015: HK\$13 million).

# Notes to the Consolidated Financial Statements

## 28 CASH USED IN OPERATIONS

### (a) Reconciliation of loss before income tax to net cash used in operations

	2016 HK\$'000	2015 HK\$'000
Loss before income tax	<b>(4,895)</b>	(25,798)
Adjustments for:		
– Interest income	<b>(355)</b>	(282)
– Dividend income	<b>(3,471)</b>	(543)
– Depreciation of property, plant and equipment	<b>549</b>	674
– Loss on disposal of property, plant and equipment	<b>58</b>	608
– Unrealised fair value (gains)/losses from financial assets at fair value through profit or loss	<b>(4)</b>	12,683
– Realised losses from derecognition/disposal of financial assets at fair value through profit or loss	<b>1,790</b>	38
– Provision for inventories	<b>336</b>	740
	<b>(5,992)</b>	(11,880)
Changes in working capital:		
– Inventories	<b>(1,524)</b>	151
– Trade and bills receivables	<b>(1,263)</b>	(1,751)
– Deposits, prepayments and other receivables	<b>(163)</b>	6
– Amount due to a fellow subsidiary	–	(1,021)
– Trade payables, other payables and accruals	<b>(40)</b>	335
Cash used in operations	<b>(8,982)</b>	(14,160)

# Notes to the Consolidated Financial Statements

## 28 CASH USED IN OPERATIONS *(Continued)*

(b) In the consolidated statement of cash flows, proceeds from sale of property, plant and equipment comprise:

	2016 HK\$'000	2015 HK\$'000
Net book amount	58	608
Loss on disposal of property, plant and equipment	(58)	(608)
Proceeds from disposals of property, plant and equipment	–	–

## 29 OPERATING LEASE COMMITMENTS

The Group leases various offices under non-cancellable operating lease agreements. The lease terms are between one to three years.

The future aggregate minimum lease payments for office premises under non-cancellable operating leases are as follows:

	2016 HK\$'000	2015 HK\$'000
– Not later than one year	1,107	1,612
– Later than one year and not later than five years	717	1,915
	<b>1,824</b>	<b>3,527</b>

# Notes to the Consolidated Financial Statements

## 30 RELATED PARTY TRANSACTIONS

The directors regard Pacific Electric Wire and Cable Company Limited ("PEWC"), a public company incorporated in Taiwan, as the ultimate holding company of the Company.

### (a) Key management compensation

Key management includes directors (executive and non-executive). The compensation paid or payable to key management for employee services is shown below:

	2016 HK\$'000	2015 HK\$'000
Basic salaries and allowances	2,122	2,153
Bonuses	47	96
	<b>2,169</b>	2,249

### (b) Year end balances arising from expenses paid on behalf

	2016 HK\$'000	2015 HK\$'000
Amount due from Mosel Vitelic Inc. ("MVI"), a related company	3	3

The amounts due from MVI, a related company is unsecured, interest-free and repayable on demand. The carrying amount of the balance approximated its fair values and is denominated in Hong Kong dollars.

# Notes to the Consolidated Financial Statements

## 31 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

### Statement of financial position of the Company

As at 31 December 2016

Note	2016 HK\$'000	2015 HK\$'000
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	55	87
Interests in subsidiaries	21,523	55,020
Available-for-sale financial assets	47,055	–
Long-term deposits	–	516
	<b>68,633</b>	55,623
<b>Current assets</b>		
Deposits, prepayments and other receivables	14,416	297
Amount due from a related party	3	3
Financial assets at fair value through profit or loss	–	70,541
Cash and cash equivalents	79,221	50,624
	<b>93,640</b>	121,465
<b>Total assets</b>	<b>162,273</b>	177,088
<b>EQUITY AND LIABILITIES</b>		
<b>Equity attributable to owners of the Company</b>		
Share capital	134,922	134,922
Other reserves	(a) 149,895	158,366
Accumulated losses	(a) (134,142)	(127,846)
<b>Total equity</b>	<b>150,675</b>	165,442

# Notes to the Consolidated Financial Statements

## 31 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY *(Continued)*

### Statement of financial position of the Company *(Continued)*

As at 31 December 2016

	Note	2016 HK\$'000	2015 HK\$'000
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Other payables and accruals		1,271	1,317
Amounts due to subsidiaries		10,327	10,329
<b>Total liabilities</b>		<b>11,598</b>	11,646
<b>Total equity and liabilities</b>		<b>162,273</b>	177,088

The statement of financial position of the Company was approved by the Board of Directors on 22 March 2017 and was signed on its behalf

**CHENG Chow-Chun**  
*Director*

**LEE Chao-Chun**  
*Director*



# Notes to the Consolidated Financial Statements

## 31 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY (Continued)

### (a) Reserve movement of the Company

	Accumulated losses HK\$'000	Contributed surplus HK\$'000	Other reserves		Total HK\$'000
			Capital reserve HK\$'000	Investment reserve HK\$'000	
At 1 January 2015	(101,803)	137,800	20,566	–	158,366
Loss for the year	(26,043)	–	–	–	–
<b>At 31 December 2015</b>	<b>(127,846)</b>	<b>137,800</b>	<b>20,566</b>	<b>–</b>	<b>158,366</b>
At 1 January 2016	<b>(127,846)</b>	<b>137,800</b>	<b>20,566</b>	<b>–</b>	<b>158,366</b>
Loss for the year	<b>(6,296)</b>	–	–	–	–
Fair value loss on available-for-sale financial assets	–	–	–	<b>(8,471)</b>	<b>(8,471)</b>
<b>At 31 December 2016</b>	<b>(134,142)</b>	<b>137,800</b>	<b>20,566</b>	<b>(8,471)</b>	<b>149,895</b>

## 32 BENEFITS AND INTERESTS OF DIRECTORS

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

The remuneration of each of the Directors and the chief executive officer of the Company for the year ended 31 December 2016 is set out as follows:

Name of Director	Fees HK\$'000	Salaries HK\$'000	Discretionary bonus HK\$'000	Housing allowance HK\$'000	Estimated money value of other benefits HK\$'000	Employer's contribution to retirement benefit contributions HK\$'000	Total HK\$'000
<b>Executive director</b>							
Mr. Cheng Chow-Chun	160	–	–	–	–	–	160
Mr. Lee Chao-Chun, Chief Executive Officer	160	–	–	–	–	–	160
Mr. Sun Tao-Heng	160	–	–	–	–	–	160
Mr. Yuan Chun-Tang	160	–	–	–	–	–	160
<b>Independent non-executive director</b>							
Mr. Suen Sai Wah Simon	120	–	–	–	–	–	120
Mr. Li Kwan In	120	–	–	–	–	–	120
Mr. Wang Chiang-Ming (Note (i))	120	–	–	–	–	–	120
	<b>1,000</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>1,000</b>

# Notes to the Consolidated Financial Statements

## 32 BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

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

The remuneration of each of the Directors and the chief executive officer of the Company for the year ended 31 December 2015 is set out as follows:

Name of Director	Fees HK\$'000	Salaries HK\$'000	Discretionary bonus HK\$'000	Housing allowance HK\$'000	Estimated money value of other benefits HK\$'000	Employer's contribution to retirement benefit contributions HK\$'000	Total HK\$'000
<b>Executive director</b>							
Mr. Cheng Chow-Chun	160	-	-	-	-	-	160
Mr. Lee Chao-Chun, Chief Executive Officer	160	-	-	-	-	-	160
Mr. Sun Tao-Heng	160	-	-	-	-	-	160
Mr. Yuan Chun-Tang	160	-	-	-	-	-	160
<b>Independent non-executive director</b>							
Mr. Suen Sai Wah Simon	120	-	-	-	-	-	120
Mr. Li Kwan In	120	-	-	-	-	-	120
Mr. Wang Chiang-Ming (Note (i))	118	-	-	-	-	-	118
Mr. Maa Kwo-Juh (Note (ii))	2	-	-	-	-	-	2
	1,000	-	-	-	-	-	1,000

Note:

- (i) Appointed on 7 January 2015
- (ii) Resigned on 7 January 2015
- (iii) No remuneration paid to or receivables by the Directors of the Company in respect of accepting office as director or director's other service in connection with the management of the affairs of the Company or its subsidiary undertakings.

# Notes to the Consolidated Financial Statements

## **32 BENEFITS AND INTERESTS OF DIRECTORS** *(Continued)*

### **(b) Directors' retirement benefits and termination benefits**

None of the directors received or will receive any retirement benefits or termination benefits during the financial year (2015: Nil).

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

During the financial year ended 31 December 2016, the Company did not pay consideration to any third parties for making available directors' services (2015: Nil).

### **(d) Information about loans, quasi-loans and other dealings in favour of directors, controlled body corporates by and connected entities with such directors**

As at 31 December 2016, there were no loans, quasi-loans and other dealing arrangements in favour of directors, controlled body corporates by and controlled entities with such directors (2015: Nil).

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

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