

**Perfectech**

# Perfectech International Holdings Limited

Incorporated in Bermuda with limited liability

Stock Code: 765

2016  
Annual Report



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## CORPORATE INFORMATION

### BOARD OF DIRECTORS

#### Executive Directors:

Mr. Poon Siu Chung (*Chairman and Managing Director*)  
(*resigned with effect from 28 November 2016*)

Dr. Poon Wai Tsun, William  
(*resigned with effect from 28 November 2016*)

Mr. Poon Wai Yip, Albert

Ms. Xie Yinuo  
(*appointed with effect from 28 November 2016*)

#### Non-executive Director:

Mr. Gao Xiaorui (*Chairman*)  
(*appointed with effect from 28 November 2016*)

#### Independent Non-executive Directors:

Mr. Lam Yat Cheong  
(*resigned with effect from 28 November 2016*)

Mr. Yip Chi Hung  
(*resigned with effect from 28 November 2016*)

Mr. Choy Wing Keung, David  
(*resigned with effect from 28 November 2016*)

Mr. Zhang Shang  
(*appointed with effect from 28 November 2016*)

Mr. Lau Shu Yan  
(*appointed with effect from 28 November 2016*)

Mr. Xie Xiaohong  
(*appointed with effect from 28 November 2016*)

### COMPANY SECRETARY

Ms. Pang Siu Yin  
(*resigned with effect from 25 August 2016*)

Ms. Cho Yi Ping  
(*appointed with effect from 25 August 2016 and  
resigned with effect from 23 December 2016*)

Mr. Li Shu Pai  
(*appointed with effect from 23 December 2016*)

### AUTHORISED REPRESENTATIVE

Mr. Poon Siu Chung  
(*resigned with effect from 28 November 2016*)

Mr. Poon Wai Yip, Albert  
(*resigned with effect from 23 December 2016*)

Ms. Cho Yi Ping  
(*appointed with effect from 28 November 2016 and  
resigned with effect from 23 December 2016*)

Ms. Xie Yinuo  
(*appointed with effect from 23 December 2016*)

Mr. Li Shu Pai  
(*appointed with effect from 23 December 2016*)

### AUDITOR

HLM CPA Limited  
*Certified Public Accountants*  
Hong Kong

### LEGAL ADVISER

Cheung Tong & Rosa Solicitors

### REGISTERED OFFICE

Canon's Court,  
22 Victoria Street,  
Hamilton HM12,  
Bermuda

### WEBSITE

[www.perfectech.com.hk](http://www.perfectech.com.hk)

### HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Units C & D, 9/F, Sing Teck Factory Building,  
44 Wong Chuk Hang Road,  
Aberdeen,  
Hong Kong

### PRINCIPAL BANKERS

The Hongkong and Shanghai Banking  
Corporation Limited  
Hang Seng Bank Limited

### PRINCIPAL SHARE REGISTRAR

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

### HONG KONG BRANCH SHARE REGISTRAR

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

### RESULTS

The board (the "Board") of directors (the "Directors", each a "Director") of Perfectech International Holdings Limited (the "Company") has resolved to announce the audited consolidated results for the year ended 31 December 2016. Total revenue for the year amounted to approximately HK\$237,069,000 (2015: HK\$198,088,000), representing an increase of about 20%. The profit for the year attributable to owners of the Company stood at approximately HK\$23,272,000 (2015: loss of HK\$16,090,000). Basic earnings per share were approximately 7.14 HK cents (2015: loss of 5.20 HK cents).

### DIVIDENDS

The Board does not recommend the payment of a final dividend for the year ended 31 December 2016 (2015: nil). An interim dividend of 1.0 HK cent per share (2015: 1.0 HK cent per share) was paid on 30 September 2016.

### CLOSURE OF REGISTER OF MEMBERS

For the purposes of determining the eligibility of shareholders to attend and vote at the annual general meeting of the Company to be held on 1 June 2017 (the "AGM"), the Register of Members will be closed from 25 May 2017, Thursday, to 1 June 2017, Thursday (both dates inclusive). During the closure period, no share transfer will be registered. In order to be eligible to attend and vote at the AGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar in Hong Kong at Tricor Standard Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:30 p.m. on 24 May 2017, Wednesday.

### BUSINESS REVIEW

As stated above, the revenue of the Company and its subsidiaries (the "Group") increased by about 20%, and the toy segment resumed both positive growth and contribution to the Group while the novelties and decoration products segment continued recording a negative growth and negative contribution, details of the performance of the two segments are disclosed in the "Management Discussion and Analysis" on pages 5 to 6 of this annual report. Due to the influence of the expectation of rise in interest rate of the US Dollar, Renminbi deflated continuously and gradually during the year lowering the costs of production in the PRC to a certain level.

As the local stock market remains "relatively" stable in the year, the Group recorded a net gain from investments during the year under review. For the year of 2016, the profit of the Group included gain on disposal of held for trading investments of approximately HK\$1,604,000 (2015: loss of HK\$937,000) and gain from changes in fair value of derivative financial instruments of approximately HK\$2,402,000 (2015: HK\$1,709,000). There was no gain or loss from changes in fair value of held for trading investments (2015: loss of HK\$13,298,000) as the Group did not hold any such investments at the year end.

Besides, administrative expenses decreased by about 9% to approximately HK\$42,680,000 (2015: HK\$46,737,000). Such decrease was mainly due to, among others, the fact that there was no share-based payment expenses for the year under review (2015: HK\$10,909,000). On the other hand, distribution costs decreased by about 12% to HK\$4,132,000 (2015: HK\$4,674,000).

Finance costs decreased by about 9% to approximately HK\$575,000 (2015: HK\$631,000) as no further loan was drawn down and there was repayment of loan of HK\$3,017,000 during the year under review.

## FUTURE PLAN & PROSPECT

Looking forward to 2017, the global economy seems to be improving, but the management is still aware that risks remain, particularly with respect to political and other uncertainties in Asia, the United States of America and Europe, where our major customers are located. The Group will continue to consolidate its principal business, enhance products portfolio and promote product upgrades to meet the needs of customers and boost market share.

Meanwhile, the Group will also actively identify good merger and acquisition opportunities in order to acquire new business or asset that will bring additional value, synergy effect and new income streams to the Group.

With the joint efforts of all of its employees, the Group endeavors to work well with its customers, business partners and shareholders to maximise its corporate value and deliver promising returns to its shareholders.

## APPRECIATION

Finally, I would like to take this opportunity to thank all my fellow Directors and the staff for their contribution and cordial support during the year under review.

On behalf of the Board

**Gao Xiaorui**  
*Chairman*

Hong Kong, 30 March 2017

## SEGMENTAL RESULTS

### Novelties and decoration

The revenue of this segment for the year under review showed a further decrease of about 36% to approximately HK\$23,139,000 (2015: HK\$36,154,000), and the segment recorded a loss before interests and tax of approximately HK\$7,332,000 (2015: HK\$5,099,000). Included in the loss of this segment, there was a gain on disposal of property, plant and equipment of approximately HK\$78,000 for the year ended 31 December 2016 (2015: HK\$2,709,000).

### Toy products

The revenue of this segment increased substantially by about 32% to approximately HK\$213,930,000 (2015: HK\$161,934,000), and the segment result therefrom also increased by about 141% to approximately HK\$46,989,000 (2015: HK\$19,475,000). The performance of the segment improved significantly in the second half of the year as revenue increased substantially and its efficiency also improved.

### Investments

To well utilise the available cash on hand, the Group invested in the securities of various listed companies, which were held for trading purposes for capital gain in the value of the securities during the year. As at 31 December 2016, the Group had disposed of all held for trading investments and therefore the fair value of held for trading investments was nil (2015: HK\$38,937,000).

### Foreign currency exposure

The Group's sales and purchases are mainly denominated in Hong Kong Dollar and US Dollar. As all of its factories are located in the PRC, expenses incurred there are denominated in Renminbi.

Since Hong Kong Dollar remains pegged to US Dollar, the Group does not foresee a substantial exposure in this area, and will closely monitor the trend of Renminbi to see if any action is required.

As at 31 December 2016, the Group had not entered into any financial instrument for the hedging of foreign currency.

### Liquidity and financial resources

As at 31 December 2016, there were no long-term bank borrowings of the Group (2015: nil), while the short term bank borrowings were approximately HK\$23,089,000 (2015: HK\$26,106,000). The gearing ratio of the Group, measured by total bank borrowings divided by equity attributable to owners of the Company, was 11% (2015: 14%). As at 31 December 2016, the Group had bank balances and cash of approximately HK\$93,136,000 (2015: HK\$66,286,000).

With cash and other current assets as at 31 December 2016 of HK\$190,523,000 (2015: HK\$152,086,000) as well as available banking facilities, the Group had sufficient financial resources to satisfy its commitments and working capital requirements.

### Net asset value

The net asset value per share as at 31 December 2016 was approximately HK\$0.63 (2015: HK\$0.57), calculated based on equity attributable to equity holders of the Company of HK\$206,643,000 (2015: HK\$182,987,000) divided by the actual number of shares in issue on that date of 326,923,607 (2015: 318,337,607).

### Employees and remuneration policies

As at 31 December 2016, the Group employed approximately 1,110 (2015: 1,130) full time employees. The Group remunerates its employees largely based on prevailing industry practice as well as individual merits. The Group has also established a share option scheme for its full time employees.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

### DIRECTORS

#### Executive Directors

**Ms. Xie Yinuo (Ms. Xie)**, aged 29, is responsible for the overall corporate and business development, and all day-to-day management and operation of the Group. She has extensive experience in the business development, investment and management in cultural industry. She is a founding director of Beijing Xuanru Art Investment Management Co. Ltd. (北京玄如藝術投資管理有限公司) and Beijing Tianchen Times Cultural Development Co. Ltd. (北京天辰時代文化發展有限公司), which operate art investment and trading platforms in the PRC. Ms. Xie graduated from Peking University, China with a bachelor's degree in arts majoring in Arabic language.

Ms. Xie has not entered into a service contract with the Company and has no specific or proposed length of service with the Company.

**Mr. Poon Wai Yip, Albert (Mr. A. Poon)**, aged 33, graduated from the University of Nottingham, United Kingdom with a bachelor's degree of Engineering in Civil Engineering and a master of science degree in Management from the Imperial College of Science, Technology and Medicine in the United Kingdom. Mr. A. Poon has over five years' experience in corporate finance and is responsible for the investment activities and corporate finance function of the Group. Prior to joining the Group in 2011, he worked for the corporate finance division of a licensed corporation registered under the Securities and Futures Ordinance (the "SFO") in Hong Kong and has been involved in several corporate finance transactions including mergers and acquisitions, corporate reorganization, takeover matters and a variety of fund raising exercises. Mr. A. Poon is a son of Mr. Poon Siu Chung, the former chairman and managing director of the Company and Ms. Lau Kwai Ngor, a former substantial shareholder of the Company, and is the younger brother of Dr. Poon Wai Tsun, William, a former executive director of the Company.

Mr. A. Poon has entered into a service contract with the Company which shall continue to be effective unless terminated by one month's notice in writing served by either party on the other or payment in lieu.

#### Non-executive Directors

**Mr. Gao Xiaorui (Mr. Gao)**, aged 36, is the chairman of the Company and also the chairman of the Nomination Committee of the Company. Mr. Gao is responsible for strategic development of the Group and provides leadership for the Board. He is also the sole director of Fresh Choice Holdings Limited (which is a substantial shareholder of the Company). He has over 10 years of experience in the investment and accounting fields. Mr. Gao graduated from Communication University of China with a bachelor's degree in accounting. As at the date of this report, Mr. Gao, through his holding of 90% interest in the issued shares of Fresh Choice Holdings Limited, is interested in 119,297,041 shares of the Company, representing approximately 36.49% of the entire issued share capital of the Company.

Mr. Gao has entered into a service contract with the Company for a term of three years commenced from 28 November 2016.



### Independent non-executive Directors

**Mr. Zhang Shang (Mr. Zhang)**, aged 30, is the chairman of Remuneration Committee and a member of the Audit Committee and Nomination Committee of the Company. He is currently a director of Strait Cooperation Fund (海峡共同合作基金), in charge of investment activities. Prior to that, he was the head of research of Grand Finance Group. Mr. Zhang graduated from Chinese University of Hong Kong with a bachelor's degree in engineering and has obtained a master of business administration degree from Tsinghua University.

Mr. Zhang has entered into a service contract with the Company for a term of three years commenced from 28 November 2016.

**Mr. Lau Shu Yan (Mr. Lau)**, aged 35, is the chairman of the Audit Committee and a member of Remuneration Committee of the Company. He has over 10 years of experience in finance, auditing and accounting fields. Mr. Lau had previously worked in an international accounting firm and he is currently a partner of an audit firm. He is currently an independent non-executive director of Union Asia Enterprise Holdings Limited (formerly known as Pan Asia Mining Limited) (the shares of which are listed on the Stock Exchange (stock code: 8173)), Daohe Global Group Limited (the shares of which are listed on the Stock Exchange (stock code: 915)), and 深圳市明華澳漢科技股份有限公司 (Shenzhen Mingwah Aohan High Technology Corporation Limited) (the shares of which are listed on the Stock Exchange (stock code: 8301)), and was an independent non-executive director of Evershine Group Holdings Limited (formerly known as TLT Lottotainment Group Limited) (the shares of which are listed on the Stock Exchange (stock code: 8022)) for the period from 11 July 2012 to 16 January 2014. Mr. Lau graduated from the University of Newcastle upon Tyne, the United Kingdom with a bachelor's degree in arts majoring in accounting and financial analysis. He is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.

Mr. Lau has entered into a service contract with the Company for a term of three years commenced from 28 November 2016.

**Mr. Xie Xiaohong (Mr. Xie)**, aged 46, is the member of the Audit Committee, Remuneration Committee and Nomination Committee of the Company. He has over 20 years of experience in providing business solutions and consulting services to banking and telecommunication industries. Mr. Xie is a senior business consultant at Bank of Nova Scotia currently, providing business solution and consulting services to private and institutional wealth management businesses. Between 2011 and 2012, he was a business systems analyst at Investment Industry Regulatory Organization of Canada, and was responsible for market surveillances support on over 10 security exchange markets in Canada. Mr. Xie graduated from Peking University, China with a bachelor's degree of technical physics majoring in nuclear physics, and he has also obtained a master's degree of applied science majoring in systems design engineering from the University of Waterloo, Canada.

Mr. Xie has entered into a service contract with the Company for a term of three years commenced from 28 November 2016.

### SENIOR MANAGEMENT

**Mr. Li Shu Pai (Mr. Li)**, aged 40, is the Group's chief financial officer and company secretary. He is responsible for the overall financial operation and company secretary function of the Group. Mr. Li has over 13 years of experience in auditing, corporate finance and financial management. Prior to joining the Group, Mr. Li was the chief financial officer and joint company secretary of Chutian Dragon Corporation Limited. Before that, Mr. Li served as the chief financial officer in R2Game Co., Limited and earlier the deputy chief financial officer in Beijing Tong Ren Tang Chinese Medicine Company Limited (Stock Code: 8138). In addition, Mr. Li had worked for an international audit firm and various investment banks. Mr. Li graduated from the City University of Hong Kong with a bachelor's degree in business administration and obtained his executive master of business and administration degree from the Hong Kong University of Science and Technology. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and a member of the Association of Chartered Certified Accountants.

Mr. Li has entered into a service contract with the Company which shall continue to be effective unless terminated by one month's notice in writing served by either party on the other or payment in lieu.

## INTRODUCTION

The Board is committed to enhancing the Group's corporate governance standards by improving corporate transparency through effective channels of information disclosure. The Board believes that good corporate governance is beneficial for maintaining close and trustful relations with its employees, business partners, shareholders and investors.

On 29 August 2013, the Company has adopted a corporate governance code prepared based on the code provisions (the "Code Provisions") of the latest revised code on corporate governance (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as the guidelines for corporate governance of the Company, and has taken steps to comply with the Code wherever appropriate.

## CORPORATE GOVERNANCE PRACTICES

Throughout the year ended 31 December 2016, the Company has complied with the Code Provisions save for the following deviations:

***Under Code Provision A.2.1, the roles of the chairman and the chief executive officer should be separate and should not be performed by the same individual.***

### From 1 January 2016 until 28 November 2016

While the Company did not have the position of chief executive officer, the responsibilities normally assumed by such a role were taken up by the managing director of the company. Mr. Poon Siu Chung was the chairman (the "Chairman") of the Board and the managing director of the Company (the "Managing Director"). The Board considered that this structure would not impair the balance of power and authority between the Board and the management of the Company. The balance of power and authority was ensured by the operations of the Board, which comprised experienced and high caliber individuals who met regularly to discuss issues affecting the operations of the Company. The Board believed that this structure was conducive to strong and consistent leadership, enabling the Group to make and implement decisions promptly and efficiently. The Board had full confidence in Mr. Poon Siu Chung and believed that having Mr. Poon Siu Chung performing the roles of Chairman and Managing Director was beneficial to the business prospects of the Company.

### With effect from 28 November 2016

After the resignation of Mr. Poon Siu Chung as the Chairman and the Managing Director, Mr. Gao Xiaorui has been appointed as a non-executive Director and the Chairman with effect from 28 November 2016. Since then, the responsibilities of a chief executive have been assumed by the executive Directors, namely Ms. Xie YINUO and Mr. Poon Wai Yip, Albert. The roles of the Chairman and the chief executive officer have therefore been separate and have not been performed by the same individual.

***Under Code Provision A.4.1, non-executive Directors should be appointed for a specific term, subject to re-election.***

The non-executive Director, Mr. Gao Xiaorui and independent non-executive Directors, Mr. Zhang Shang, Mr. Lau Shu Yan and Mr. Xie Xiaohong (all appointed with effect from 28 November 2016), did not enter into any letter of appointment for a specific term with the Company at the time of appointment.

Nevertheless, each of the said Directors entered into a letter of appointment with the Company on 29 December 2016, pursuant to such letter the specific term of their appointment would be three years from 28 November 2016. As such, the relevant code provision has been complied with since then.

***Under Code Provision A.6.7, independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of the shareholders.***

Due to other pre-arranged business commitments which must be attended to by him, Mr. Yip Chi Hung, being the independent non-executive Director of the Company, was not present at the annual general meeting of the Company held on 31 May 2016.

The Company had appropriately arranged other independent non-executive Directors to attend the said annual general meeting to ensure an effective communication with the shareholders and therefore balanced understanding of the views of the shareholders would not be impaired.

***Under Code Provision D.1.4, all directors should clearly understand delegation arrangements in place, and the Company should have formal letters of appointment for directors setting out the key terms and conditions of their appointment.***

The Company had no formal letters of appointment for (i) the independent non-executive Directors, namely Mr. Lam Yat Cheong, Mr. Yip Chi Hung and Mr. Choy Wing Keung, David (all of them resigned with effect from 28 November 2016) and (ii) all the Directors appointed with effect from 28 November 2016 (namely Ms. Xie YINUO, Mr. Gao Xiaorui, Mr. Zhang Shang, Mr. Lau Shu Yan and Mr. Xie Xiaohong) at the time of appointment (nevertheless, each of Mr. Gao Xiaorui, Mr. Zhang Shang, Mr. Lau Shu Yan and Mr. Xie Xiaohong entered into a letter of appointment with the Company on 29 December 2016).

It was because the management of the Company is of the view that the Directors clearly understand the appointment arrangement in place. In any event, all Directors, including those without a letter of appointment, shall be subject to retirement by rotation in the manner prescribed under the bye-laws of the Company and on re-election of the retiring Directors, shareholders are given information that is reasonably necessary for them to make an informed decision on the reappointment of the relevant Directors. Besides, all Directors are required to comply with the requirements under statutes and common law, the Listing Rules, legal and other regulatory requirements and the Company's business and governance policies. In this regard, the Company is of the view that such requirements are sufficient to meet the underlying objectives of the relevant code provision.

***Under Code Provision F.1.1, the company secretary should be an employee of the Company and have the day-to-day knowledge of the Company's affairs.***

The former company secretaries of the Company, Ms. Pang Siu Yin (resigned with effect from 25 August 2016) and Ms. Cho Yi Ping (appointed with effect from 25 August 2016 and resigned with effect from 23 December 2016) had been the partners of the Company's long-term legal adviser, Cheung Tong & Rosa Solicitors and were familiar with the operations and the management of the Group. They also possessed relevant expertise and experience.

To assist in their day-to-day understanding of the Company's affairs, the Company had assigned Mr. Poon Wai Yip, Albert, an executive Director of the Company, and Mr. Yuen Che Wai, Victor, the then financial controller of the Company, as the contact persons with them, so that information in relation to the performance, financial position and other major developments and affairs of the Group (including but not limited to the management monthly report to the Board) could be speedily delivered to Ms. Pang Siu Yin and Ms. Cho Yi Ping through the contact persons assigned.

The current company secretary (the "Company Secretary") of the Company, Mr. Li Shu Pai (appointed with effect from 23 December 2016), is the chief financial officer and an employee of the Company.

## DIRECTORS

### The Board

The Board, led by the Chairman, steers the Company's business direction. It is responsible for formulating the Company's long-term strategies, setting business development goals, assessing results of management policies, monitoring the management's performance and ensuring effective implementation of risk management measures on a regular basis.

The Directors meet regularly to review the Group's financial and operational performance and to discuss and formulate future development plans. Regular Board meetings are attended by a majority of the Directors in person or through other electronic means of communication.

### Board Composition

There are 6 Directors, all being industry veterans, responsible to the shareholders for formulating the overall business development targets and long-term company strategies, assessing results of management policies and monitoring performance of the management. The Board comprised/currently comprises the following Directors:

#### From 1 January 2016 to 28 November 2016

##### *Executive Directors*

Mr. Poon Siu Chung (*Chairman*)  
(*resigned with effect from 28 November 2016*)  
Dr. Poon Wai Tsun, William  
(*resigned with effect from 28 November 2016*)  
Mr. Poon Wai Yip, Albert

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

Mr. Lam Yat Cheong  
(*resigned with effect from 28 November 2016*)  
Mr. Yip Chi Hung  
(*resigned with effect from 28 November 2016*)  
Mr. Choy Wing Keung, David  
(*resigned with effect from 28 November 2016*)

#### With effect from 28 November 2016

##### *Executive Directors*

Ms. Xie Yinuo  
(*appointed with effect from 28 November 2016*)  
Mr. Poon Wai Yip, Albert

##### *Non-executive Director*

Mr. Gao Xiaorui (*Chairman*)  
(*appointed with effect from 28 November 2016*)

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

Mr. Zhang Shang  
(*appointed with effect from 28 November 2016*)  
Mr. Lau Shu Yan  
(*appointed with effect from 28 November 2016*)  
Mr. Xie Xiaohong  
(*appointed with effect from 28 November 2016*)

An updated list of the Directors by category identifying their roles is at all times available on the websites of the Company and the Stock Exchange. The list specifies whether the Director is an independent non-executive Director and expresses the respective roles of each Director.

The Company identifies the independent non-executive Directors in all corporate communications which disclose the names of Directors.

Details of the biographies of the Directors are given under the section “Biographical Details of Directors and Senior Management” on pages 7 to 8 of this annual report.

There are no relationships (including financial, business, family or other material or relevant relationships) among members of the Board, except the following:

- Dr. Poon Wai Tsun, William (a former Director who resigned with effect from 28 November 2016) and Mr. Poon Wai Yip, Albert (an executive Director) are sons of Mr. Poon Siu Chung, the former Chairman and the former Managing Director of the Company (resigned with effect from 28 November 2016) and Ms. Lau Kwai Ngor, a substantial shareholder of the Company from 1 January 2016 to 14 November 2016.

The independent non-executive Directors play an important role on the Board. Accounting for a half of the Board members, they are experienced professionals in their respective fields and among the independent non-executive Directors, at least one of them has appropriate professional qualifications or accounting or related financial management expertise.

They are responsible for ensuring that the Board maintains high standards of financial and other mandatory reporting as well as providing adequate checks and balances for safeguarding the interest of shareholders of the Company and the Group as a whole.

Throughout the year of 2016, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one of them possessing appropriate professional qualifications or accounting or related financial management expertise. The number of independent non-executive Directors has represented at least one-third of the Board.

### Number of meetings attended/eligible to attend in 2016

During the year of 2016, the Board held 4 regular meetings at about quarterly intervals and 16 additional special meetings. As regards general meetings, the Company held the annual general meeting on 31 May 2016.

Attendance of individual Directors at the Board meetings and general meeting in 2016 is as follows:

	Regular Board Meetings	Special Board Meetings	General Meeting
<i>Executive Directors</i>			
Ms. Xie YINUO <i>(appointed with effect from 28 November 2016)</i>	1/1	2/2	N/A
Mr. Poon Wai Yip, Albert	4/4	16/16	1/1
Mr. Poon Siu Chung <i>(former Chairman)</i> <i>(resigned with effect from 28 November 2016)</i>	3/3	14/14	1/1
Dr. Poon Wai Tsun, William <i>(resigned with effect from 28 November 2016)</i>	3/3	10/14	1/1
<i>Non-executive Director</i>			
Mr. Gao Xiaorui <i>(Chairman with effect from 28 November 2016)</i> <i>(appointed with effect from 28 November 2016)</i>	1/1	2/2	N/A
<i>Independent non-executive Directors</i>			
Mr. Zhang Shang <i>(appointed with effect from 28 November 2016)</i>	1/1	2/2	N/A
Mr. Lau Shu Yan <i>(appointed with effect from 28 November 2016)</i>	1/1	2/2	N/A
Mr. Xie Xiaohong <i>(appointed with effect from 28 November 2016)</i>	1/1	2/2	N/A
Mr. Lam Yat Cheong <i>(resigned with effect from 28 November 2016)</i>	3/3	2/14	1/1
Mr. Yip Chi Hung <i>(resigned with effect from 28 November 2016)</i>	1/3	2/14	0/1
Mr. Choy Wing Keung, David <i>(resigned with effect from 28 November 2016)</i>	3/3	2/14	1/1

Notices of regular Board meetings are served to all Directors at least 14 days before the meeting while reasonable notice is generally given for other Board meetings.

Agenda and Board papers together with all appropriate, complete and reliable information are sent to all Directors in a timely manner, and at least 3 days before the intended date of each Board or committee meeting, except agreed otherwise among the members, to ensure that they have sufficient time to review the board papers and be adequately prepared for the meeting, to keep the Directors apprised of the latest developments and financial position of the Company and to enable them to include any matter in the agenda and to make informed decisions.

The Board and each Director, upon reasonable request, have access to independent professional advice in appropriate circumstances to assist them in performing their duties to the Company, at the Company's expense.

Minutes of all Board meetings, Audit Committee, Remuneration Committee and Nomination Committee meetings are kept by the Company Secretary. All of the above minutes record the discussions and decisions reached by the relevant members in sufficient detail the matters considered and decisions reached, including any concern raised by Directors or dissenting views expressed. Any Director may inspect the minutes at any reasonable time on reasonable notice.

Draft minutes are normally circulated to Directors or members of the relevant committee for comment within a reasonable time after each meeting and the final version is sent to all Directors or committee members for their record.

According to the current Board practice, any transaction, which the Board has determined to be material, which involves a conflict of interests between a substantial shareholder or a Director and the Company, will be considered and dealt with by the Board at a duly convened Board meeting with the presence of the independent non-executive Directors who, and whose close associates, have no material interest in the said transaction rather than a written resolution. Directors are abstained from voting and not counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest.

The Company has maintained appropriate insurance cover in respect of legal action against its Directors and officers arising out of corporate activities.

### Chairman and Chief Executive

Code Provision A.2.1 stipulates that the roles of the chairman and the chief executive should be separate and should not be performed by the same individual. As explained earlier, while the Company does not have the position of chief executive officer from 1 January 2016 to 28 November 2016 the responsibilities normally assumed by the chief executive officer were taken up by Mr. Poon Siu Chung (who was both the Chairman and Managing Director of the Company then).

With effect from 28 November 2016, Mr. Gao Xiaorui has been appointed as the Chairman and although the Company does not have the position of chief executive officer, the executive Directors, Ms. Xie YINUO and Mr. Poon Wai Yip, Albert have assumed roles of chief executive officer. The roles of the Chairman and the chief executive have therefore been separate and have not been performed by the same individual.

In accordance with the Directors' Memorandum in Discharging Directors' Duties adopted by the Company on 27 March 2012 (the "Memorandum"), the Company's Chairman is responsible for:

- overseeing the development of the long-term strategies, objectives and policies for the Company;
- ensuring all Directors are properly briefed on matters to be discussed at Board meetings;
- ensuring all Directors receive adequate, accurate, clear, complete and reliable information in a timely manner;
- providing leadership for the Board;
- ensuring that the Board works effectively and performs its responsibilities;
- ensuring that agenda for Board meetings are drawn up and approve them, taking into account any matters proposed by the other Directors for inclusion in the agenda;
- taking primary responsibility for ensuring that good corporate practices and procedures are in place;

- encouraging all Directors to make a full and active contribution to the Board's affairs and take the lead to ensure that it acts in the best interests of the Company;
- encouraging Directors with different views to voice their concerns, allow sufficient time for discussion of issues and ensure that Board decisions fairly reflect Board consensus;
- ensuring appropriate steps are taken to provide effective communications with shareholders and that views of shareholders are communicated to the Board as a whole;
- promoting a culture of openness and debate by facilitating the effective contribution of non-executive Directors in particular and ensuring constructive relations between executive and non-executive Directors;
- attending the annual general meeting and arranging for the chairman of the Audit Committee, Remuneration Committee and Nomination Committee (as appropriate) or in the absence of the chairman of such committees, another member of the committee or failing this his duly appointed delegate, to be available to answer questions at the annual general meeting;
- holding meetings at least annually with the non-executive Directors (including independent non-executive Directors) without the executive Directors present;
- deciding whether a resolution at a general meeting relating purely to a procedural or administrative matter should be excluded from the requirement for voting by poll.

### Appointments, re-election and removal

Under Bye-law 99 of the Company's Bye-laws and Code Provision A.4.2, every Director, including those appointed for a specific term shall be subject to retirement by rotation at the annual general meeting at least once every three years while those retiring Directors shall be eligible for re-election. Under Bye-law 102(B) of the Company's Bye-laws and Code Provision A.4.2, all Directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after appointment.

In accordance with the said provision of the Bye-laws and Code Provision A.4.2, in the annual general meeting held on 31 May 2016, Mr. Poon Siu Chung and Dr. Poon Wai Tsun, William (both resigned with effect from 28 November 2016) retired from office by rotation and were re-elected.

Under Code Provision A.4.1, non-executive Directors should be appointed for a specific term, subject to re-election.

In accordance with the said provision of the Bye-laws and Code Provision A.4.1 and A.4.2, in the annual general meeting held on 31 May 2016, all independent non-executive Directors (namely Mr. Lam Yat Cheong, Mr. Yip Chi Hung and Mr. Choy Wing Keung, David) (all of them resigned with effect from 28 November 2016) were elected to hold office until the next annual general meeting to be held in 2017, subject to re-election by shareholders.

### Independent Non-executive Directors

Pursuant to Rule 3.13 of the Listing Rules, the Company has received a written confirmation from each independent non-executive Director of his independence to the Company. The Company has assessed the independence and considers all of the independent non-executive Directors independent based on the independence criteria in accordance with the requirements in Listing Rules, their non-involvement in the daily operation and management of the Group and the absence of any relationships which will interfere with the exercise of their independent judgment.



Mr. Lam Yat Cheong, Mr. Yip Chi Hung and Mr. Choy Wing Keung, David (all of them resigned with effect from 28 November 2016) had served the Company for more than 9 years in the year 2016 since their appointments in 2004, 2004 and 2007 respectively. However, the Company believed that they were still independent and should be re-elected. Their further appointments were subject to a separate resolution approved by shareholders in the general meeting held on 31 May 2016. In the circular dated 20 April 2016, the Board explained the reasons why it believed them to be independent and should be re-elected.

### Nomination of Directors

On 27 March 2012, the Board has established a nomination committee (the "Nomination Committee") pursuant to the requirements of the revised Code, to provide a framework and set the standards for the appointment of high quality Directors who should have the capacity and ability to lead the Company towards achieving sustainable development. It considers matters regarding the nomination and/or appointment or re-appointment of Director(s).

Details of the Nomination Committee are set out in the sub-section headed "Nomination Committee" below.

### Responsibilities of Directors

The Board views that the non-executive Directors are well-aware of their functions and have been actively performing their functions including but not limited to exercising their independent judgment at the Board Meetings, taking the lead where potential conflicts of interest arise, scrutinizing the Company's performance and providing independent, constructive and informed advice on the business strategy, policy, performance and management of the Company. They regularly review the financial information, monitor the operational performance of the Company and serve on the Board committees of the Company.

The Directors have disclosed to the Company at the time of their appointment, and in a timely manner for any change, the number and nature of offices held in public companies or organizations and other significant commitments. They have also informed the Company of the identity of other public companies or organizations they serve and the time involved in these public companies or organizations.

All Directors have devoted their time and attention to the affairs of the Company with their hands-on knowledge and expertise in the areas and operation in which they are charged with. The contribution made by the Directors to the affairs of the Company is measured in terms of time as well as quality of the attention and the ability of the Directors with reference to his necessary knowledge and expertise. The satisfactory attendance of Board meetings, general meetings and Board committee meetings indicates the constant participation of all Directors, including executive, non-executive and independent non-executive and ensures the better understanding of the views of shareholders by all Directors. The extent of participation and contribution should be viewed both quantitatively and qualitatively.

The Board and the Board committees are supplied with adequate, complete and reliable information by the management in a timely manner which enables them to make informed decisions.

To fulfil their duties properly, where they consider it as necessary to obtain additional information other than that is provided by the management, the Directors made inquiries where necessary. The Board and the Directors have separate and independent access to the senior management.

All Directors have access to Board papers and related materials in a form and quality sufficient to enable the Board to make informed decisions on matters placed before it. The queries raised by Directors have received a prompt and full response.

## Induction and Continuous Professional Development

The Directors are continually updated with legal and regulatory developments, and the business and market changes to facilitate the discharge of their responsibilities through various Board meetings, resolutions, memos and Board papers. According to the records maintained by the Company, the Directors received the following training with an emphasis on the roles, functions and duties of a director of a listed company in compliance with the requirement of the Code on continuous professional development during the period from 1 January 2016 to 31 December 2016:

	Corporate Governance/Updates on Laws, Rules and Regulation	
	Read materials	Attend seminars/ briefings
<b>Directors</b>		
<i>Executive Directors</i>		
Ms. Xie Yinuo (appointed with effect from 28 November 2016)	—	✓
Mr. Poon Wai Yip, Albert	✓	—
Mr. Poon Siu Chung (former Chairman) (resigned with effect from 28 November 2016)	✓	—
Dr. Poon Wai Tsun, William (resigned with effect from 28 November 2016)	✓	—
<i>Non-executive Director</i>		
Mr. Gao Xiaorui (Chairman with effect from 28 November 2016) (appointed with effect from 28 November 2016)	—	✓
<i>Independent non-executive Directors</i>		
Mr. Zhang Shang (appointed with effect from 28 November 2016)	—	✓
Mr. Lau Shu Yan (appointed with effect from 28 November 2016)	—	✓
Mr. Xie Xiaohong (appointed with effect from 28 November 2016)	—	✓
Mr. Lam Yat Cheong (resigned with effect from 28 November 2016)	✓	—
Mr. Yip Chi Hung (resigned with effect from 28 November 2016)	✓	—
Mr. Choy Wing Keung, David (resigned with effect from 28 November 2016)	✓	—

### Securities Transactions Guidelines

The Board has adopted a code of conduct regarding Directors' securities transaction on terms no less exacting than the required standard as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiries have been made with all Directors and they have confirmed that throughout the year ended 31 December 2016, they complied with the required standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions.

The Directors' interests in shares and options of the Company as at 31 December 2016 are set out on pages 35 to 36 of this annual report.

The Board has also established written guidelines on no less exacting terms than the Model Code for the relevant employees, including any employee of the Company or a Director or employee of a subsidiary or holding company of the Company who, because of his office or employment, is likely to be in possession of inside information in relation to the issuer or its securities, in respect of their dealings in the Company's securities.

### DELEGATION BY THE BOARD

The Board is responsible for formulating strategies and business plans for the Group and is collectively responsible for its success.

#### Management Functions

For aspects of management and administration functions delegated to the management, the Board has given clear directions as to the management's power, particularly as to where management should report back and obtain prior Board approval.

The functions reserved to the Board and those delegated to management have been formalized and are reviewed periodically to ensure that they remain appropriate to the needs of the Company. The Board has adopted the Memorandum setting out its delegation policy. The segregation of duties and responsibilities between the Board and the management has been clearly defined and provided as internal guidelines of the Company.

The Board has delegated decisions in relation to daily operation and administration responsibilities to management. The Memorandum has also set out a set of principles which the Board should adhere to when it delegates authority.

In accordance with the Memorandum, the types of decisions which are to be taken by the Board include those relating to:

- corporate and capital structure;
- corporate strategy;
- significant policies affecting the Company as a whole;
- business plan, budgets and public announcements;
- delegation to the Chairman, and delegation to and by Board committees;
- key financial matters;

- appointment, removal or reappointment of Board members, senior management and auditors;
- remuneration of Directors and senior management;
- communication with key stakeholders, including shareholders and regulatory bodies; and
- reviewing and monitoring the policies and practices on corporate governance.

The types of decisions that the Board has delegated to the management include:

- approving the extension of the Group's activities not in a material manner into a new geographic location or a new business;
- approving assessing and monitoring the performance of all business units and ensuring that all necessary corrective actions have been taken;
- approving expenses up to a certain limit;
- approving the entering into of any connected transactions not requiring disclosure under the Listing Rules;
- approving the nomination and appointment of personnels other than the member of the Board, senior management and auditors;
- approving press release concerning matters decided by the Board;
- approving any matters related to routine matters or day-to-day operation of the Group (including the entering into of any transaction not requiring disclosure under the Listing Rules and cessation of non-material part of the Group's business); and
- carrying out any other duties as the Board may delegate from time to time.

Directors clearly understand the above delegation arrangements of the Company.

### Board Committees

The Board delegates its powers and authorities from time to time to the Board committees in order to ensure the operational efficiency and specific issues are being handled by relevant expertise. All Board committees are provided with accurate and sufficient information in timely manner so as to enable the Board committees to make informed decisions for the benefit of the Company and sufficient resources to discharge their duties.

In 2016, the Board had 3 Board committees, which are the Remuneration Committee, the Audit Committee, and Nomination Committee, all with specific terms of reference, to oversee particular aspects of the Group's affairs.

Attendance of the relevant members of the Board committee at the meetings of the committees in 2016 is as follows:

	Audit Committee Meetings	Remuneration Committee Meetings	Nomination Committee Meetings
<i>Executive Directors</i>			
Ms. Xie YINUO <i>(appointed with effect from 28 November 2016)</i>	N/A	N/A	N/A
Mr. Poon Wai Yip, Albert	N/A	N/A	1/1
Mr. Poon Siu Chung <i>(former Chairman)</i> <i>(resigned with effect from 28 November 2016)</i>	N/A	N/A	N/A
Dr. Poon Wai Tsun, William <i>(resigned with effect from 28 November 2016)</i>	N/A	N/A	N/A
<i>Non-executive Director</i>			
Mr. Gao Xiaorui <i>(Chairman)</i> <i>(appointed with effect from 28 November 2016)</i>	N/A	N/A	1/1
<i>Independent non-executive Directors</i>			
Mr. Zhang Shang <i>(appointed with effect from 28 November 2016)</i>	N/A	3/3	1/1
Mr. Lau Shu Yan <i>(appointed with effect from 28 November 2016)</i>	N/A	3/3	N/A
Mr. Xie Xiaohong <i>(appointed with effect from 28 November 2016)</i>	N/A	3/3	1/1
Mr. Lam Yat Cheong <i>(resigned with effect from 28 November 2016)</i>	2/2	N/A	1/1
Mr. Yip Chi Hung <i>(resigned with effect from 28 November 2016)</i>	2/2	N/A	1/1
Mr. Choy Wing Keung, David <i>(resigned with effect from 28 November 2016)</i>	2/2	N/A	1/1

## Nomination Committee

On 27 March 2012, the Board has established the Nomination Committee pursuant to the requirements of the revised Code, to provide a framework and set the standards for the appointment of high quality Directors who should have the capacity and ability to lead the Company towards achieving sustainable development. It considers matters regarding the nomination and/or appointment or re-appointment of Directors. The Committee comprised 1 executive Director and 3 independent non-executive Directors from 1 January 2016 to 28 November 2016 and comprises 1 non-executive Director and 2 independent non-executive Directors with effect from 28 November 2016, namely:

### From 1 January 2016 to 28 November 2016

#### *Executive Director*

Mr. Poon Wai Yip, Albert  
*(relinquished position as member of the  
 Nomination Committee with effect from  
 28 November 2016)*

#### *Independent Non-Executive Directors*

Mr. Choy Wing Keung, David  
*(former chairman of the Nomination Committee)  
 (resigned with effect from 28 November 2016)*  
 Mr. Lam Yat Cheong  
*(resigned with effect from 28 November 2016)*  
 Mr. Yip Chi Hung  
*(resigned with effect from 28 November 2016)*

### With effect from 28 November 2016

#### *Non-Executive Director*

Mr. Gao Xiaorui  
*(chairman of the Nomination Committee)  
 (appointed with effect from 28 November 2016)*

#### *Independent Non-Executive Directors*

Mr. Zhang Shang  
*(appointed with effect from 28 November 2016)*  
 Mr. Xie Xiaohong  
*(appointed with effect from 28 November 2016)*

The Nomination Committee is governed by its terms of reference, which were revised on 29 August 2013 and are closely aligned with the relevant Code Provisions requirements. They are available at both the Company's website [www.perfectech.com.hk](http://www.perfectech.com.hk) and HKEx's website [www.hkex.com.hk](http://www.hkex.com.hk).

The main duties of the Nomination Committee include the following:

- review and supervise the structure, size and composition of the Board;
- identify qualified individuals to become members of the Board;
- assess the independence of the independent non-executive Directors;
- make recommendations to the Board on the appointment, re-appointment and succession planning of Directors, and any proposed change to the Board to implement the Company's corporate strategy.

During the year, the Nomination Committee has conducted the following tasks:

- reviewing the policy for the nomination of Directors;
- reviewing the nomination procedures and process and criteria adopted by the Nomination Committee to select and recommend candidates for directorship during the year;
- reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board;
- making recommendations to the Board regarding proposed changes to implement the Company's corporate strategy;
- assessing the independence of the independent non-executive Directors;
- assessing the time required from a Director to perform his responsibilities; and
- reviewing the board diversity policy of the Company, adopted by the Board on 29 August 2013 (the "Board Diversity Policy") including the measurable objectives that it has set for implementing the policy and the progress on achieving those objectives.

The Nomination Committee adopted the following procedure and criteria for nomination of Directors:

1. When there is a vacancy in the Board, the Board evaluates the balance of skills, knowledge and experience of the Board, and identifies any special requirements for the vacancy (e.g. independence status in the case of an independent non-executive Director).
2. Prepare a description of the role and capabilities required for the particular vacancy.
3. Identify a list of candidates through personal contacts/recommendations by Board members, senior management, business partners or investors.
4. Arrange interview(s) with each candidate for the Board to evaluate whether he/she meets the established written criteria for nomination of Directors. One or more members of the Board will attend the interview.
5. Conduct verification on information provided by the candidate.
6. Make recommendations to the Board on the appointment or re-appointment of Directors.

The Nomination Committee adopted the following criteria for nomination of Directors:

### 1. *Common Criteria for All Directors*

- (a) Character and integrity
- (b) The willingness to assume broad fiduciary responsibility
- (c) Present needs of the Board for particular experience or expertise and whether the candidate would satisfy those needs
- (d) Relevant experience, including experience at the strategy/policy setting level, high level managerial experience in a complex organization, industry experience and familiarity with the products and processes used by the Company
- (e) Significant business or public experience relevant and beneficial to the Board and the company
- (f) Breadth of knowledge about issues affecting the Company
- (g) Ability to objectively analyse complex business problems and exercise sound business judgment
- (h) Ability and willingness to contribute special competencies to Board activities
- (i) Fit with the Company's culture

### 2. *Criteria Applicable to non-executive Directors/independent non-executive Directors*

- (a) Willingness and ability to make a sufficient time commitment to the affairs of the Company in order to effectively perform the duties of a Director, including attendance at and active participation in Board and committee meetings
- (b) Accomplishments of the candidate in his/her field
- (c) Outstanding professional and personal reputation
- (d) The candidate's ability to meet the independence criteria for Directors established in the Listing Rules

### **Board Diversity Policy**

The Board has adopted the Board Diversity Policy which sets out its approach to achieve and maintain diversity on the Board in order to enhance the effectiveness of the Board.

The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance, and sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and sustainable development.

The Board has set measurable objectives based on a range of diversity perspectives including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service to select candidates. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.



The Nomination Committee will review the Board Diversity Policy as appropriate to ensure the effectiveness of the same. It will discuss revisions that may be required, and recommend any such revisions to the Board for consideration and approval. It will also monitor the implementation of the Board Diversity Policy.

The Company considers that the current composition of the Board is characterised by diversity after taking into account its own business model and specific needs, and professional background and skills of the Directors.

## Remuneration Committee

### Remuneration of Directors

The Remuneration Committee was established pursuant to Rule 3.25 of the Listing Rules. It makes recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management, and on the establishment of a formal and transparent procedure for developing policy on such remuneration.

The Remuneration Committee is governed by its terms of reference, which were adopted by the Board on 27 March 2012 pursuant to the revised Code. The terms of reference are made available on the Company's website [www.perfectech.com.hk](http://www.perfectech.com.hk) and HKEx's website [www.hkex.com.hk](http://www.hkex.com.hk).

The Committee comprised 5 members from 1 January 2016 to 28 November 2016 and comprises 3 members with effect from 28 November 2016, namely:

#### From 1 January 2016 to 28 November 2016

##### Executive Director

Mr. Poon Siu Chung  
(resigned with effect from 28 November 2016)

##### Independent Non-executive Directors

Mr. Yip Chi Hung  
(former chairman of the  
Remuneration Committee)  
(resigned with effect from 28 November 2016)

Mr. Lam Yat Cheong  
(resigned with effect from 28 November 2016)

Mr. Choy Wing Keung, David  
(resigned with effect from 28 November 2016)

##### Financial Controller

Mr. Yuen Che Wai, Victor  
(relinquished position as member of the  
Remuneration Committee with effect from  
28 November 2016)

#### With effect from 28 November 2016

##### Independent Non-executive Directors

Mr. Zhang Shang  
(chairman of the Remuneration Committee)  
(appointed with effect from 28 November 2016)

Mr. Lau Shu Yan  
(appointed with effect from 28 November 2016)

Mr. Xie Xiaohong  
(appointed with effect from 28 November 2016)

During 2016, 3 Remuneration Committee meetings were held. All members of the Remuneration Committee attended the meeting.

The work performed by the Remuneration Committee during 2016 included the followings:

- making recommendations to the Board on the remuneration policy and structure of Directors and senior management;
- assessing performance of executive Directors;
- approving specific remuneration packages of all executive Directors and senior management;
- making recommendations to the Board of the remuneration of non-executive Directors; and
- conducting the salary review of the Group for 2017.

#### *Emolument Policy and Long-Term Incentive Plan*

The Company adopts different emolument policies for executive Directors and non-executive Directors:

#### *Emolument Policy for Executive Directors*

1. A proportion of executive Directors' remuneration should be structured so as to link rewards to corporate and individual performance.
2. The performance-related elements of remuneration should form a significant proportion of the total remuneration package of executive Directors.
3. The performance-related elements of remuneration should be designed to align the executive Directors' interests with those of shareholders and to give the Directors keen incentives to perform at the highest levels.
4. Factors for defining performance-based remuneration:
  - (a) Eligibility for annual bonuses and any upper limits
  - (b) Annual bonuses should be linked to relevant performance indicators designed to enhance the Company's business
  - (c) Eligibility for long-term incentive schemes, e.g. share option schemes, subject to performance criteria which reflect the Company's performance
  - (d) Examples of performance indicators:
    - (i) share price
    - (ii) net earnings figure

### *Emolument Policy for Non-executive Directors*

1. Levels of emolument of non-executive Directors should reflect the time commitment and responsibilities of the role.
2. Non-executive Directors should have the opportunity to have part of their remuneration in shares on condition that share options should be granted in accordance with the Listing Rules.

### *Principles of Long-Term Incentive Schemes*

1. The purpose is to reward exceptional performance, and awards should be scaled against achievement of performance criteria.
2. The link between executive reward and company performance should be strong and clear.
3. Grants under such schemes should be phased rather than awarded in one large block.

The emolument payable to the Directors is determined with reference to their qualification and experience, responsibilities undertaken, contribution to the Group, and the prevailing market level of remuneration of similar positions. The details of the fees and any other reimbursement or emolument payable to the Directors are set out in details on pages 82 to 83 of this annual report.

### *Audit Committee*

The Audit Committee is accountable to the Board and assists the Board in meeting its responsibilities in ensuring effective and adequate systems are in place for risk management and internal controls and for meeting its external financial reporting obligations and compliance with other legal and regulatory requirements. The Audit Committee also reviews and monitors the scope and effectiveness of the work of external auditors.

The Audit Committee comprised/comprises the following members, namely:

#### **From 1 January 2016 to 28 November 2016**

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

Mr. Lam Yat Cheong  
*(chairman of the Audit Committee)*  
*(resigned with effect from 28 November 2016)*

Mr. Yip Chi Hung  
*(resigned with effect from 28 November 2016)*

Mr. Choy Wing Keung, David  
*(resigned with effect from 28 November 2016)*

#### **With effect from 28 November 2016**

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

Mr. Lau Shu Yan  
*(chairman of the Audit Committee)*  
*(appointed with effect from 28 November 2016)*

Mr. Zhang Shang  
*(appointed with effect from 28 November 2016)*

Mr. Xie Xiaohong  
*(appointed with effect from 28 November 2016)*

Mr. Lam Yat Cheong, Mr. Choy Wing Keung, David and Mr. Lau Shu Yan have professional qualifications in accounting. The Audit Committee usually meets 2 times a year.

The Audit Committee is governed by its terms of reference, which have been revised by the Board on 26 August 2015 pursuant to the revised Code. The terms of reference are made available on the Company's website [www.perfectech.com.hk](http://www.perfectech.com.hk) and HKEx's website [www.hkex.com.hk](http://www.hkex.com.hk).

During year 2016, the Audit Committee met 2 times. The attendance of the members thereat is included in the table set out above.

The Audit Committee meetings are normally attended by the Company's financial controller and the external auditor, for discussion of the audit of the Company's annual results only. The external auditors are often present on discussion of the audit of financial results and audit planning.

The work performed by the Audit Committee during 2016 included consideration of the following matters:

- the completeness and accuracy of the 2015 annual and 2016 interim financial statements;
- the Company's compliance with statutory and regulatory requirements; developments in accounting standards and the effect on the Company;
- detailed analysis of various aspects of the Company's financial performance;
- investment policies and possible impact of certain investment transactions;
- the audit fees payable to external auditors, the scope and timetable of the audit for year 2016;
- recommendations to the Board, for the approval by shareholders, for the reappointment of Messrs. HLM CPA Limited as the external auditors; and
- reviewed and discussed with the management the internal control and risk management systems.

The Audit Committee has been advised that it may seek independent professional advice at the expense of the Company wherever necessary. The Committee is also supported by the external auditor.

## ACCOUNTABILITY AND AUDIT

### Financial Reporting

The Board aims to present a balanced, clear and understandable assessment in annual and interim reports, inside information announcements and other financial disclosures required under the Listing Rules and other regulatory requirements.

The Board is responsible for the integrity of the financial information of the Group. The Directors have acknowledged their responsibility for the preparation of the accounts for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period.

The statement by the auditor of the Company regarding its reporting responsibilities on the financial statements of the Group is set out in the “Independent Auditor’s Report” on pages 41 to 46 of this annual report.

The Directors, having made appropriate enquiries, consider that the Group has adequate resources to continue in operational existence for the foreseeable future and hence decide that it is appropriate to prepare the financial statements set out on pages 47 to 114 of this annual report on a going concern basis. The Board is not aware of any material uncertainties relating to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern.

The basis on which the Company generates or preserves value over the longer term and the strategy for delivering its objectives are explained in the “Management Discussion and Analysis” set out on pages 5 to 6 of this annual report.

The management provides the Board with sufficient explanation and information, such as the Group’s major business activities and key financial information, to enable the Board to make an informed assessment of the financial information and position of the Company put before the Board for approval.

The management also provides all Directors with monthly updates giving them a balanced and understandable assessment of the Company’s performance, position and prospects in sufficient detail to enable the Board as a whole and each Director to discharge their duties under Rule 3.08 and Chapter 13 of Listing Rules.

### Risk Management and Internal Controls

During the year, the Group has established and maintained an appropriate and effective risk management and internal control systems. Management is responsible for the design, implementation and monitoring of such systems, while the Board oversees management in performing its duties on an ongoing basis.

The Group adopts a risk management system which manages the risk associated with its business and operations. The system comprises the following phases:

- Identification: the management would identify ownership of risks, business objectives and risks that could affect the achievement of objectives by examining reports on risk management, internal control and procedures in place submitted by various factories of the Group from time to time, and would inform the Audit Committee and the Board if any significant risks are discovered; the internal audit function of the Company would also conduct risk assessments of the Group and report to the Board via Audit Committee if significant risks are identified;

- Evaluation: the Audit Committee would analyze the likelihood and impact of risks and evaluate the risk portfolio accordingly, having considered the opinions of the internal audit function of the Company and the management (if any); and
- Management: the Audit Committee would consider the risk responses, and ensure effective communication to the Board regarding the risks identified and the corresponding remedial plans and recommendations, and the Board via the Audit Committee would on an on-going basis monitor the residual risks.

Based on the risk assessments conducted in 2016, no significant risk was identified.

The Company has in place an internal control system which is compatible with the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) 2013 framework. The framework enables the Group to achieve objectives regarding effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations. The components of the framework are shown as follow:

- Control Environment: A set of standards, processes and structures that provide the basis for carrying out internal control across the Group;
- Risk Assessment: A dynamic and iterative process for identifying and analyzing risks to achieve the Group’s objectives, forming a basis for determining how risks should be managed;
- Control Activities: Action established by policies and procedures to help ensure that management directives to mitigate risks to the achievement of objectives are carried out;
- Information and Communication: Internal and external communication to provide the Group with the information needed to carry out day-to-day controls; and
- Monitoring: Ongoing and separate evaluations to ascertain whether each components of internal control is present and functioning.

Based on the internal control reviews conducted in 2016, no significant control deficiency was identified.

In order to enhance the Group’s system of handling and disseminating inside information, and to ensure the truthfulness, accuracy, completeness and timeliness of its public disclosures, the Group also adopts and implements inside information procedures. Certain reasonable measures have been taken from time to time to ensure that proper safeguards exist to prevent a breach of a disclosure requirement in relation to the Group, which include:

- the access of information is restricted to a limited number of employees on a need-to-know basis. Employees who are in possession of inside information are fully conversant with their obligations to preserve confidentiality;
- confidentiality agreements are in place when the Group enters into significant negotiations; and
- the executive Directors are designated persons who speak on behalf of the Company when communicating with external parties such as the media, analysts or investors.

The Group has an Internal Audit (“IA”) function, which is consisted of professional staff with relevant expertise (such as Certified Public Accountant). The IA function is independent of the Group’s daily operation and carries out appraisal of the risk management and internal control systems by conducting interviews, walkthroughs and tests of operating effectiveness.

An IA plan has been approved by the Board. According to the established plan, review of the risk management and internal control systems is conducted annually and the results are reported to the Board via Audit Committee afterwards. Such review has been conducted for the year ended 31 December 2016.

The Board acknowledges that it is responsible for the risk management and internal control systems of the Group and ensures review of the effectiveness of these systems has been conducted. Such systems, however, 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.

Regarding the review of the risk management and internal control systems, apart from the works of the IA function, the management also examine reports on risk management, internal control and procedures in place submitted by various factories of the Group from time to time, and would inform the Board if any major internal control failings or weaknesses were discovered. External auditors would also report on the weakness in the Group's internal control and accounting procedure which have come to their attention during the course of audit.

Both the Audit Committee and the Board will review the Company's internal control and risk management systems at least annually and such review has been conducted for the year ended 31 December 2016 having taken into account the results of the review conducted by the IA function, and the information from the management and the external auditors (if any).

The Board, through its reviews and the reviews made by IA function and Audit Committee, has not identified any significant areas of concern, risks or major internal control failings or weaknesses, and concluded that the risk management and internal control systems were effective and adequate. It is also considered that the resources, staff qualifications and experience of relevant staff were adequate and the training programs and budget provided were sufficient.

In any event, in case any material internal control defects are identified, the Audit Committee will review the actions performed or the plans to be carried out by the management in addressing the issues and defects regarding the internal control and risk management systems. The corresponding remedial plans and recommendations to resolve such defects will then be submitted to the Board for consideration.

### Auditor's Remuneration

The Company's external auditor is HLM CPA Limited. For the year under review, the remuneration paid for services provided by the auditors is roughly as follows:

<b>Services Rendered</b>	<b>Fees Paid/ Payable HK\$'000</b>
Audit services	<u>HK\$1,050</u>

## COMPANY SECRETARY

The position of Company Secretary was held by Ms. Pang Siu Yin from 1 January 2016 to 25 August 2016 and by Ms. Cho Yi Ping from 25 August 2016 to 23 December 2016, both being practising solicitors of Hong Kong and neither of them was an employee of the Company. The Company Secretary could contact the Company through Mr. Poon Wai Yip, Albert, an executive Director of the Company, and Mr. Yuen Che Wai, Victor, the then financial controller of the Company.

With effect from 23 December 2016, Mr. Li Shu Pai, the chief financial officer of the Company, has been appointed as the Company Secretary.

The resignation and appointment of the Company Secretary was approved by the Board at Board meetings.

The Company Secretary is responsible to the Board and reports to the Chairman from time to time. All Directors have access to the advice and services of the Company Secretary to ensure that Board procedures, and all applicable laws, rules and regulations are followed.

The Company Secretary is required to take no less than 15 hours of relevant professional training during the year 2016. Ms. Pang Siu Yin, Ms. Cho Yi Ping and Mr. Li Shu Pai fulfilled the requirement during the year under review.

## COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Group values and strives to provide comprehensive and timely communications to its stakeholders, including its shareholders.

The general meetings of the Company provide the best opportunity for communication between the Board and the shareholders. The Company complied with the required notice periods for general meetings under the applicable laws, rules and regulations.

The Chairman of the Board and chairman of the Remuneration Committee, Nomination Committee and the Audit Committee or, in their absence, other members of the respective committees and, where applicable, the independent Board committee, were available to answer questions at the shareholders' meetings.

### Voting by Poll

The Company expresses in each relevant corporate communication that the shareholders shall vote by poll so as to allow the shareholders to have one vote for every share of the Company held. The chairman of the meeting would explain the voting procedure and answer any questions from the shareholders regarding voting in poll in the general meetings. The poll voting results of the general meetings were published on the websites of the Stock Exchange and the Company respectively on the same day after the general meetings.

### Shareholders' Rights to Convene a Special General Meeting

Further to the Companies Act 1981 of Bermuda and under Bye-Law 62 of the Bye-Laws of the Company, a special general meeting can be convened on requisition.



### Shareholders' Communication Policy

Based on the requirement of revised Code, a Shareholders Communication Policy was formulated and adopted on 27 March 2012 in order to ensure the shareholders are provided with ready, equal and timely access to balanced and understandable information about the Company. The Board has taken appropriate steps to provide effective communication with shareholders. The effectiveness of shareholders communication under the said policy had been reviewed by the Board at the board meeting held on 30 March 2016.

The most recent shareholders' meeting was the annual general meeting held on 31 May 2016 at Falcon Room I, Gloucester Luk Kwok Hong Kong, 72 Gloucester Road, Hong Kong to discuss and approve the following matters:

- considering and receiving the consolidated financial statements and reports of the Directors and auditors for the year ended 31 December 2015;
- re-electing certain Directors and authorizing the Board to fix their remunerations;
- appointing the Company's external auditor and authorizing the Board to fix their remunerations;
- passing a general mandate to allow the Directors to allot and issue shares of the Company ("General Mandate");
- passing a repurchase mandate to allow the Directors to repurchase shares of the Company ("Repurchase Mandate");
- passing a general extension mandate to allow the Directors, after the grant of Repurchase Mandate, to add to the General Mandate any shares repurchased pursuant to the Repurchase Mandate (the "General Extension Mandate"); and
- refreshing and renewing the existing scheme mandate limit in respect of granting of options to subscribe for shares under the share option scheme.

### Constitutional Documents

There was no significant change in the Company's constitutional documents during the year.

### Conclusion

Going forward, the Company will continue to work diligently to maintain the highest level of corporate transparency. The timely disclosure of relevant corporate information includes annual and interim reports, statutory announcements, corporate presentation and press releases are available on the Company's website <http://www.perfectech.com.hk>.

Enquiries and proposals to be put forward at shareholders' meetings can also be sent to the Board or senior management by contacting the Investment Department at (852) 39650088, via e-mail to [info@perfectech.com.hk](mailto:info@perfectech.com.hk), or directly through the questions and answers session at shareholders' meetings.

The Directors present their annual report (the “Report of the Directors”) and the audited financial statements for the year ended 31 December 2016.

### PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 36 to the financial statements.

### BUSINESS REVIEW

Details of the activities during the year ended 31 December 2016 including, a fair review of the business of the Group with financial performance indicators, including revenue, profit for the year attributable to owners of the Company, earnings per share, gearing ratio and net asset value per share, and an indication of likely future development in the Group’s business are explained in the “Chairman’s Statement” and “Management Discussion and Analysis” set out on pages 3 to 6 of this annual report.

The Group’s financial condition, results of operations, businesses and prospects would be affected by a number of risks and uncertainties including foreign currency risk, credit risk, and liquidity risk. The risk management policies and practices of the Group are shown in note 35 to the financial statements.

### RELATIONSHIP WITH KEY STAKEHOLDERS

The Group understands the importance of maintaining a good relationship with its suppliers, customers, employees and other stakeholders to meet its immediate and long-term goals. During the year, there was no material and significant dispute between the Group and its suppliers, customers, employees and/or other stakeholders.

### RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2016 are set out in the consolidated statement of profit or loss and other comprehensive income on page 47 of this annual report.

An interim dividend of 1.0 HK cent per share amounting to approximately HK\$3,269,000 was paid to the shareholders during the year. The directors of the Company do not recommend the payment of a final dividend for the year ended 31 December 2016.

### MAJOR CUSTOMERS AND SUPPLIERS

During the year, the five largest customers of the Group in aggregate accounted for approximately 93% of the total revenues of the Group and the largest customer accounted for approximately 87% of the total revenues of the Group. The Group has business relationship with its largest customer and most of the major customers for more than 10 years.

The five largest suppliers of the Group in aggregate accounted for approximately 39% of the total purchases of the Group and the largest supplier accounted for approximately 16% of the total purchases of the Group. The Group has business relationship with its largest supplier and most of the major suppliers for more than 10 years.

At no time during the year did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the number of issued shares of the Company) have an interest in any of the Group’s five largest suppliers.

## PROPERTY, PLANT AND EQUIPMENT

The Group continued its replacement policy and expended approximately HK\$7,026,000 on property, plant and equipment during the year.

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

## SHARES ISSUED IN THE YEAR

Details of the shares of the Company issued during the year are set out in note 26 to the financial statements. Shares were issued during the year on exercise of share option. The consideration received by the Company for the issue was the exercise price of the share option as set out in the section headed "Share Options" on page 36 of this annual report. The proceeds from the issue was used as general working capital of the Company.

## DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2016, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Act 1981 of Bermuda (as amended from time to time), amounted to approximately HK\$15,180,000. In addition, the Company's share premium account, in the amount of approximately HK\$118,895,000, may be distributed in the form of fully paid bonus shares.

## DIRECTORS

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

### Executive Directors

Ms. Xie Yinuo (*appointed with effect from 28 November 2016*)

Mr. Poon Wai Yip, Albert

Mr. Poon Siu Chung (*Chairman and Managing Director*) (*resigned with effect from 28 November 2016*)

Dr. Poon Wai Tsun, William (*resigned with effect from 28 November 2016*)

### Non-executive Director

Mr. Gao Xiaorui (*Chairman*) (*appointed with effect from 28 November 2016*)

### Independent non-executive Directors

Mr. Lau Shu Yan (*appointed with effect from 28 November 2016*)

Mr. Zhang Shang (*appointed with effect from 28 November 2016*)

Mr. Xie Xiaohong (*appointed with effect from 28 November 2016*)

Mr. Lam Yat Cheong (*resigned with effect from 28 November 2016*)

Mr. Yip Chi Hung (*resigned with effect from 28 November 2016*)

Mr. Choy Wing Keung, David (*resigned with effect from 28 November 2016*)

In accordance with bye-law 99 of the new Bye-Laws and the Code on Corporate Governance of the Company, every Director, including those appointed for a specific term, shall be subject to retirement by rotation at the annual general meeting at least once every three years. All retiring Directors shall be eligible for re-election.

Reference is made to the announcement of the Company dated 28 November 2016 in relation to, amongst others, the resignation of Mr. Poon Siu Chung and Mr. Poon Wai Tsun, William as executive Directors and Mr. Lam Yat Cheong, Mr. Yip Chi Hung and Mr. Choy Wing Keung, David as independent non-executive Directors and the appointment of Ms. Xie Yinuo as executive Director, Mr. Gao Xiaorui as non-executive Director and Mr. Zhang Shang, Mr. Lau Shu Yan and Mr. Xie Xiaohong as independent non-executive Directors effective from 28 November 2016. The resignation of Mr. Poon Siu Chung, Mr. Poon Wai Tsun, William, Mr. Lam Yat Cheong, Mr. Yip Chi Hung and Mr. Choy Wing Keung, David was due to change in control of the Company after close of the voluntary conditional cash offers.

Pursuant to code provision A.4.2 of Corporate Governance Code and bye-law 102(B) of the new Bye-Laws of the Company, all Directors appointed to fill a casual vacancy should hold office until the next following annual general meeting of the Company and shall be eligible for re-election at the meeting, and be subject to election by shareholders at the first general meeting after appointment. Accordingly, all of Ms. Xie Yinuo, Mr. Gao Xiaorui, Mr. Zhang Shang, Mr. Lau Shu Yan and Mr. Xie Xiaohong are subject to election by shareholders at the AGM, and being eligible, will offer themselves for re-election at the AGM.

## DIRECTOR'S SERVICE CONTRACTS

No Director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

All independent non-executive Directors had been/have been appointed for a term of approximately one year or three years.

## DIRECTORS' INTERESTS IN SHARES AND OPTIONS

As at 31 December 2016, the interests of the Directors in the shares, underlying shares and debentures of the Company and its associated corporations (as defined in Part XV of the Securities and Futures Ordinance (Cap 571) ("SFO")) as recorded in the register maintained under Section 352 of Part XV of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code"), were as follows:

### Long position in the shares of the Company

Director	Capacity	No. of shares held	No. of underlying shares held under equity derivatives	Total	% of issued share capital of the Company (approximately)
Mr. Gao Xiaorui	Interest of controlled corporation	130,797,041	—	130,797,041(a)	40.01

Notes: (a) Fresh Choice Holdings Limited is a limited company incorporated in the British Virgin Islands owned as to 90% by Mr. Gao Xiaorui, a non-executive Director and 10% by Mr. Wu Zhenlong.

## SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 32 to the financial statements. Details of the movements in the Company's share options during the year are as follows:

	Number of options outstanding at 1.1.2016	Number of options exercised during the year	Number of options cancelled during the year	Number of options outstanding at 31.12.2016	Date granted	Exercise price per share HK\$	Exercise period
<b>Directors</b>							
Poon Siu Chung	2,700,000	(2,700,000)	—	—	13/04/2011	0.740	01/05/2011– 31/12/2020
	2,986,000	(2,900,000)	(86,000)	—	01/04/2015	0.770	02/04/2015– 01/04/2025
	2,986,000 (Note)	(2,986,000)	—	—	01/04/2015	0.770	02/04/2015– 01/04/2025
Poon Wai Tsun, William	2,986,000 (Note)	—	(2,986,000)	—	05/05/2015	1.460	06/05/2015– 05/05/2025
Poon Wai Yip, Albert	2,986,000 (Note)	—	(2,986,000)	—	05/05/2015	1.460	06/05/2015– 05/05/2025
Choy Wing Keung, David	500,000	—	(500,000)	—	05/05/2015	1.460	06/05/2015– 05/05/2025
Sub-total	<u>15,144,000</u>	<u>(8,586,000)</u>	<u>(6,558,000)</u>	<u>—</u>			
Others	9,894,000	—	(9,894,000)	—	05/05/2015	1.460	06/05/2015– 05/05/2025
Sub-total	<u>9,894,000</u>	<u>—</u>	<u>(9,894,000)</u>	<u>—</u>			
Grand Total	<u>25,038,000</u>	<u>(8,586,000)</u>	<u>(16,452,000)</u>	<u>—</u>			

Note: These interests represent share options granted by the Company to the spouse of the respective director.

The closing prices of the Company's shares on 13 April 2011, 1 April 2015 and 5 May 2015, the dates of grant of the above options, were HK\$0.740, HK\$0.770 and HK\$1.460 respectively.

Share options were exercised on various dates during the year, the weighted average closing price of the Company's shares immediately before those dates was HK\$1.274.

## ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the share options disclosed above, at no time during the year was the Company or any of its subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTEREST IN CONTRACTS OF SIGNIFICANCE AND CONNECTED TRANSACTIONS

On 30 November 2013, Perfectech International Limited, a member of the Group entered into a tenancy agreement with Mr. Poon Siu Chung, a former substantial shareholder and former director of the Company (who ceased to be a substantial shareholder and a director of the Company on 14 November 2016 and 28 November 2016 respectively), in relation to the premises at Nos. 34 and 35 of Xiazha Industrial Street, Jinding Town, Zhuhai, the People's Republic of China, for a monthly rent of HK\$10,000 for a period of three years commencing from 1 January 2014. The said premises are used by the Group as factories. The total rent payable by the Group for the premises for the full period of the tenancy under the aforesaid tenancy agreement will amount to HK\$360,000. During the financial year ended 31 December 2016, such transaction subsisted and the Group paid rent to Mr. Poon Siu Chung totalling HK\$120,000 and disclosed as related party transaction as set out in note 34(a) to the consolidated financial statements. The transaction fell under the definition of "connected transaction" in Chapter 14A of the Listing Rules and the Company complied with the disclosure requirements (if any) in accordance with Chapter 14A of the Listing Rules.

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

## SUBSTANTIAL SHAREHOLDERS

Other than the interests disclosed above in the section "Directors' Interests in Shares and Options", as at 31 December 2016, the register of substantial shareholders' interests maintained by the Company pursuant to Section 336 of the SFO showed that the following shareholders had notified the Company of the relevant interests in the shares capital of the Company as follows: -

### Long position in the shares of the Company

Shareholder	Capacity	No. of shares held	No. of underlying shares held under equity derivatives	Total	% of issued share capital of the Company (approximately)
Mr. Zhai Jun	Interest of controlled corporation	130,796,090	—	130,796,090(1)	40.01
Star Fly Limited	Beneficial owner	130,796,090	—	130,796,090(1)	40.01
Fresh Choice Holdings Limited	Beneficial owner	130,796,091	—	130,796,091(2)	40.01

Notes:

- Star Fly Limited is a limited company incorporated in the British Virgin Islands wholly owned by Mr. Zhai Jun. The Company has been notified that Mr. Zhai Jun, through Star Fly Limited, held 130,797,040 shares of the Company as at 31 December 2016. However, the increase of such holding did not give rise to any disclosure obligation under the SFO.
- Fresh Choice Holdings Limited is a limited company incorporated in the British Virgin Islands owned as to 90% by Mr. Gao Xiaorui, a non-executive Director and 10% by Mr. Wu Zhenlong. The Company has been notified that Fresh Choice Holdings Limited held 130,797,041 shares of the Company as at 31 December 2016. However, the increase of such holding did not give rise to any disclosure obligation under the SFO.

## APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules"). The Company considers all of the independent non-executive Directors are independent.

## CORPORATE GOVERNANCE

Save as disclosed in the Corporate Governance Report, the Company has adopted throughout the year ended 31 December 2016 the Corporate Governance Code and Corporate Governance Report ("Code") set out in Appendix 14 of the Listing Rules as its own corporate governance code.

Details of the Company's corporate governance practices can be found in the Corporate Governance Report on pages 9 to 32 of this annual report.

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

During the year, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of its shares whether on the Stock Exchange or otherwise.

## EMOLUMENT POLICY

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

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

The Company has adopted a share option scheme as an incentive to its directors and eligible employees, details of the scheme is set out in note 32 to the financial statements.

## PRE-EMPTIVE RIGHTS

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

## PUBLIC FLOAT OF THE SHARES

As disclosed in the Company's announcement on 28 November 2016, upon the close of the voluntary conditional cash offers, 65,329,526 shares, representing approximately 19.98% of the then entire number of issued shares capital of the Company, were held by the public (as defined in the Listing Rules). Accordingly, the Company could not satisfy the minimum public float requirement as set out under Rule 8.08(1)(a) of the Listing Rules.

The Stock Exchange granted a waiver from strict compliance with Rule 8.08(1)(a) to the Company for an initial period of one month from 28 November 2016 to 28 December 2016 and the subsequent period from 28 December 2016 to 28 January 2017. The public float of the Company was restored on 19 January 2017. The Company has maintained a sufficient public float since then up to the date of this report.

## ENVIRONMENTAL POLICIES

The Group commits to the long term sustainability of the environment and communities in which it operates. Acting in an environmentally responsible manner, the Group endeavours to comply with laws and regulations regarding environmental protection and adopt effective measures to achieve efficient use of resources, energy saving and waste reduction. The Group also commits to the principle and practice of recycling and reducing. To help conserve the environment, it implements green office practices such as encouraging use of recycled paper for printing and copying, double-sided printing and copying, and switching off idle lightings, air conditioning and electrical appliances to reduce energy consumption.

## COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

The Company has complied with all the relevant laws and regulations that have a significant impact on the Company. Compliance procedures are in place to ensure compliance with relevant laws and regulations. Our professional employees attend on-going professional development programs in order to keep them abreast of the latest development of the laws and regulations. External legal advisors are engaged to advise on the compliance matters if and when necessary. The Company complies with the relevant laws and regulations that have a significant impact on the Company including the Hong Kong Companies Ordinance, SFO and the Listing Rules.

## AUDITORS

The financial statements for the year ended 31 December 2016 have been audited by the Company's auditors, Messrs. HLM CPA Limited, Certified Public Accountants. HLM CPA Limited shall retire and, being eligible, will offer themselves for re-appointment. A resolution for the re-appointment of HLM CPA Limited will be proposed at the forthcoming annual general meeting.

## AUDIT COMMITTEE

The annual results for the year have been reviewed by the Audit Committee of the Company, which is of the opinion that the preparation of such financial information complies with the applicable accounting standards, the requirements under the Listing Rules and any other applicable legal requirements, and that adequate disclosures have been made.

## EQUITY-LINKED AGREEMENTS

Other than the share option scheme as disclosed above and in note 32 to the financial statements and the grant letters issued pursuant to the scheme, no equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the year or subsisted at the end of the year.



## PERMITTED INDEMNITY PROVISION

Section 178 of the new Bye-Laws of the Company provides that the Directors shall be indemnified and secured harmless out of the assets of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them, their or any of their executors or administrators, shall or may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of their duties or supposed duty in their respective offices or trusts. The Company has also taken out and maintained directors' liability insurance which provides appropriate cover for the directors of the Company and directors of the subsidiaries of the Group.

Such permitted indemnity provisions have been in force throughout the year under review and is currently in force at the time of approval of this report.

On behalf of the Board

**Xie YINUO**  
*Director*

Hong Kong, 30 March 2017

恒健會計師行有限公司  
**HLM CPA LIMITED**  
Certified Public Accountants

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### TO THE MEMBERS OF PERFECTECH INTERNATIONAL HOLDINGS LIMITED

*(Incorporated in Bermuda with limited liability)*

### OPINION

We have audited the consolidated financial statements of Perfectech International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 47 to 114, which comprise the consolidated statement of financial position and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

### BASIS OF OPINION

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

### KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for 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 MATTERS *(Cont'd)*

### Key audit matter

#### ***Valuation of investment property***

We identified the valuation of investment property as a key audit matter due to significance of the balance to the consolidated financial statements as a whole, combined with significant judgment associated with determining the fair value. As disclosed in note 15 to the consolidated financial statement, the Group held an investment property at HK\$32,700,000. The fair value of the investment property was determined based on a valuation report of an independent professional property valuer. Increase in fair value of investment property of HK\$1,300,000 was recognised in the consolidated statement of profit or loss and other comprehensive income for the year then ended.

The fair value of the investment property was determined based on Investment Approach and Comparison Approach assuming sale in their existing states with the benefit of vacant possession and making reference to comparable sale evidences as available in the relevant market. Appropriate adjustments have been made to account for the differences between the property and the comparables in terms of time, location, age, floor level, size and other relevant factors.

### How our audit addresses the key audit matter

Our audit procedures in relation to the valuation of investment property included:

- examining and reviewing the valuation report issued by the independent professional property valuer;
- evaluating the qualification, independence and objectivity of the independent professional property valuer; and
- obtaining an understanding from the independent professional property valuer about the valuation methodology, the performance of the property markets, significant assumptions adopted, critical judgment on key inputs and data used in the valuations and evaluating the valuation methodology used and the key estimates and key input adopted in the valuation are reasonable.

We found that the assumptions made by the independent professional property valuer were reasonable by available evidence.

**KEY AUDIT MATTERS** (Cont'd)**Key audit matter****Valuation of inventories**

We identified the valuation of inventories as a key audit matter due to the significance of the balance to the consolidated financial statements as a whole. There is the significant degree of judgement by the management determining the net realisable value ("NRV").

As disclosed in note 3 to the consolidated financial statements, NRV represents the latest selling prices for inventories less all estimated costs of completion and costs necessary to make the sale. As disclosed in note 16 to the consolidated financial statements, the management's estimation of the NRV was primarily based on the latest selling prices and current market conditions. As at 31 December 2016, the carrying amount of inventories is HK\$20,821,000. The management carried out the inventories review at the end of the reporting period and made allowance of HK\$13,000 on obsolete and slow moving items to write down inventories to their NRVs during the year ended 31 December 2016.

**How our audit addresses the key audit matter**

Our audit procedures in relation to assessing the appropriateness of the carrying value of the inventories included:

- testing the operating effectiveness of controls associated with the existence and conditions of inventories;
- reviewing how the management estimated the NRVs of inventories and evaluating the historical accuracy of the allowance estimations by management;
- discussing with management and assessing the bases of the management's estimations of subsequent selling price, costs to completion and costs necessary to make the sales;
- reviewing a list of obsolete and slow moving inventories and assessing the allowance made on obsolete and slow moving items; and
- verifying the value of a sample of inventories to confirm that the inventories were held at the lower of cost and NRV.

Based on our procedures described, we found the estimations of management in relation to valuation of inventories were supportable by available evidence.

## KEY AUDIT MATTERS *(Cont'd)*

### Key audit matter

### How our audit addresses the key audit matter

#### **Valuation of trade receivables**

We identified the valuation of trade receivables as a key audit matter due to the use of judgment and estimates in assessing the recoverability of trade receivables.

In determining the allowance for trade receivables, the management considers the credit history including default or delay in payments, settlement records, subsequent settlements and aging analysis of the trade receivables.

At 31 December 2016, the carrying amount of trade receivables is HK\$22,571,000, net of allowance for doubtful debts of HK\$6,809,000.

Details of the trade receivables are set out in note 17 to the consolidated financial statements.

Our procedures in relation to valuation on trade receivables included:

- testing the operating effectiveness of controls in determining the provision for bad and doubtful debts;
- understanding how allowance for doubtful debts is estimated by the management and assessing the reasonableness of the methodology and assumptions used;
- reviewing the aging analysis of the trade receivables throughout the year to understand the settlement patterns of the customers;
- testing the accuracy of the aging analysis of the trade receivables, on a sample basis, to the source documents;
- testing the subsequent settlement of trade receivables; and
- confirming the existence and assessing the valuation of significant trade receivables as at year end.

We found that the estimation and judgement made by management in respect of the recoverability of trade receivables were supportable by the credible evidence.

## INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND OUR AUDITOR'S REPORT THEREON

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

The directors 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 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 solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAAs, we exercise professional judgement 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.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Cont'd)*

- 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 communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

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

### **HLM CPA Limited**

*Certified Public Accountants*

### **Chan Lap Chi**

Practising Certificate Number: P04084

Hong Kong, 30 March 2017

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Notes	2016 HK\$'000	2015 HK\$'000 (Re-presented)
Revenue	5 & 6	237,069	198,088
Cost of sales		(167,966)	(153,149)
Gross profit		69,103	44,939
Other income, gains and losses	7	13,852	(4,005)
Distribution costs		(4,132)	(4,674)
Gain from changes in fair value of an investment property	15	1,300	400
Administrative expenses		(42,680)	(46,737)
Finance costs	8	(575)	(631)
Profit (loss) before tax	9	36,868	(10,708)
Income tax expenses	11	(6,206)	(2,668)
Profit (loss) for the year		30,662	(13,376)
Other comprehensive expenses, net of income tax <i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange difference on translation of overseas operations		(3,209)	(1,287)
Total comprehensive income (expenses) for the year		27,453	(14,663)
Profit (loss) for the year attributable to:			
Owners of the Company		23,272	(16,090)
Non-controlling interests		7,390	2,714
Profit (loss) for the year		30,662	(13,376)
Total comprehensive income (expenses) for the year attributable to:			
Owners of the Company		20,396	(17,105)
Non-controlling interests		7,057	2,442
Total comprehensive income (expenses) for the year		27,453	(14,663)
Earnings (loss) per share	13		
Basic		7.14 Cents	(5.20) Cents
Diluted		7.11 Cents	(5.20) Cents



# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	Notes	2016 HK\$'000	2015 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	14	59,514	62,418
Investment property	15	32,700	31,400
Deferred tax assets	25	7,492	7,137
		<u>99,706</u>	<u>100,955</u>
<b>CURRENT ASSETS</b>			
Inventories	16	20,821	17,145
Trade and other receivables	17	28,945	23,974
Tax recoverable		398	3,443
Held for trading investments	20	—	38,937
Derivative financial instruments	19	—	244
Financial assets designated as at fair value through profit or loss	24	—	938
Pledged bank deposits	21	47,223	1,119
Bank balances and cash	18	93,136	66,286
		<u>190,523</u>	<u>152,086</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	22	36,053	21,511
Derivative financial instruments	19	—	2,646
Tax liabilities		2,982	3,885
Bank borrowings	23	23,089	26,106
		<u>62,124</u>	<u>54,148</u>
<b>NET CURRENT ASSETS</b>		<u>128,399</u>	<u>97,938</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>228,105</u>	<u>198,893</u>
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities	25	50	198
<b>NET ASSETS</b>		<u>228,055</u>	<u>198,695</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 31 December 2016*

	Notes	2016 HK\$'000	2015 HK\$'000
<b>CAPITAL AND RESERVES</b>			
Share capital	26	<b>32,692</b>	31,834
Reserves		<b>173,951</b>	151,153
		<hr/>	<hr/>
Equity attributable to owners of the Company		<b>206,643</b>	182,987
Non-controlling interests		<b>21,412</b>	15,708
		<hr/>	<hr/>
<b>TOTAL EQUITY</b>		<b>228,055</b>	198,695
		<hr style="border-top: 3px double #000;"/>	<hr style="border-top: 3px double #000;"/>

The financial statements on pages 47 to 114 were approved and authorised for issue by the Board of Directors on 30 March 2017 and are signed on its behalf by:

**Mr. Gao Xiaorui**  
DIRECTOR

**Ms. Xie Yinuo**  
DIRECTOR

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Share capital	Share premium	Capital redemption reserve	Share options reserve	Translations reserve	Retained profits	Equity attributable to equity holders of the Company	Non-controlling interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2015	29,867	92,955	10,337	3,489	1,264	44,389	182,301	14,597	196,898
(Loss) profit for the year	—	—	—	—	—	(16,090)	(16,090)	2,714	(13,376)
Other comprehensive expenses for the year									
Exchange differences on translation of overseas operations	—	—	—	—	(1,015)	—	(1,015)	(272)	(1,287)
Total comprehensive (expenses) income for the year	—	—	—	—	(1,015)	(16,090)	(17,105)	2,442	(14,663)
Share options granted	—	—	—	10,909	—	—	10,909	—	10,909
Share options lapsed	—	—	—	(599)	—	599	—	—	—
Share issued upon exercise of options	1,967	18,267	—	(4,179)	—	—	16,055	—	16,055
Dividends (Note 12)	—	—	—	—	—	(9,173)	(9,173)	(1,331)	(10,504)
At 31 December 2015	<u>31,834</u>	<u>111,222</u>	<u>10,337</u>	<u>9,620</u>	<u>249</u>	<u>19,725</u>	<u>182,987</u>	<u>15,708</u>	<u>198,695</u>
At 1 January 2016	31,834	111,222	10,337	9,620	249	19,725	182,987	15,708	198,695
Profit for the year	—	—	—	—	—	23,272	23,272	7,390	30,662
Other comprehensive expenses for the year									
Exchange difference on translation of overseas operations	—	—	—	—	(2,876)	—	(2,876)	(333)	(3,209)
Total comprehensive (expenses) income for the year	—	—	—	—	(2,876)	23,272	20,396	7,057	27,453
Share options cancelled	—	—	—	(7,618)	—	7,618	—	—	—
Share issued upon exercise of options	858	7,673	—	(2,002)	—	—	6,529	—	6,529
Dividends (Note 12)	—	—	—	—	—	(3,269)	(3,269)	(1,353)	(4,622)
At 31 December 2016	<u>32,692</u>	<u>118,895</u>	<u>10,337</u>	<u>—</u>	<u>(2,627)</u>	<u>47,346</u>	<u>206,643</u>	<u>21,412</u>	<u>228,055</u>

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	2016 HK\$'000	2015 HK\$'000
<b>OPERATING ACTIVITIES</b>		
Profit (loss) before tax	36,868	(10,708)
Adjustments for:		
Bad debt recovered	—	(335)
Bond interest income	(48)	—
Interest expenses	575	631
Interest income	(79)	(99)
Depreciation of property, plant and equipment	7,981	7,817
Dividend income from held for trading investment	(1,651)	(1,558)
Share-based payment expenses	—	10,909
Gain on disposal of property, plant and equipment	(234)	(2,715)
Gain on disposal of an investment property	—	(800)
(Gain) loss on disposal of held for trading investment	(1,604)	937
Gain on redemption of financial assets designated as at fair value through profit or loss	—	(41)
Gain from changes in fair value of investment property	(1,300)	(400)
Gain from changes in fair value of derivative financial instruments	(2,402)	(1,709)
Loss from changes in fair value of held for trading investments	—	13,298
Loss from changes in fair value of financial assets designated as at fair value through profit or loss	—	44
Write down of inventories	13	—
Written-off of trade payables	(119)	—
Operating cash flows before movements in working capital	38,000	15,271
(Increase) decrease in trade and other receivables	(4,971)	4,051
(Increase) decrease in inventories	(3,689)	2,555
Increase (decrease) in trade and other payables	14,661	(9,778)
Cash generated from operations	44,001	12,099
Hong Kong Profits Tax paid, net	(4,115)	(3,338)
PRC Enterprise Income Tax paid, net	(440)	(287)
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>39,446</b>	<b>8,474</b>

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	2016 HK\$'000	2015 HK\$'000
<b>INVESTING ACTIVITIES</b>		
(Increase) decrease in pledged bank deposits	(46,104)	776
Dividends received from held for trading investments	1,651	1,558
Interest received	79	99
Bond interest received	48	—
Purchase of financial assets designated as at fair value through profit or loss	(1,973)	(2,941)
Purchase of held for trading investments	(25,950)	(39,134)
Purchase of property, plant and equipment	(7,026)	(5,814)
Proceeds on redemption of financial assets designated as at fair value through profit or loss	—	2,000
Proceeds on disposal of held for trading investments	69,402	32,955
Proceeds on disposal of property, plant and equipment	250	3,934
Proceeds on disposal of an investment property	—	14,500
<b>NET CASH (USED IN) FROM INVESTING ACTIVITIES</b>	<b>(9,623)</b>	<b>7,933</b>
<b>FINANCING ACTIVITIES</b>		
Dividends paid to owners of the Company	(3,269)	(9,173)
Dividends paid to non-controlling interests	(1,353)	(1,331)
Interest paid	(575)	(631)
Proceeds received upon exercise of share options	6,529	16,055
Repayment of bank borrowings	(3,017)	(4,149)
<b>NET CASH (USED IN) FROM FINANCING ACTIVITIES</b>	<b>(1,685)</b>	<b>771</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>28,138</b>	<b>17,178</b>
<b>CASH AND CASH EQUIVALENTS AT 1 JANUARY</b>	<b>66,286</b>	<b>49,060</b>
Effect of change in foreign exchange rates	(1,288)	48
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	<b>93,136</b>	<b>66,286</b>
<b>ANALYSIS OF CASH AND CASH EQUIVALENTS</b>		
Bank balances and cash	93,136	66,286

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

## 1. GENERAL INFORMATION

The Company is a public limited company incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The address of the registered office is Canon’s Court, 22 Victoria Street, Hamilton HM 12, Bermuda and the principal place of business is Units C & D, 9/F, Sing Teck Factory Building, 44 Wong Chuk Hang Road, Aberdeen, Hong Kong.

The principal activities of the Group are the manufacture and sale of novelties, decoration and toy products.

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

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

### New and revised HKFRSs applied with no material effects on the consolidated financial statements

The accounting policies and methods of computation used in these financial statements are the same as those followed in the preparation of the Group’s financial statements for the year ended 31 December 2015, except for the following amendments to HKFRSs that the Group has applied for the first time in the current year. The application of these new and revised HKFRSs has had no material impact on the Group’s financial performance and positions for the current and prior years but may affect the accounting for future transactions or arrangements.

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

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Cont’d)

### New and revised HKFRSs in issue but not yet effective

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

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

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2017

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2018

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2019

<sup>4</sup> The original effective date has been deferred to a date yet to be determined

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate

The Directors anticipate that the application of new and amendments to HKFRSs will have no material impact on the results and the financial position of the Company.

## 3. SIGNIFICANT ACCOUNTING POLICIES

### Statement of compliance

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

### Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at fair value at the end of each reporting period, as explained in the accounting policies set out below.

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

### 3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### Basis of preparation (Cont'd)

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

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

The principal accounting policies are set out below.

#### Basis of consolidation

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

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

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



### 3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### Basis of consolidation (Cont'd)

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

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

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

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

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

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

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

### 3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### Basis of consolidation (Cont'd)

#### Changes in the Group's ownership interests in existing subsidiaries (Cont'd)

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

#### Business combinations

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

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

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 Income Taxes and HKAS 19 Employee Benefits respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 Share-based Payment at the acquisition date (see the accounting policy below); and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

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

### 3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### Business combinations (Cont'd)

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

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

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

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

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

#### Goodwill

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

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

### 3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### Goodwill (Cont'd)

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

#### Revenue recognition

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

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

#### Sale of goods

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

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

#### Dividend and interest income

Dividend income from investments is recognised when the shareholder's right to receive payment has been established.

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

### 3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### Property, plant and equipment

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

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

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

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

#### Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values. All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are classified and accounted for as investment properties and are measured using the fair value model. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

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

#### Impairment of tangible and intangible assets other than goodwill

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

### 3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

#### Impairment of tangible and intangible assets other than goodwill *(Cont'd)*

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

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

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

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

#### Leasing

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

#### *The Group as lessor*

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

#### *The Group as lessee*

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

### 3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### Leasing (Cont'd)

##### *Leasehold land for own use*

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

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

#### Foreign currencies

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

### 3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### Foreign currencies (Cont'd)

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

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- exchange differences on monetary items receivable from or payable to foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of the transactions are used. Exchange differences arising if any, are recognised in other comprehensive income and accumulated in equity under the heading of foreign currency translation reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.



### 3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

#### Retirement benefit costs

Payments to defined contribution retirement benefit plans/the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

#### Taxation

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

#### Current tax

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

#### Deferred tax

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

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

### 3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### Taxation (Cont'd)

##### Deferred tax (Cont'd)

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

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

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

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

##### Current and deferred tax for the year

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

#### Inventories

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

#### Financial instruments

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

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

### 3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### Financial instruments (Cont'd)

##### Financial assets

The Group's financial assets are classified into the following specified categories: financial assets at fair value through profit or loss ("FVTPL") and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

##### Effective interest method

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

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL, of which interest income is included in net gains or losses.

##### Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is (i) held for trading or (ii) it is designated as at FVTPL or (iii) contingent consideration that may be received by an acquirer as part of a business combination to which HKFRS 3 applies.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading or contingent consideration that may be received by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

### 3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### Financial instruments (Cont'd)

#### Financial assets (Cont'd)

#### Financial assets at FVTPL (Cont'd)

- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the 'other income, gains and losses' line item. Fair value is determined in the manner described in note 35.

#### Loans and receivables

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

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

#### Impairment of financial assets

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

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

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

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, observable changes in national or local economic conditions that correlate with default on receivables.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### Financial instruments (Cont'd)

##### Financial assets (Cont'd)

##### Impairment of financial assets (Cont'd)

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

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

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

For financial assets measured at amortised cost, 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, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

#### Financial liabilities and equity instruments

##### Classification as debt or equity

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

### 3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### Financial instruments (Cont'd)

#### Financial liabilities and equity instruments (Cont'd)

##### Equity instrument

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

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

##### Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) held for trading or (ii) it is designated as at FTVPL or (iii) contingent consideration that may be paid by an acquirer as part of a business combination to which HKFRS 3 applies.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is a part of a portfolio of an identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item. Fair value is determined in the manner described in note 35.

### 3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### Financial instruments (Cont'd)

#### Financial liabilities and equity instruments (Cont'd)

#### Other financial liabilities

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

#### Effective interest method

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

#### Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

#### Derecognition

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

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

### 3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### Financial instruments (Cont'd)

##### Derecognition (Cont'd)

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

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

##### Provisions

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

The amounts recognised as a provision, including those arising from the contractual obligation specified in the service concession arrangement to maintain or restore the infrastructure before it is handed over to the grantor, is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.



### 3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### Share-based payment arrangements

##### *Share-based payment transactions of the Company*

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 32 to the Group's consolidation financial statements.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share options reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve. For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.

When the share-based payment awards held by the employees of an acquiree (acquiree awards) are replaced by the Group's share-based payment awards (replacement awards), both the acquiree awards and the replacement awards are measured in accordance with HKFRS 2 Share-based Payment ('market-based measure') at the acquisition date. The portion of the replacement awards that is included in measuring the consideration transferred in a business combination equals the market-based measure of the acquiree awards multiplied by the ratio of the portion of the vesting period completed to the greater of the total vesting period or the original vesting period of the acquiree award. The excess of the market-based measure of the replacement awards over the market-based measure of the acquiree awards included in measuring the consideration transferred is recognised as remuneration cost for post-combination service.

However, when the acquiree awards expire as a consequence of a business combination and the Group replaces those awards when it does not have an obligation to do so, the replacement awards are measured at their market-based measure in accordance with HKFRS 2. All of the market-based measure of the replacement awards is recognised as remuneration cost for post-combination service.

##### *Share-based payment transactions of the acquiree in a business combination*

At the acquisition date, when the outstanding equity-settled share-based payment transactions held by the employees of an acquiree are not exchanged by the Group for its share-based payment transactions, the acquiree share-based payment transactions are measured at their market-based measure at the acquisition date. If the share-based payment transactions have vested by the acquisition date, they are included as part of the non-controlling interest in the acquiree. However, if the share-based payment transactions have not vested by the acquisition date, the market-based measure of the unvested share-based payment transactions is allocated to the non-controlling interest in the acquiree based on the ratio of the portion of the vesting period completed to the greater of the total vesting period or the original vesting period of the share-based payment transaction. The balance is recognised as remuneration cost for post-combination service.

### 3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### Related parties

- (a) A person, or a close member of that person's family, is related to the Group if that person:
- (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group and the Group's parent.
- (b) An entity is related to the Group if any of the following conditions applies:
- (i) the entities and the Group are the member of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
  - (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
  - (iii) both entities are joint ventures of the same third party;
  - (iv) one entity is a joint venture of a third entity and other entity is an associate of the third entity;
  - (v) the entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity;
  - (vi) the entity is controlled or jointly controlled by a person identified in (a);
  - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); or
  - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group's parent.

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

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

#### 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

##### Critical judgements in applying accounting policies

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

##### Deferred taxation on investment properties

For the purposes of measuring deferred tax liabilities or deferred tax assets arising from investment properties that are measured using the fair value model, the directors have reviewed the Group's investment property portfolios and concluded that the Group's investment properties are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, in measuring the Group's deferred taxation on investment properties, the directors have determined that the presumption that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale is not rebutted. As a result, the Group has not recognised any deferred taxes on changes in fair value of investment properties as the Group is not subject to any income taxes on disposal of its investment properties.

##### Key sources of estimation uncertainty

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

##### Depreciation

The Group's net book value of property, plant and equipment as at 31 December 2016 was approximately HK\$59,514,000. The Group depreciates the property, plant and equipment, using the straight-line method, at the rate 3% to 30% per annum, commencing from the date the assets is placed into productive use. The estimated useful life that the Group places the assets into productive use reflect the Directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment.

#### 4. KEY SOURCES OF ESTIMATION UNCERTAINTY (Cont'd)

##### Key sources of estimation uncertainty (Cont'd)

##### *Impairment on trade receivables*

The policy for impairment on trade receivables of the Group is based on the evaluation of collectability and aging analysis of accounts based on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group had deteriorated, resulting in an impairment of their ability to make payments, additional impairment may be required.

##### *Recoverability of Deferred Tax Assets*

As at 31 December 2016, a deferred tax asset of HK\$6,968,000 in relation to unused tax losses has been recognised in the Group's consolidated statement of financial position. The recoverability of deferred tax assets requires the Group to estimate the probability of taxable profits expected to arise from future operations. At the end of each reporting period, management evaluates the recoverability of deferred tax assets by way of profit forecast when necessary.

##### *Impairment on inventories*

The management of the Group reviews an aging analysis at each reporting period, and identifies obsolete and slow-moving inventory items that are no longer suitable for use in production. The management estimates the net realisable value for such finished goods and work-in progress based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at the end of each reporting period and provides impairment on obsolete items.

#### 5. REVENUE

Revenue represents the amounts received and receivable for goods sold by the Group to outside customers, less returns and trade discounts during the year.

	<b>2016</b>	2015
	<b>HK\$'000</b>	HK\$'000
Novelties and decoration products	<b>23,139</b>	36,154
Toy products	<b>213,930</b>	161,934
	<b>237,069</b>	198,088

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 6. SEGMENTS REPORTING

For management purposes, the Group is currently organised into two operating segments, namely the manufacture and sale of novelties and decoration products and the manufacture and sale of toy products.

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

2016

	Novelties and decoration products HK\$'000	Toy products HK\$'000	Consolidated HK\$'000
<b>REVENUE</b>			
External sales and total revenue	<u>23,139</u>	<u>213,930</u>	<u>237,069</u>
<b>RESULT</b>			
Segment result	<u>(7,332)</u>	<u>46,989</u>	39,657
Gain from investments			5,708
Gain from changes in fair value of an investment property			1,300
Unallocated corporate expenses			(9,222)
Finance costs			<u>(575)</u>
Profit before tax			36,868
Income tax expenses			<u>(6,206)</u>
Profit for the year			<u>30,662</u>

**6. SEGMENTS REPORTING** (Cont'd)

2016 (Cont'd)

	Novelties and decoration products HK\$'000	Toy products HK\$'000	Consolidated HK\$'000
<b>ASSETS</b>			
Segment assets	44,510	128,915	173,425
Unallocated corporate assets			<u>116,804</u>
Consolidated total assets			<u><u>290,229</u></u>
<b>LIABILITIES</b>			
Segment liabilities	12,897	34,819	47,716
Unallocated corporate liabilities			<u>14,458</u>
Consolidated total liabilities			<u><u>62,174</u></u>

	Novelties and decoration products HK\$'000	Toy products HK\$'000	Others HK\$'000	Consolidated HK\$'000
Additions of property, plant and equipment	1,089	5,937	—	7,026
Depreciation and amortisation	1,033	5,333	1,615	7,981
Interest income	<u>32</u>	<u>19</u>	<u>28</u>	<u><u>79</u></u>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 6. SEGMENTS REPORTING (Cont'd)

2015

	Novelties and decoration products HK\$'000	Toy products HK\$'000	Consolidated HK\$'000
<b>REVENUE</b>			
External sales and total revenue	<u>36,154</u>	<u>161,934</u>	<u>198,088</u>
<b>RESULT</b>			
Segment result	<u>(5,099)</u>	<u>19,475</u>	14,376
Loss from investments			(10,957)
Gain from changes in fair value of an investment property			400
Unallocated corporate expenses			(13,896)
Finance costs			<u>(631)</u>
Loss before tax			(10,708)
Income tax expenses			<u>(2,668)</u>
Loss for the year			<u>(13,376)</u>
	Novelties and decoration products HK\$'000	Toy products HK\$'000	Consolidated HK\$'000
<b>ASSETS</b>			
Segment assets	30,549	92,646	123,195
Unallocated corporate assets			<u>129,846</u>
Consolidated total assets			<u>253,041</u>
<b>LIABILITIES</b>			
Segment liabilities	12,549	20,353	32,902
Unallocated corporate liabilities			<u>21,444</u>
Consolidated total liabilities			<u>54,346</u>

**6. SEGMENTS REPORTING** (Cont'd)

2015 (Cont'd)

	Novelties and decoration products HK\$'000	Toy products HK\$'000	Others HK\$'000	Consolidated HK\$'000
Additions of property, plant and equipment	120	4,436	1,258	5,814
Depreciation and amortisation	1,220	4,942	1,655	7,817
Interest income	35	17	47	99

Segment profit represents the profit earned by each segment without allocation of central administration costs including directors' salaries, investment and other income, finance costs, and income tax expenses. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to operating segments other than held for trading investments, other financial assets, investment property and land and building held for own use. Assets used jointly by segments are allocated on the basis of the revenues earned by individual segments; and
- all liabilities are allocated to operating segments other than other financial liabilities. Liabilities for which segments are jointly liable are allocated in proportion to segment assets.

**Geographical Information**

The Group's revenue from external customers by location of operations are detailed below:

	2016 HK\$'000	2015 HK\$'000
Sales revenue by geographical market:		
Hong Kong	8,002	10,567
Europe	53,338	40,602
America	90,194	68,775
Asia (other than Hong Kong)	82,480	76,819
Others	3,055	1,325
	<b>237,069</b>	<b>198,088</b>



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 6. SEGMENTS REPORTING (Cont'd)

#### Geographical Information (Cont'd)

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000
Hong Kong	214,934	176,073	547	1,299
The People's Republic of China (the "PRC")	75,295	76,968	6,479	4,515
	<u>290,229</u>	<u>253,041</u>	<u>7,026</u>	<u>5,814</u>

#### Information about major customer

Included in revenue arising from sales of toy products of approximately HK\$213,930,000 (2015: HK\$161,934,000) are revenue of approximately HK\$207,136,000 (2015: HK\$154,036,000) which arose from sales to the Group's largest customer, representing 87% (2015: 78%) of the total revenue.

### 7. OTHER INCOME, GAINS AND LOSSES

	2016 HK\$'000	2015 HK\$'000 (Re-presented)
Included in other income, gains and losses are:		
Bad debt recovered	—	335
Bond interest income	48	—
Dividend income from held for trading investments	1,651	1,558
Interest income	79	99
Rental income	610	299
Scrap sales	1,795	1,766
Gain on disposal of property, plant and equipment	234	2,715
Gain on disposal of an investment property	—	800
Gain on redemption of financial assets designated as at fair value through profit or loss	—	41
Loss from changes in fair value of held for trading investments	—	(13,298)
Gain from changes in fair value of derivative financial instruments	2,402	1,709
Loss from changes in fair value of financial assets designated as at fair value through profit or loss	—	(44)
Gain (loss) on disposal of held for trading investments	1,604	(937)
Written-off of trade payables	119	—
Net foreign exchange gains (losses)	3,294	(163)
Others	2,016	1,115
	<u>13,852</u>	<u>(4,005)</u>

## 8. FINANCE COSTS

	2016 HK\$'000	2015 HK\$'000
Interest on:		
Bank borrowings wholly repayable within five years	<u>575</u>	<u>631</u>

## 9. PROFIT (LOSS) BEFORE TAX

	2016 HK\$'000	2015 HK\$'000
Profit (loss) before tax has been arrived at after charging (crediting):		
Auditor's remuneration	1,050	1,010
Bad debt recovered	—	(335)
Cost of inventories recognised as an expense	63,590	54,101
Depreciation of property, plant and equipment	7,981	7,817
Net foreign exchange (gains) losses	(3,294)	163
Operating lease rentals in respect of rented premises	5,700	5,860
Gross rental income from investment property	(610)	(299)
Less:		
Direct operating expenses incurred for investment property that generated rental income during the year	101	44
Direct operating expenses incurred for investment property that did not generate rental income during the year	—	12
	<u>(509)</u>	<u>(243)</u>
Write down of inventories	13	—
Share-based payment expenses	—	10,909
Staff costs (including Directors' emoluments)	<u>88,538</u>	<u>85,358</u>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

#### (a) Directors' emoluments

The emoluments paid or payable to each of the eleven Directors in 2016 were as follows:

Emoluments	Other emoluments				Total HK\$'000
	Fees HK\$'000	Salaries and other benefits HK\$'000	Share- based payments HK\$'000	Retirement benefit scheme contributions HK\$'000	
Poon Siu Chung	—	2,377	—	51	2,428
Poon Wai Tsun, William	—	974	—	16	990
Poon Wai Yip, Albert	—	1,016	—	18	1,034
Gao Xiaorui	17	—	—	—	17
Xie YINUO	—	—	—	—	—
Choy Wing Keung, David	50	—	—	—	50
Lam Yat Cheong	50	—	—	—	50
Yip Chi Hung	50	—	—	—	50
Zhang Shang	17	—	—	—	17
Lau Shu Yan	17	—	—	—	17
Xie Xiaohong	17	—	—	—	17
Total for 2016	<b>218</b>	<b>4,367</b>	<b>—</b>	<b>85</b>	<b>4,670</b>

The emoluments paid or payable to each of the seven Directors in 2015 were as follows:

Emoluments	Other emoluments				Total HK\$'000
	Fees HK\$'000	Salaries and other benefits HK\$'000	Share- based payments HK\$'000	Retirement benefit scheme contributions HK\$'000	
Poon Siu Chung	—	1,630	712	48	2,390
Tsui Yan Lee, Benjamin	—	426	—	3	429
Poon Wai Tsun, William	—	862	712	18	1,592
Poon Wai Yip, Albert	—	828	712	18	1,558
Choy Wing Keung, David	50	—	232	—	282
Lam Yat Cheong	50	—	232	—	282
Yip Chi Hung	50	—	232	—	282
Total for 2015	<b>150</b>	<b>3,746</b>	<b>2,832</b>	<b>87</b>	<b>6,815</b>

**10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS** (Cont'd)**(b) Employees' emoluments**

Of the five individuals with the highest emoluments of the Group, three (2015: three) were Directors of the Company, namely Mr. Poon Siu Chung, Dr. Poon Wai Tsun, William and Mr. Poon Wai Yip, Albert, whose emoluments are set out in (a) above. The emoluments of the remaining two (2015: two) individuals were as follows:

	<b>2016</b> <b>HK\$'000</b>	2015 HK\$'000
Salaries and other benefits	<b>2,066</b>	1,891
Retirement benefit schemes contributions	<b>26</b>	35
	<b>2,092</b>	1,926

Their emoluments were within the following bands:

	<b>2016</b> <b>Number of</b> <b>employees</b>	2015 Number of employees
Nil–HK\$1,000,000	<b>—</b>	1
HK\$1,000,001–HK\$1,500,000	<b>2</b>	1
	<b>2</b>	2

**11. INCOME TAX EXPENSES**

	<b>2016</b> <b>HK\$'000</b>	2015 HK\$'000
Current tax:		
Hong Kong Profits Tax	<b>6,894</b>	3,056
PRC Enterprise Income Tax	<b>257</b>	312
	<b>7,151</b>	3,368
(Over) under provision in prior years:		
Hong Kong Profits Tax	<b>(524)</b>	1,867
PRC Enterprise Income Tax	<b>82</b>	50
	<b>(442)</b>	1,917
Deferred tax (Note 25)		
Current year	<b>(503)</b>	(2,617)
Total income tax expenses recognised in profit or loss	<b>6,206</b>	2,668

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 11. INCOME TAX EXPENSES (Cont'd)

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% for both years.

The tax charge for the year can be reconciled to the profit (loss) before tax as follows:

	2016 HK\$'000	2015 HK\$'000
Profit (loss) before tax	<u>36,868</u>	<u>(10,708)</u>
Tax at Hong Kong Profits Tax rate of 16.5%	6,083	(1,767)
Tax effect of income not taxable for tax purposes	(7,150)	(2,332)
Tax effect of expenses not deductible for tax purposes	3,717	2,569
Tax effect of temporary differences not recognised	155	183
Tax effect of tax losses not recognised	2,975	1,941
Utilisation of tax losses not previously recognised	(141)	(164)
(Over) under provision in respect of prior year	(442)	1,917
Effect of different tax rates of subsidiaries operating in the PRC	<u>1,009</u>	<u>321</u>
Tax charge for the year	<u>6,206</u>	<u>2,668</u>

### 12. DIVIDENDS

	2016 HK\$'000	2015 HK\$'000
Interim, paid — 1.0 HK cent (2015: 1.0 HK cent) per share	3,269	3,184
Final paid — nil for 2015 (2015: 2.0 HK cents per share for 2014)	—	5,989
	<u>3,269</u>	<u>9,173</u>

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

### 13. EARNINGS (LOSS) PER SHARE

The calculation of the basic and diluted earnings (loss) per share attributable to owners of the Company is based on the net profit for the year of approximately HK\$23,272,000 (2015: loss of HK\$16,090,000) and the following data:

	2016	2015
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purposes of basic earnings (loss) per share	<b>325,864,137</b>	309,176,440
Effect of dilutive potential ordinary shares on share options	<b>1,349,884</b>	5,634,887
Weighted average number of ordinary shares for the purposes of diluted earnings (loss) per share	<b>327,214,021</b>	314,811,327

Diluted loss per share for the year ended 31 December 2015 was the same as basic loss per share because the share options outstanding had an anti-dilutive effect in the calculation of diluted loss per share.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK\$'000	Factory premises HK\$'000	Furniture, fixtures and office equipment HK\$'000	Plant, machinery and moulds HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>COST</b>						
At 1 January 2015	32,636	38,345	26,934	122,483	4,164	224,562
Additions	—	685	1,482	3,447	200	5,814
Disposals	—	(7,606)	(2,239)	(6,547)	(420)	(16,812)
Exchange alignment	—	(33)	(93)	(1,651)	(78)	(1,855)
At 31 December 2015 and 1 January 2016	32,636	31,391	26,084	117,732	3,866	211,709
Additions	—	1,520	522	4,271	713	7,026
Disposals	—	—	(430)	(1,092)	(1,218)	(2,740)
Exchange alignment	—	(145)	(131)	(2,485)	(114)	(2,875)
At 31 December 2016	32,636	32,766	26,045	118,426	3,247	213,120
<b>DEPRECIATION AND AMORTISATION</b>						
At 1 January 2015	1,620	36,559	20,499	96,126	2,767	157,571
Provided for the year	1,145	878	1,273	4,124	397	7,817
Eliminated upon disposal	—	(6,546)	(2,217)	(6,428)	(402)	(15,593)
Exchange alignment	—	(3)	(52)	(429)	(20)	(504)
At 31 December 2015 and 1 January 2016	2,765	30,888	19,503	93,393	2,742	149,291
Provided for the year	1,145	970	1,292	4,210	364	7,981
Eliminated upon disposal	—	—	(428)	(1,090)	(1,206)	(2,724)
Exchange alignment	—	(28)	(94)	(787)	(33)	(942)
At 31 December 2016	3,910	31,830	20,273	95,726	1,867	153,606
<b>CARRYING VALUES</b>						
At 31 December 2016	28,726	936	5,772	22,700	1,380	59,514
At 31 December 2015	29,871	503	6,581	24,339	1,124	62,418

**14. PROPERTY, PLANT AND EQUIPMENT** (Cont'd)

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

Leasehold land and buildings	3–5%
Factory premises	5–20%
Furniture, fixtures and office equipment	15–20%
Plant, machinery and moulds	10–20%
Motor vehicles	25–30%

The Group has not obtained Certificate for Housing Ownership in respect of the Group's factory premises with carrying value of approximately HK\$936,000 (2015: HK\$503,000) at 31 December 2016.

**15. INVESTMENT PROPERTY**

	2016 HK\$'000	2015 HK\$'000
At fair value		
Balance at the beginning of the year	31,400	44,700
Disposal	—	(13,700)
Gain from changes in fair value of an investment property	1,300	400
Balance at the end of the year	<u>32,700</u>	<u>31,400</u>

The Group's property interests held under operating leases to earn rentals are measured using the fair value model and are classified and accounted for as investment property.

The fair value of the Group's investment property at 31 December 2016 has been arrived at on the basis of a valuation carried out at that date by BMI Appraisals Limited, independent qualified professional valuers not connected to the Group. BMI Appraisals Limited is a member of the Hong Kong Institute of Surveyors, and has appropriate qualifications and recent experience in the valuation of properties in relevant locations.

The fair value was determined based on Investment Approach and Comparison Approach assuming sale of the property interest in its existing state with the benefit of vacant possession and by making reference to comparable sales evidence as available in the relevant market. In estimating the fair value of the property, the highest and best use of the property is its current use.

There has been no change from the valuation technique used in the prior year.

One of the key inputs used in valuing the investment property was the unit sale price taking into account of time, location and individual factors such as size and levels of building, which range from approximately HK\$7,014 to HK\$13,091 per square foot. An increase in the unit sale rate would result in increase in fair value of the investment property by the same percentage and vice versa.



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 15. INVESTMENT PROPERTY (Cont'd)

Details of the Group's investment property and information about the fair value hierarchy as at 31 December 2016 are as follows:

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Commercial property units located in Hong Kong	<u>—</u>	<u>—</u>	<u>32,700</u>	<u>32,700</u>

There were no transfers into or out of Level 3 during the year.

The carrying amounts of investment property shown above comprise:

	2016 HK\$'000	2015 HK\$'000
Land in Hong Kong: Medium-term lease	<u>32,700</u>	<u>31,400</u>

### 16. INVENTORIES

	2016 HK\$'000	2015 HK\$'000
Raw materials	8,036	7,930
Work in progress	2,757	2,588
Finished goods	<u>10,028</u>	<u>6,627</u>
	<u>20,821</u>	<u>17,145</u>

## 17. TRADE AND OTHER RECEIVABLES

	2016 HK\$'000	2015 HK\$'000
Trade receivables	29,380	20,789
Less: impairment loss on trade receivables	(6,809)	(6,809)
	<u>22,571</u>	<u>13,980</u>
Other receivables		
Prepayment	1,233	780
Rental, utility and other deposit	1,949	1,108
Cash deposit in broker's account	7	6,423
Sundry debtors and others (Note a)	3,185	1,683
	<u>6,374</u>	<u>9,994</u>
	<u><b>28,945</b></u>	<u><b>23,974</b></u>

Note a: Included in sundry debtors and others were mainly export tax rebates receivables and receivables of Social Security Insurance paid on behalf of employees in mainland China.

The Group allows an average credit period of 60 days to its trade customers.

The following is an aging analysis of the Group's trade receivables, presented based on the invoice date and net of allowance for doubtful debts at the end of the reporting period:

	2016 HK\$'000	2015 HK\$'000
0–60 days	22,204	13,891
61–90 days	361	61
91–120 days	—	—
Over 120 days	6	28
	<u>22,571</u>	<u>13,980</u>

Trade receivables disclosed above include amounts which are past due at the end of reporting period for which the Group has not recognised an allowance for doubtful debts because there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral or other credit enhancements over these balances nor does it have a legal right of offset against any amounts owed by the Group to the counterparty.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 17. TRADE AND OTHER RECEIVABLES (Cont'd)

The following is an aging analysis of the Group's trade receivables that are past due but not impaired at the end of the reporting period:

	2016 HK\$'000	2015 HK\$'000
Overdue by:		
0–60 days	4,105	2,183
61–90 days	306	—
91–120 days	—	28
Over 120 days	6	—
	<u>4,417</u>	<u>2,211</u>

The following is the movement in the allowance for doubtful debts:

	2016 HK\$'000	2015 HK\$'000
At 1 January	6,809	7,144
Amounts recovered during the year	—	(335)
At 31 December	<u>6,809</u>	<u>6,809</u>

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. The fair value of the Group's trade and other receivables at 31 December 2016 approximate to the corresponding carrying amount.

The following is an aging analysis of the Group's impaired trade receivables:

	2016 HK\$'000	2015 HK\$'000
Overdue by:		
Over 120 days	<u>6,809</u>	<u>6,809</u>

### 18. BANK BALANCES AND CASH

The amounts comprise cash held by the Group and short-term bank deposits at market interest rates ranging from 0.001% to 0.93% p.a. (2015: 0.001% to 0.01% p.a.) with an original maturity of three months or less. The fair value of these assets at 31 December 2016 approximates to the corresponding carrying amounts.

**19. DERIVATIVE FINANCIAL INSTRUMENTS**

	<b>2016</b> <b>HK\$'000</b>	2015 HK\$'000
Financial assets	—	85
Equity accumulators	—	159
	<hr/>	<hr/>
Equity decumulators	—	244
	<hr/>	<hr/>
Financial liabilities	—	(2,646)
Equity accumulators	—	—
	<hr/>	<hr/>
Equity decumulators	—	(2,646)
	<hr/>	<hr/>

  

	<b>2016</b> <b>HK\$'000</b>	2015 HK\$'000
Financial assets		
Balance at the beginning of the year	244	45
(Loss) gain from changes in fair value of derivative financial instruments	(244)	199
	<hr/>	<hr/>
Balance at the end of the year	—	244
	<hr/>	<hr/>
Financial liabilities		
Balance at the beginning of the year	(2,646)	(4,156)
Gain from changes in fair value of derivative financial instruments	2,646	1,510
	<hr/>	<hr/>
Balance at the end of the year	—	(2,646)
	<hr/>	<hr/>

The derivatives are measured at fair value at each reporting date. Fair value is determined in the manner as described in note 35.

**20. HELD FOR TRADING INVESTMENTS**

	<b>2016</b> <b>HK\$'000</b>	2015 HK\$'000
Equity securities listed in Hong Kong	—	38,937
	<hr/>	<hr/>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 20. HELD FOR TRADING INVESTMENTS (Cont'd)

The movement of held for trading investments during the year:

	<b>2016</b> <b>HK\$'000</b>	2015 HK\$'000
Balance at the beginning of the year	<b>38,937</b>	46,993
Additions	<b>28,861</b>	39,134
Disposals	<b>(67,798)</b>	(33,892)
Loss from change in fair values of held for trading investments	<b>—</b>	(13,298)
Balance at the end of the year	<b>—</b>	<b>38,937</b>

The fair values of the held for trading investments were determined based on the market closing prices available on the relevant exchanges at 31 December 2015.

### 21. PLEDGED BANK DEPOSITS

The amount represents deposits pledged to banks to secure margin loan facilities granted to the Group and are therefore classified as current assets.

The deposits carry variable interest rate ranging from 0.001% to 0.50% p.a. (2015: 0.001% to 0.91% p.a.). The pledged bank deposits will be released upon the settlement of relevant bank borrowings. The fair value of bank deposits at 31 December 2016 approximates to the corresponding carrying amount.

## 22. TRADE AND OTHER PAYABLES

The following is an aging analysis of the Group's trade payables, presented based on the invoice date at the end of reporting period:

	2016 HK\$'000	2015 HK\$'000
Trade payables		
0–60 days	12,757	6,723
61–90 days	1,755	1,064
91–120 days	150	94
Over 120 days	433	588
	<u>15,095</u>	<u>8,469</u>
Other payables		
Accrued salary, bonus and commission	8,789	5,633
Deposits received from customers	7,375	3,623
Amount due on share trading account	—	563
Accrued expenses and others	4,794	3,223
	<u>20,958</u>	<u>13,042</u>
	<u><u>36,053</u></u>	<u><u>21,511</u></u>

The average credit period on purchases of certain goods is 45 days. The Group has financial risk management policies in place to ensure that all payables are paid within the credit time frame. The fair value of the Group's trade and other payables at 31 December 2016 approximate to the corresponding carrying amount.

## 23. BANK BORROWINGS

	2016 HK\$'000	2015 HK\$'000
Secured bank loans (Note)	<u><u>23,089</u></u>	<u><u>26,106</u></u>

Note: Secured by the Group's leasehold land and buildings and investment property bearing interest from HIBOR +1.75% to HIBOR +2.25% p.a. (2015: HIBOR 1.75% to HIBOR +2.25% p.a.). The effective interest rate on the secured bank loans ranged from 1.95% to 2.75% p.a. (2015: 1.99% to 2.49% p.a.).

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 23. BANK BORROWINGS (Cont'd)

The carrying amounts repayable extracted from agreed repayment schedules from financial institutions are as follows:

	2016 HK\$'000	2015 HK\$'000
On demand or within one year	12,575	12,519
More than one year, but not exceeding two years (Note a)	3,160	6,257
More than two years, but not exceeding five years (Note a)	7,354	7,330
More than five years (Note a)	—	—
	<u>23,089</u>	<u>26,106</u>

Note:

(a) These bank loans that are not repayable within one year from the end of the reporting period but as these term loans include a clause that gives the lender the unconditional right to call the loans at any time, and according to HK Int 5 which requires the classification of the whole term loans containing the repayment on demand clause as current liabilities, all the term loans were classified by the Group as current liabilities.

(b) All these bank loans have been repaid in full in January 2017.

### 24. FINANCIAL ASSETS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets designated as at fair value through profit or loss represent equity-linked notes (ELNs) with financial institutions in Hong Kong. The Group entered into several ELNs with financial institutions in Hong Kong in 2015 and 2016. During the year, ELNs with carrying values ranging from HK\$938,000 to HK\$987,300 have maturity periods of one month. Aggregate redemption amount was HK\$1,000,000 and interest rates vary depending on various conditions and terms and different strike prices. The ELNs are designated as at fair value through profit or loss at initial recognition.

	2016 HK\$'000	2015 HK\$'000
Carrying amount at the end of the year	—	938
	<u>—</u>	<u>938</u>
Cost	—	982
Loss from changes in fair value of ELNs	—	(44)
	<u>—</u>	<u>938</u>

## 24. FINANCIAL ASSETS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS (Cont'd)

The notes were measured at fair value at the reporting date. Fair value is determined in the manner as described in note 35.

In 2016, the ELNs were redeemed at maturity dates for Hong Kong listed equity securities which were transferred to held for trading investments at fair value of HK\$2,911,000, which were determined based on the strike price. All ELNs have been redeemed as at the reporting date.

## 25. DEFERRED TAXATION

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior years:

	<b>Tax depreciation</b>	<b>Tax losses</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000
At 1 January 2015	(375)	(3,947)	(4,322)
Charge to income for the year	(88)	(2,529)	(2,617)
At 31 December 2015 and 1 January 2016	(463)	(6,476)	(6,939)
Charge to income for the year	(8)	(495)	(503)
At 31 December 2016	<u>(471)</u>	<u>(6,971)</u>	<u>(7,442)</u>

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to the profits earned by the PRC subsidiaries as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

With regard to the Group's investment property, as none of the Group's investment property is held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale, the Group has not recognised any deferred taxes on changes in fair value of the investment property as the Group is not subject to any income taxes on disposal of its investment property.



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 25. DEFERRED TAXATION (Cont'd)

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

	<b>2016</b> <b>HK\$'000</b>	2015 HK\$'000
Deferred tax liabilities	<b>50</b>	198
Deferred tax assets	<b>(7,492)</b>	(7,137)
	<b>(7,442)</b>	(6,939)

At the end of reporting period, the Group has unused tax losses of approximately HK\$159,098,000 (2015: HK\$138,935,000) available for offset against future profits that may be carried forward indefinitely. A deferred tax asset has been recognised in respect of approximately HK\$42,232,000 (2015: HK\$39,245,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK\$116,866,000 (2015: HK\$99,690,000) due to the unpredictability of future profit streams.

### 26. SHARE CAPITAL

	<b>Authorised</b>		<b>Issued and fully paid</b>	
	<b>2016</b> <b>HK\$'000</b>	2015 HK\$'000	<b>2016</b> <b>HK\$'000</b>	2015 HK\$'000
700,000,000 Ordinary shares of HK\$0.10 each				
Balance at the beginning of the year	<b>70,000</b>	70,000	<b>31,834</b>	29,867
Exercise of share options	<b>—</b>	—	<b>858</b>	1,967
Balance at the end of the year	<b>70,000</b>	70,000	<b>32,692</b>	31,834

## 27. PLEDGE OF ASSETS

The following assets have been pledged to secure the margin loan facilities granted to the Group:

- (i) No held for trading investments with any aggregate carrying value (2015: approximately HK\$38,362,000); and
- (ii) Bank deposits of approximately HK\$47,223,000 (2015: HK\$1,119,000).

In addition, the Group has also pledged the following assets to secure bank loans granted to the Group:

- (i) Leasehold land and buildings with carrying amount of approximately HK\$28,726,000 (2015: HK\$29,871,000); and
- (ii) Investment property with carrying amount of approximately HK\$32,700,000 (2015: HK\$31,400,000).

## 28. OPERATING LEASES

### The Group as lessee

	2016 HK\$'000	2015 HK\$'000
Lease payments made under operating leases during the year		
Rented premises	<u>5,467</u>	<u>5,749</u>

At 31 December 2016, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	2016 HK\$'000	2015 HK\$'000
Within one year	5,444	4,387
In the second to fifth years inclusive	9,694	6,211
Over five years	<u>24,800</u>	<u>—</u>
	<u><u>39,938</u></u>	<u><u>10,598</u></u>

Operating lease payments represent rentals payable by the Group for certain of its office and factory premises, with lease terms of between 1 to 28 years.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 28. OPERATING LEASES (Cont'd)

#### The Group as lessor

Property rental income earned during the year was HK\$610,000 (2015: HK\$299,000). The investment property is held for rental purposes. It is expected to generate rental yields of 1.87% p.a. (2015: 0.95% p.a.) on an ongoing basis. The property held has committed tenants for the next 2 years.

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

	2016 HK\$'000	2015 HK\$'000
Within one year	291	577
In the second to fifth years inclusive	25	279
	<u>316</u>	<u>856</u>

### 29. CAPITAL COMMITMENTS

	THE GROUP	
	2016 HK\$'000	2015 HK\$'000
Capital commitments in respect of the acquisition of property, plant and equipment Contracted but not provided for	<u>361</u>	<u>477</u>

### 30. OTHER COMMITMENTS

At 31 December 2016, the Group carried no outstanding forward contracts which entailed commitment for sale and purchase of equity shares (2015: HK\$17,433,000 and HK\$19,625,000 respectively) as disclosed in notes 19 and 35.

### 31. CONTINGENT LIABILITIES

#### (a) Contingent liability in respect of legal claim

A subsidiary of the Group (the "Subsidiary") has served a writ and claimed against three former employees of the Subsidiary (the "Defendants"). The claim related to the misconduct of the Defendants during their employment with the Subsidiary. The Defendants had filed a defence and counterclaim against the Subsidiary for wages and other payments allegedly payable upon their termination of employment with the Subsidiary amounting to approximately HK\$419,000 together with interest and costs. The Directors of the Company take the views that the amount of the Subsidiary's claims against the Defendants well exceeded the Defendants' claims, and accordingly, no provision for any liabilities that may result has been made in the financial statements of the Group.

## 31. CONTINGENT LIABILITIES (Cont'd)

### (b) Financial guarantees issued

At the end of reporting period, the Company has issued the following guarantees:

- (i) Corporate guarantees to banks in respect of banking facilities granted to its subsidiaries

The Company is also one of the entities covered by a cross guarantee arrangement issued by the Company and its Subsidiaries to banks in respect of banking facilities granted to the Group which remains in force so long as the Group has drawn down under the banking facilities. Under the guarantee, the Company and all the Subsidiaries that are parties to the guarantee are jointly and severally liable for all and any of the borrowings of each of them from the bank which is the beneficiary of the guarantee.

- (ii) An unlimited guarantee granted to a subsidiary in relation to a mortgage loan (see note 23)

As at 31 December 2016, the Directors did not consider it probable that a claim could be made against the Company under the guarantee as the probability of default payment for the loan drawn down by the subsidiaries is remote.

The Company had not recognised any deferred income in respect of the corporate guarantee as its fair value cannot be reliably measured and its transaction price was nil.

## 32. SHARE-BASED PAYMENT TRANSACTIONS

A share option scheme (the "Old Scheme") was adopted in the annual general meeting of the Company held on 17 May 2002 and was expired on 16 May 2012. In view of the expiration of the Old Scheme, a new share option scheme (the "New Scheme") was adopted in the annual general meeting of the Company held on 30 May 2012 and will expire on 29 May 2022. The primary purpose of both the Old Scheme and the New Scheme is to recognise and motivate the contribution of employees and other persons who may have a contribution to the Group and to provide them with incentives and to help the Company in retaining its existing employees and recruiting additional employees and to provide the aforesaid eligible participants with a direct economic interest and personal stake in attaining the long term business objectives of the Company.

Under the Old Scheme, the board of Directors may grant options to any employees, including full time or part time employees, of the Company and/or its subsidiaries including any executive and non-executive directors or proposed executive and non-executive directors of the Company or its subsidiaries, advisers, consultants, agents, contractors, clients and suppliers of any members of the Group who has contributed to the Group, while under the New Scheme, the board of Directors may grant options to any employees, including full time or part time employees, of the Company and/or its subsidiaries, including any executive and non-executive directors or proposed executive and non-executive directors of the Company or its subsidiaries, advisers, consultants, customers and suppliers and/or other persons who in the sole discretion of the board of Directors has contributed or may contribute to the Group, to subscribe for shares in the Company in accordance with the terms of the scheme for the consideration of HK\$1 for each lot of share options granted.

## 32. SHARE-BASED PAYMENT TRANSACTIONS (Cont'd)

The maximum number of shares in respect of which options may be granted under both the Old Scheme and the New Scheme is not permitted to exceed 10% of the shares of the Company in issue as at the date of adoption of the Old Scheme and New Scheme respectively. In addition, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under both the Old Scheme and the New Scheme and any other share option schemes of the Company shall not exceed 30% (or such higher percentage as may be allowed under the Listing Rules) of the total number of shares in issue from time to time. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of shares of the Company for the time being in issue without prior approval from the Company's shareholders in general meeting with the aforesaid proposed individual grantee and his associates being abstained from voting in such general meeting. Also, where any grant of options to a substantial shareholder (as defined in the Listing Rules) of the Company or an independent non-executive Director, or any of their respective associates (as defined in the Listing Rules), would result in the shares of the Company ("Shares") issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant representing in aggregate over 0.1% of the relevant class of Shares in issue and having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK\$5 million, such further grant of options must be approved by shareholders, and the grantee, his associates and all connected persons (as defined in the Listing Rules) of the Company must abstain from voting in favour at the relevant general meeting.

No options are open for acceptance under the Old Scheme since its expiry on 16 May 2012 and in relation to the New Scheme, options granted must remain open for acceptance until 5:00 p.m. on the 5th business day following the offer date provided that no such offer shall be open for acceptance after the tenth anniversary of the adoption date or after the New Scheme has been terminated. Options may be exercised during the period as the Directors may in its absolute discretion determine, save that such period shall not be more than 10 years from the date of the grant of the options and the board of Directors may provide restrictions on the exercise of an option during the period an option may be exercised.

Total consideration received during the period from the Directors, employees and/or other persons for taking up the options granted during the year is nil (2015: HK\$13).

All options were vested on the date of grant upon acceptance.

The exercise price is determined by the Board of Directors at the time of the grant of the relevant option and will be at least the highest of

- a) the closing price of shares at the date of grant of a share option;
- b) the average closing price of the shares for the five trading days immediately preceding the date of grant; and
- c) the nominal value of a share.

At the date of this report, the number of shares available for issue under the Old Scheme and the New Scheme of the Company were nil and 32,692,360 respectively, representing approximately 0% and 10% respectively of the shares of the Company in issue at that date.

### 32. SHARE-BASED PAYMENT TRANSACTIONS (Cont'd)

Details of the movements in the Company's share options during the year 2015 and the year 2016 are as follows:

Option type	At 1.1.2015	Granted during the year 2015	Exercised during the year 2015	Lapsed during the year 2015	At 31.12.2015 & 1.1.2016	Exercised during the year 2016	Cancelled during the year 2016	At 31.12.2016
Directors								
B	5,400,000	—	—	(2,700,000)	2,700,000	(2,700,000)	—	—
D	—	11,944,000(a)	(5,972,000)	—	5,972,000	(5,886,000)	(86,000)	—
E	—	7,472,000(a)	(1,000,000)	—	6,472,000	—	(6,472,000)	—
	<u>5,400,000</u>	<u>19,416,000</u>	<u>(6,972,000)</u>	<u>(2,700,000)</u>	<u>15,144,000</u>	<u>(8,586,000)</u>	<u>(6,558,000)</u>	<u>—</u>
Employees								
A	7,000,000	—	(7,000,000)	—	—	—	—	—
C	5,700,000	—	(5,700,000)	—	—	—	—	—
	<u>12,700,000</u>	<u>—</u>	<u>(12,700,000)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Others								
E	—	9,894,000	—	—	9,894,000	—	(9,894,000)	—
	<u>—</u>	<u>9,894,000</u>	<u>—</u>	<u>—</u>	<u>9,894,000</u>	<u>—</u>	<u>(9,894,000)</u>	<u>—</u>
Total	<u>18,100,000</u>	<u>29,310,000</u>	<u>(19,672,000)</u>	<u>(2,700,000)</u>	<u>25,038,000</u>	<u>(8,586,000)</u>	<u>(16,452,000)</u>	<u>—</u>

(a) These interests represented interests in underlying shares in respect of share options granted by the Company to these Directors and/or their spouses as beneficial owners.

Details of specific categories of options are as follows:

Option type	Date of grant	Exercise period	Exercise price HK\$
A	2 November 2007	1 December 2007 to 31 December 2016	0.850
B	13 April 2011	1 May 2011 to 31 December 2020	0.740
C	23 July 2013	24 July 2013 to 23 July 2023	0.710
D	1 April 2015	2 April 2015 to 1 April 2025	0.770
E	5 May 2015	6 May 2015 to 5 May 2025	1.460

The closing prices of the Company's shares on 2 November 2007, 13 April 2011, 23 July 2013, 1 April 2015 and 5 May 2015, the dates of grant of the options, were HK\$0.850, HK\$0.740, HK\$0.710, HK\$0.770 and HK\$1.460 respectively.

Share options were exercised on various dates during the period, the weighted average closing price of the Company's shares immediately before those dates was HK\$1.274.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 33. RETIREMENT BENEFITS SCHEME

The Group participates in two defined contribution schemes which are registered under the Occupational Retirement Scheme Ordinance (the "ORSO Schemes") and a Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Ordinance in December 2000. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. Certain employees who were members of the ORSO Schemes prior to the establishment of the MPF Scheme are switched to the MPF Scheme and the remaining employees selected to remain in the ORSO Scheme. All new employees joining the Group on or after 1 December 2000 are required to join the MPF Scheme.

For members of the MPF Scheme, the Group contributes 5% of relevant payroll costs to the MPF Scheme, which contribution is matched by the employee. The ORSO Schemes are funded by monthly contributions from both employees and the Group at the rate of 5% the employee's basic salary.

Employees of the Group in the PRC are members of a state-managed retirement benefit plan operated by the PRC Government. The Group are required to contribute a certain percentage of their payroll to the pension scheme to fund the benefits. The only obligation of the Group with respect to the pension scheme is to make the required contributions.

At the end of reporting period, there was no forfeited contribution, which arose upon employees leaving the ORSO Schemes and which are available to reduce the contributions payable in future years.

The total cost recognised in the consolidated statement of profit or loss and other comprehensive income of approximately HK\$396,000 (2015: HK\$415,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

### 34. RELATED PARTY TRANSACTIONS

- (a) During the year, the Group entered into the following significant transactions with related parties who are not members of the Group:

	2016 HK\$'000	2015 HK\$'000
Rental expenses paid to: Mr. Poon Siu Chung	<u>120</u>	<u>120</u>

- (b) **Compensation of key management personnel**

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

	2016 HK\$'000	2015 HK\$'000
Short-term benefits	5,454	4,757
Post-employment benefits	122	122
Share-based payments	—	2,832
	<u>5,576</u>	<u>7,711</u>

The remuneration of Directors and key executives is determined by the Board and reviewed by the remuneration committee having regard to the performance of individuals and market trends.

### 35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include borrowings, trade and other payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

#### Foreign currency risk management

Several subsidiaries of the Company have sales and purchases denominated in foreign currency, which expose the Group to foreign currency risk. The Group currently has no foreign currency hedging policy and the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

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

	<b>Assets</b>	<b>Liabilities</b>	Assets	Liabilities
	<b>2016</b>	<b>2016</b>	2015	2015
	<b>HK\$'000</b>	<b>HK\$'000</b>	HK\$'000	HK\$'000
Renminbi ("RMB")	<b>25,448</b>	<b>21,967</b>	27,593	12,870

The following table shows the sensitivity analysis of a 5% increase/decrease in RMB against the Hong Kong dollars, the effect in the profit for the year is as follows:

	<b>Impact</b>	Impact
	<b>of RMB</b>	of RMB
	<b>2016</b>	2015
	<b>HK\$'000</b>	HK\$'000
Increase/decrease in profit for the year	<b>174</b>	736

Besides, at the end of the reporting period, the Group has bank balances of approximately US\$6,885,000, the sensitivity of fluctuation in USD exchange rate is considered insignificant as the Hong Kong dollars banknotes are fully backed by US dollars held by Exchange Fund at the rate of HK\$7.8 to US\$1.0.

#### Liquidity risk management

Internally generated cash flow and bank borrowings are the general sources of funds to finance the operations of the Group. The majority of the Group's banking facilities are subject to floating rates and are renewable annually. The Group's liquidity risk management includes making available standby banking facilities and diversifying the funding sources. The Group regularly reviews its major funding positions to ensure it has adequate financial resources in meeting its financial obligations.



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Cont'd)

#### Liquidity risk management (Cont'd)

The maturity profiles of the Group's financial liabilities at the end of reporting period based on contractual undiscounted payments are summarised below:

#### 2016

	Within 1 year HK\$'000	2-5 years HK\$'000	Over 5 years HK\$'000	Total HK\$'000
Trade payables	15,095	—	—	15,095
Accruals and other payables	20,958	—	—	20,958
Derivative financial instruments	—	—	—	—
Bank borrowings	12,575	10,514	—	23,089
Capital commitments in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	361	—	—	361
	<b>48,989</b>	<b>10,514</b>	<b>—</b>	<b>59,503</b>

#### 2015

	Within 1 year HK\$'000	2-5 years HK\$'000	Over 5 years HK\$'000	Total HK\$'000
Trade payables	8,469	—	—	8,469
Accruals and other payables	13,042	—	—	13,042
Derivative financial instruments	2,646	—	—	2,646
Bank borrowings	12,519	13,587	—	26,106
Capital commitments in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	477	—	—	477
	<b>37,153</b>	<b>13,587</b>	<b>—</b>	<b>50,740</b>

**35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES** (Cont'd)**Liquidity risk management** (Cont'd)

The following table details the Group's liquidity analysis for its derivative instruments. The table has been drawn up based on the undiscounted contractual net cash inflows and outflows from derivative instruments that settle on a net basis, and the undiscounted gross inflows and outflows from those derivatives that require gross settlement.

	Less than 1 month HK\$'000	1-3 months HK\$'000	3 months to 1 year HK\$'000	Total undiscounted cash flows HK\$'000
<b>2016</b>				
Derivatives — net settlement				
Decumulator contract — inflow	—	—	—	—
Accumulator contract — outflow	—	—	—	—
	—	—	—	—
<b>2015</b>				
Derivatives — net settlement				
Decumulator contract — inflow	1,470	2,731	13,232	17,433
Accumulator contract — outflow	(2,994)	(8,156)	(8,475)	(19,625)
	(1,524)	(5,425)	4,757	(2,192)

**Interest rate risk management**

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group has no significant interest-bearing assets. The Group's exposure to changes in interest rates is mainly attributable to its borrowings which are not significant.

**Credit risk management**

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2016 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual trade debt to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management considers that the group's credit risk is significant reduced.

## 35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Cont'd)

### Price risk management

The Group's investments is mainly in equity securities listed in Hong Kong. Decisions to buy or sell trading securities are based on daily monitoring of the performance of individual securities compared to that of the relevant stock market index and other industry indicators, as well as the Group's liquidity needs. To manage its price risk arising from the equity securities, the Group maintains a portfolio of diversified investments with different risk profiles.

### Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to equity price risk at the reporting period. For sensitivity analysis purpose, the sensitivity rate is increased to 5% in the current year as a result of the volatile financial market.

If listed equity prices had been 5% higher/lower (2015: 5% higher/lower), profit for the year ended 31 December 2016 would increase/decrease by nil (2015: HK\$1,946,831). This is mainly due to the changes in fair value of financial assets at fair value through profit or loss.

### Fair values

As at 31 December 2016, the carrying amount of cash and cash equivalents, prepayments, deposits and other receivables, accrued liabilities and other payables approximated their fair values due to the short-term maturities of these assets and liabilities. The Directors consider that financial assets at fair value through profit or loss are included in the statement of financial position at amounts approximating to their fair values.

As detailed in the following table, the directors consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate to their fair values.

The following table presents the carrying value of financial instruments measured at fair value at 31 December 2016 across the three levels of the fair value hierarchy defined in HKFRS 7, Financial Instruments: Disclosures, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1 (Highest level): fair values measured are those derived from quoted prices (unadjusted) in active markets for identical financial instruments;
- Level 2: fair values measured are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 (Lowest level): fair values measured are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

**35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Cont'd)**
**Fair values (Cont'd)**
**Nil in 2016**

2015

	Fair value as at 31 December 2015 HK\$'000	Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable inputs
<b>Assets</b>				
Held for trading investments — Listed equity Securities	38,937	Level 1	Quoted bid prices in an active market	N/A
Financial assets designated as at fair value through profit or loss — Equity-linked notes	938	Level 3	Monte carlo simulation. This technique is to estimate a probable outcome using certain parameters such as volatility of underlying security.	Volatility of the underlying security is 30.03% An increase in the volatility of underlying security would result in an increase in the fair value measurement of the equity-linked notes and vice versa.
Derivative financial assets	244	Level 3	Monte carlo simulation. This technique is to estimate a probable outcome using certain parameters such as volatility of underlying securities.	Volatility of the underlying securities from 24.05% to 33.01% An increase in the volatility of underlying securities would result in an increase in the fair value measurement of the derivative financial investment and vice versa.
<b>Liabilities</b>				
Derivative financial liabilities	2,646	Level 3	Monte carlo simulation. This technique is to estimate a probable outcome using certain parameters such as volatility of underlying securities.	Volatility of the underlying securities from 20.28% to 37.58% An increase in the volatility of underlying securities would result in an increase in the fair value measurement of the derivative financial investment and vice versa.

There were no transfers between Levels 1, 2 and 3 in 2015.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Cont'd)

#### Capital risk 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 equity holders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

During 2016, the Group's strategy remained unchanged as compared to that in 2015. The Group monitors capital on the basis of the gearing ratio. This gearing ratio is calculated as total bank borrowings divided by equity attributable to owners of the Company.

The management considers the gearing ratio at the year end was as follows:

	2016 HK\$'000	2015 HK\$'000
Borrowings	23,089	26,106
Equity attributable to owners of the Company	<u>206,643</u>	<u>182,987</u>
Gearing ratio	<u>11%</u>	<u>14%</u>

### 36. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Name of subsidiary	Place of incorporation or registration	Proportion of nominal value of capital held by the Company		Paid up ordinary share capital	Principal activities
		Directly	Indirectly		
Asia Rich (Far East) Limited	Hong Kong	—	79.6%	HK\$2	Investment holding
Benefit International Packing Materials Limited	Hong Kong	—	100%	HK\$10,000	Trading of PVC films
Benefit Packing Materials Limited	Hong Kong	—	75%	HK\$1,000,000	Trading of PVC films
Beyond Growth International Limited	Hong Kong	—	79.6%	HK\$100,000	Manufacture and sales of toys
Dream Creation Limited	Hong Kong	—	79.6%	HK\$2	Investment holding and distribution of toys
Fareastern Trade Limited	British Virgin Islands ("BVI")	—	88%	US\$87,618	Investment holding
Freshwater Trading Limited	BVI	—	100%	US\$1	Investment holding
Golden Enterprise Holdings Limited	Hong Kong	—	100%	HK\$2	Distribution of toys
Headfit Paper Bags Trading Limited	Hong Kong	—	100%	HK\$10,000	Securities investments and trading of paper bags
iTech Limited	Hong Kong	—	100%	HK\$2	Investment holding
Leader Packaging Company Limited	Hong Kong	—	100%	HK\$1,000,000	Investment holding
Leader Stationery & Gifts Manufacturing Company Limited	Hong Kong	—	100%	HK\$1,000,000	Manufacture and sales of stationery products
Link Faith Company Limited	Hong Kong	—	100%	HK\$10,000	Securities investments
Mars Technology Limited	BVI	—	79.6%	US\$10,000	Investment holding
New Genius Technology Limited	BVI	—	100%	US\$1	Investment holding
Onward Packing Manufacturer Limited	Hong Kong	—	100%	HK\$320,000	Manufacture of novelties, festival decoration products

## 36. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Cont'd)

Name of subsidiary	Place of incorporation or registration	Proportion of nominal value of issued/paid up capital held by the Company		Paid up ordinary share capital	Principal activities
		Directly	Indirectly		
Perfectech Colour Centre Limited	Hong Kong	—	100%	HK\$1,000,000	Dye stuff manufacturing
Perfectech Enterprises (B.V.I.) Limited	BVI	—	100%	US\$1	Investment holding
Perfectech International (B.V.I.) Limited	BVI	100%	—	US\$50	Investment holding
Perfectech International Toys Limited	Hong Kong	—	100%	HK\$1,000,000	Investment holding
Perfectech International Limited	Hong Kong	—	100%	HK\$200 HK\$80,000 (non-voting deferred shares)	Investment holding
Perfectech International Manufacturing Limited	BVI	—	100%	US\$2,457,000	Investment holding
Perfectech International Packaging Products Company Limited	Hong Kong	—	100%	HK\$450,000	Manufacture of packaging products
Perfectech International Trading Limited	Hong Kong	—	100%	HK\$2	Trading of novelties and festival decoration
Perfectech Paper Products Company Limited	Hong Kong	—	100%	HK\$1,000,000	Manufacture of paper products
Perfectech Plastics Limited	Hong Kong	—	100%	HK\$1,000,000	Trading of plastic materials
Perfectech Printing Company Limited	Hong Kong	—	100%	HK\$1,000,000	Manufacture of printing products
Perfectech Rigid (PVC) Pipe Manufacturing Limited	Hong Kong	—	100%	HK\$1,000,000	Investment holding
Shouji Mold Engineering Company Limited	Hong Kong	—	88%	HK\$2	Distribution of moulds
Shouji Tooling Factory Limited	Hong Kong	—	88%	HK\$1,000	Manufacture and sales of moulds
Skyrocket Assets Limited	BVI	—	100%	US\$1	Investment holding
Sunflower Garland Manufactory Limited	Hong Kong	—	100%	HK\$2 HK\$160,000 (non-voting deferred shares)	Securities investment
Yu-Me (H.K.) Limited	Hong Kong	—	100%	HK\$2	Provision of management services
中山市威嘉紙品有限公司 (Note a)	The PRC	—	100%	HK\$12,500,000	Manufacture of paper products
東青林模具塑膠(深圳)有限公司 (Note a)	The PRC	—	88%	HK\$42,004,200	Manufacture and sales of moulds
珠海市多發塑膠制品有限公司 (Note a)	The PRC	—	100%	HK\$500,000	Manufacture and trading of novelties and festival decoration products
江門市安發塑膠制品有限公司 (Note a)	The PRC	—	100%	HK\$600,000	Manufacture of novelties and festival decoration products
中山市威發塑膠制品有限公司 (Note a)	The PRC	—	100%	RMB6,000,000	Manufacture of novelties and festival decoration products
中山市志發玩具有限公司 (Note a)	The PRC	—	79.6%	RMB8,000,000	Manufacture and sales of toys
中山市利發玩具有限公司 (Note a)	The PRC	—	79.6%	RMB1,747,330	Manufacture and sales of toys

Note:

(a) These subsidiaries are wholly foreign-owned enterprises established in the PRC.

None of the subsidiaries had any debt securities outstanding at the end of the year.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 36. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Cont'd)

#### Details of non-wholly owned subsidiaries that have material non-controlling interests

The table below shows details of non-wholly owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Place of incorporation/ operations	Proportion of ownership interests and voting rights held by non-controlling interests		Profit allocated to non-controlling interests		Accumulated non-controlling interests	
		2016	2015	2016	2015	2016	2015
Fareastern Trade Limited	BVI/Hong Kong	88%	88%	1,107	137	6,910	6,180
Mars Technology Limited	BVI/Hong Kong	79.6%	79.6%	6,285	2,579	13,774	8,798

Summarised financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

**36. PARTICULARS OF PRINCIPAL SUBSIDIARIES** (Cont'd)**Fareastern Trade Limited and its wholly owned subsidiaries (Fareastern Group)**

	<b>2016</b> <b>HK\$'000</b>	2015 HK\$'000
Current assets	<u>216,277</u>	<u>188,681</u>
Non-current assets	<u>16,237</u>	<u>28,786</u>
Current liabilities	<u>(174,924)</u>	<u>(156,350)</u>
Non-current liabilities	<u>—</u>	<u>(186)</u>
Equity attributable to owners of the Company	<u>50,680</u>	<u>54,751</u>
Non-controlling interests	<u>6,910</u>	<u>6,180</u>
Revenue	<u>79,278</u>	<u>76,666</u>
Expenses	<u>(70,049)</u>	<u>(75,526)</u>
Profit for the year	<u>9,229</u>	<u>1,140</u>
Profit for the year attributable to owners of the Company	<u>8,122</u>	<u>1,003</u>
Profit for the year attributable to the non-controlling interests	<u>1,107</u>	<u>137</u>
Profit for the year	<u>9,229</u>	<u>1,140</u>
Other comprehensive expenses attributable to owners of the Company	<u>(1,820)</u>	<u>(1,286)</u>
Other comprehensive expenses attributable to the non-controlling interests	<u>(248)</u>	<u>(175)</u>
Other comprehensive expenses for the year	<u>(2,068)</u>	<u>(1,461)</u>
	<b>2016</b> <b>HK\$'000</b>	2015 HK\$'000
Total comprehensive income (expenses) attributable to owners of the Company	<u>6,302</u>	<u>(283)</u>
Total comprehensive income (expenses) attributable to the non-controlling interests	<u>859</u>	<u>(38)</u>
Total comprehensive income (expenses) for the year	<u>7,161</u>	<u>(321)</u>
Net cash inflow from operating activities	<u>8,720</u>	<u>4,096</u>
Net cash outflow from investing activities	<u>(911)</u>	<u>(2,011)</u>
Net cash outflow from financing activities	<u>(215)</u>	<u>(683)</u>
Net cash inflow	<u>7,594</u>	<u>1,402</u>



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 36. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Cont'd)

#### Mars Technology Limited and its wholly owned subsidiaries (Mars Group)

	2016 HK\$'000	2015 HK\$'000
Current assets	<u>176,155</u>	<u>138,405</u>
Non-current assets	<u>10,157</u>	<u>7,204</u>
Current liabilities	<u>(119,528)</u>	<u>(102,897)</u>
Non-current liabilities	<u>—</u>	<u>—</u>
Equity attributable to owners of the Company	<u>53,010</u>	<u>33,914</u>
Non-controlling interests	<u>13,774</u>	<u>8,798</u>
Revenue	<u>141,094</u>	<u>87,755</u>
Expenses	<u>(110,286)</u>	<u>(75,111)</u>
Profit for the year	<u>30,808</u>	<u>12,644</u>
Profit for the year attributable to owners of the Company	<u>24,523</u>	<u>10,065</u>
Profit for the year attributable to the non-controlling interests	<u>6,285</u>	<u>2,579</u>
Profit for the year	<u>30,808</u>	<u>12,644</u>
Other comprehensive expenses attributable to owners of the Company	<u>(330)</u>	<u>(376)</u>
Other comprehensive expenses attributable to the non-controlling interests	<u>(85)</u>	<u>(97)</u>
Other comprehensive expenses for the year	<u>(415)</u>	<u>(473)</u>
	<b>2016</b>	<b>2015</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Total comprehensive income attributable to owners of the Company	<u>24,193</u>	<u>9,689</u>
Total comprehensive income attributable to the non-controlling interests	<u>6,200</u>	<u>2,482</u>
Total comprehensive income for the year	<u>30,393</u>	<u>12,171</u>
Net cash inflow from operating activities	<u>23,571</u>	<u>16,423</u>
Net cash outflow from investing activities	<u>(4,938)</u>	<u>(2,246)</u>
Net cash outflow from financing activities	<u>(1,138)</u>	<u>(648)</u>
Net cash inflow	<u>17,495</u>	<u>13,529</u>

**37. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY**

	2016 HK\$'000	2015 HK\$'000
<b>NON-CURRENT ASSET</b>		
Unlisted investments in subsidiaries	32,061	32,061
	<b>32,061</b>	32,061
<b>CURRENT ASSETS</b>		
Prepayment and deposit	267	263
Amounts due from subsidiaries (Note a)	213,222	212,510
Bank balances and cash	48	187
	<b>213,537</b>	212,960
<b>CURRENT LIABILITIES</b>		
Accrued expenses	421	170
Amounts due to subsidiaries (Note a)	68,073	62,824
Tax liabilities	—	982
	<b>68,494</b>	63,976
<b>NET CURRENT ASSETS</b>	<b>145,043</b>	148,984
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<b>177,104</b>	181,045
<b>NET ASSETS</b>	<b>177,104</b>	181,045
<b>CAPITAL AND RESERVES</b>		
Share capital (Note 26)	32,692	31,834
Reserves	144,412	149,211
<b>TOTAL EQUITY</b>	<b>177,104</b>	181,045

Note a: The amounts due from/to subsidiaries are unsecured, interest free and had no fixed term of repayment.

The Company's statement of financial position was approved and authorised for issue by the Board of Directors on 30 March 2017 and are signed on its behalf by:

**Mr. Gao Xiaorui**  
DIRECTOR

**Ms. Xie Yinuo**  
DIRECTOR

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 37. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

(Cont'd)

#### Movement in the Company's reserves

	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Share options reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
<b>COST</b>						
At 1 January 2015	29,867	92,955	10,337	3,489	17,705	154,353
Share options granted	—	—	—	10,909	—	10,909
Share options lapsed	—	—	—	(599)	599	—
Shares issued upon exercise of options	1,967	18,267	—	(4,179)	—	16,055
Dividends	—	—	—	—	(9,173)	(9,173)
Profit and total comprehensive income for the year	—	—	—	—	8,901	8,901
At 31 December 2015	<u>31,834</u>	<u>111,222</u>	<u>10,337</u>	<u>9,620</u>	<u>18,032</u>	<u>181,045</u>
Share options cancelled	—	—	—	(7,618)	7,618	—
Shares issued upon exercise of options	858	7,673	—	(2,002)	—	6,529
Dividends	—	—	—	—	(3,269)	(3,269)
Loss and total comprehensive expenses for the year	—	—	—	—	(7,201)	(7,201)
At 31 December 2016	<u>32,692</u>	<u>118,895</u>	<u>10,337</u>	<u>—</u>	<u>15,180</u>	<u>177,104</u>

### 38. COMPARATIVE FIGURES

Certain comparative figures have been reclassified or restated to conform to the current year's presentation.

## RESULTS

	Year ended 31 December				2016 HK\$'000
	2012 HK\$'000	2013 HK\$'000	2014 HK\$'000	2015 HK\$'000	
Revenue	257,879	248,741	225,549	198,088	237,069
Profit (loss) before tax	47,971	32,712	13,840	(10,708)	36,868
Income tax expenses	(5,497)	(8,449)	(3,494)	(2,668)	(6,206)
Profit (loss) for the year from continuing operations	42,474	24,263	10,346	(13,376)	30,662
Loss for the year from discontinued operations	(4,707)	(8,272)	—	—	—
Profit (loss) for the year	37,767	15,991	10,346	(13,376)	30,662
Attributable to:					
Owners of the Company	33,856	12,512	7,677	(16,090)	23,272
Non-controlling interests	3,911	3,479	2,669	2,714	7,390
Profit (loss) for the year	37,767	15,991	10,346	(13,376)	30,662

## ASSETS AND LIABILITIES

	As at 31 December				2016 HK\$'000
	2012 HK\$'000	2013 HK\$'000	2014 HK\$'000	2015 HK\$'000	
Total assets	272,971	280,606	264,136	253,041	290,229
Total liabilities	(59,477)	(65,977)	(67,238)	(54,346)	(62,174)
Total equity	213,494	214,629	196,898	198,695	228,055
Non-controlling interests	12,163	13,720	14,597	15,708	21,412
Equity attributable to owners of the Company	201,331	200,909	182,301	182,987	206,643
Total equity	213,494	214,629	196,898	198,695	228,055

## PARTICULARS OF MAJOR PROPERTIES

### INVESTMENT PROPERTY

Category Location	Use	Category of lease	Group's interest
Units 1 & 2, 15/F, Sun Hing Industrial Building, 46 Wong Chuk Hang Road, Aberdeen, Hong Kong	Industrial	Medium-term	100%

### LEASEHOLD LAND AND BUILDINGS

Category Location	Use	Category of lease	Group's interest
Units C & D, 9/F, Sing Teck Factory Building, 44 Wong Chuk Hang Road, Aberdeen, Hong Kong	Industrial	Medium-term	100%