WINSHINE
瀛晟科學

Winshine Science Company Limited

瀛晟科學有限公司*

(Incorporated in Bermuda with limited liability)

Stock Code: 209

ANNUAL REPORT

2016

* For identification purpose only

CONTENTS

ABBREVIATIONS

In this annual report, the following abbreviations have the following meanings unless otherwise specified:

"Board"	the Board of Directors of the Company
"Company"	Winshine Science Company Limited
"Directors"	the directors of the Company
"Group"	the Company and its subsidiaries
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"PRC"	the People's Republic of China, for the purpose of this report, excluding Hong Kong, Macau and Taiwan
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"HK$" and "HK cents"	Hong Kong dollars and cents
"RMB"	Renminbi
"US$"	United States dollars
"%"	per cent.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Zhang Jack Jiyei *(Chief Executive Officer and Chief Financial Officer)*
Mr. Gao Feng (resigned on 29 November 2016)
Mr. Wu Jiang (retired on 1 June 2016)

Non-executive Director

Mr. Lo Ming Chi, Charles

Independent Non-executive Directors

Mr. Li Fang
Mr. Wong Kee Fung Kenneth
Mr. Wong Kwok Tai

AUDIT COMMITTEE

Mr. Li Fang *(Chairman)*
Mr. Wong Kee Fung Kenneth
Mr. Wong Kwok Tai

REMUNERATION COMMITTEE

Mr. Wong Kee Fung Kenneth *(Chairman)*
Mr. Li Fang
Mr. Wong Kwok Tai

NOMINATION COMMITTEE

Mr. Li Fang *(Chairman)*
Mr. Wong Kee Fung Kenneth
Mr. Wong Kwok Tai

COMPANY SECRETARY

Mr. Lau On Kwok

TRADING OF SHARES

The Stock Exchange of Hong Kong Limited
(Stock Code: 209)

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Rooms 2202–2203, 22/F.
Harbour Centre
25 Harbour Road
Wanchai, Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Bank of Communications Co. Ltd. Hong Kong Branch
Guangdong Development Bank Zhongshan Branch

AUDITOR

Deloitte Touche Tohmatsu

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

WEBSITE

http://www.winshine.com
http://www.tricor.com.hk/webservice/000209

CHIEF EXECUTIVE OFFICER'S STATEMENT

BUSINESS REVIEW

In 2016, the Group continued to consolidate its existing businesses in toys division while exploring new opportunities in the medical and health industry. In view of the volatile capital market, the Group reduced its exposure in the securities investments business by disposing a significant part of its existing securities portfolio. For the year of 2016, the Group recorded a year-over-year drop of 4.7% in revenue to HK$236.2 million. As a result of the substantial unrealised loss on fair value changes in the securities investment division, the Group incurred a loss of HK$227.3 million for 2016, representing a year-over-year increase of 70.6%.

Toys Division

For the year ended 31 December 2016, revenue of the toys division decreased slightly by 4.7% year-over-year to HK$236.2 million due to sluggish economic growth in its major customers markets and poor market response of their products. Gross profits however fell considerably by 43.4% year-over-year to HK$15.4 million because of a drop in sales orders of the higher margins products. The substantial drop was alleviated by the improvement in cost control in administrative expenses and increase in exchange gain during the year. The toys division recorded segment loss of HK$22.2 million for 2016 (2015: loss of HK$24.2 million), representing a year-over-year decrease of 8.1%.

Securities Investments Division

The global capital market was affected by the Brexit referendum and the US presidential election in 2016 and became highly volatile and uncertain. In fear of a slowdown in economic growth of Chinese economy, the Hong Kong stock market sentiment deteriorated and market activities dropped significantly. During the year, the Group reduced its exposure in securities investments and had disposed of a significant part of its portfolio. The Group recorded a segment loss of HK$151.4 million (2015: loss of HK$19.9 million) in the securities investments division mainly due to the unrealised loss on fair value changes of trading securities. As at 31 December 2016, the Group securities portfolio was valued at HK$34.6 million (2015: HK$256.0 million). The Group did not receive any dividend income during the year (2015: nil).

CHIEF EXECUTIVE OFFICER'S STATEMENT

Medical and Health Division

During the year, the Group set foot on the medical and health industry by forming a joint venture and entering into acquisition agreements in several medical related projects.

As mentioned in the 2015 annual report, the Group would form a joint venture ("Novotide JV") with Beijing Novotide Biodmedical Technology Company Limited ("Novotide") to engage in the research and development of the Peptide Secretion Technology for malignant tumor treatment. Novotide JV would become the platform to speed up the research and development of the technology relating to the patents owned by Novotide in relation to the Peptide Secretion Technology. Upon entering into acquisition agreement of 70% equity interest of Beijing Wufang Hospital Management Company Limited ("BWHM"), Novotide JV collaborated with BWHM in the first half of 2016 and started further research studies on different types of antitumor peptide secretion formulations with tumor-suppressing properties. During the year, the Group incurred a total of HK$20.7 million in research and development expenses, mainly on the studies relating to the Peptide Secretion Technology.

Due to unfulfilled conditions precedent, the Group announced on 29 July 2016 that it decided not to proceed with the acquisition of 70% equity interest in BWHM. A termination agreement was later signed by all parties on 9 September 2016 to terminate the acquisition agreement.

Completion of acquisition of 100% equity interest of Yi Nuo Technology (Suzhou) Company Limited ("Yi Nuo")

The Group completed its acquisition of Yi Nuo on 1 November 2016 and initiated to consolidate the financial results of Yi Nuo thereafter. As at the completion date, Yi Nuo owned a piece of land at Jiangsu Suzhou Hi-Tech Zone of approximately 67,000 square meters and a factory thereon. Part of the land and the factory has been leased to an independent third party until 30 June 2018. During the year, the Group entered into agreements with a contractor to renovate the existing plants and upgrade its equipment and facilities. It is expected that the rental value will be enhanced upon completion of renovation. On the other hand, the Group is also in discussion with different parties regarding the lease of factory for medical related research and development purposes.

CHIEF EXECUTIVE OFFICER'S STATEMENT

FUND RAISING ACTIVITIES OF THE COMPANY

During the year of 2016, the Company has carried out the following equity fund raising activities:

Date of announcement	Date of Completion	Fund raising activity	Net proceeds (approximately)	Intended use of proceeds	Actual use of proceeds
14 December 2016, 26 January 2017, 27 February 2017 and 17 March 2017	Not yet completed	Issuing of 680,000,000 shares under specific mandate	HK$121.6 million	For development of existing business, possible investment in new projects and as working capital of the Company	N/A
7 November 2016	16 November 2016	Issuing of 496,976,000 shares under general mandate	HK$79.32 million	For development of existing business, possible investment in new projects and as working capital of the Company	Approximately HK$61.7 million has been applied to modification of existing plant and development of new manufacturing plant of Yi Nuo Technology (Suzhou) Company Ltd.; HK$10.3 million has been applied to money lending business; and approximately HK$7.32 million has been applied for general operating expenses

CHIEF EXECUTIVE OFFICER'S STATEMENT

Date of announcement	Date of Completion	Fund raising activity	Net proceeds (approximately)	Intended use of proceeds	Actual use of proceeds
27 November 2015, 28 December 2015	29 January 2016	Placing of 480,000,000 non-listed warrants at placing price of HK$0.065 per warrant under specific mandate	HK$29.9 million from the issue of the warrants	For general working capital of the Company to settle expenses such as administrative expenses, the professional fees and the salary expenses incurred by the Company	Approximately HK$5.9 million has been applied for purchase of raw materials relating to the development of Peptide Secretion Technology; HK$19.2 million has been applied for payment relating to the Acquisition Agreement of Yi Nuo Technology (Suzhou) Company Ltd.; HK$1.6 million has been applied for payment of professional fees expenses; and HK$3.2 million has been applied for general operating expenses

PROSPECTS

In a special general meeting held on 13 February 2017, the shareholders of the Company passed a resolution to grant specific mandate to the Company for issuing 680 million new shares at HK$0.18 per share. The Group will receive net proceeds of approximately HK$121.6 million upon completion. As the Group further enlarges its exposure in the medical and health industry, it is expected more resources will be allocated to investment and development of potential and newly acquired projects in this industry.

Looking into the first quarter of 2017, the toys division is still facing a challenging market environment as the strong US dollar continues to weaken the purchasing power of non-US customers. Production costs such as raw material and packing material costs are on the upward trend which will further dampen the performance of toys division. Despite the rebound of stock market upon the beginning of 2017, the Group will continue its strategy and reduce its exposure in the securities investments accordingly.

CHIEF EXECUTIVE OFFICER'S STATEMENT

APPRECIATION

On behalf of the Board, I would like to express my deepest gratitude to our shareholders, investors, bankers, business associates and customers for their continuing support, and my fellow directors and all staff members for their valuable contribution during the year of economic uncertainty. I believe the Group can achieve an improving result in the coming years along with the positive progress of the Group's investments in the medical and health industry.

Jack Zhang Jiyei
Chief Executive Officer

Hong Kong, 30 March 2017

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATION REVIEW

For the year ended 31 December 2016, the Group continued to engage in the existing businesses of manufacturing and trading of toys and securities investment. The Group also entered into the new business in the medical and health industry.

Toys Division

During 2016, revenue of the toys division declined to HK$236.2 million from HK$247.7 million in 2015, representing a year-over-year decrease of 4.7%. The slow economic growth in major markets and weak market response of customers' products were major factors leading to the revenue drop. Gross profit fell more significantly due to the loss of certain high margin customers. The drop was partly set off by the exchange gain and better cost control in the selling and distribution expenses and administrative expenses. As a result, overall performance of the toys division improved and segment loss was reduced to HK$22.2 million (2015: loss of HK$24.2 million).

Looking ahead, the global market conditions will remain tough as the uncertain political environment in UK and EU will continue to weaken the consumer market sentiment. The continuous rise in production costs will also hurt the profit margin of the toys division. Despite these negative effects, revenue for the first two months of 2017 records a steady increase as a result of growing market response from one of its customers' major products. On the other hand, the toys division will continue to invest in automation and equipment to increase its production efficiencies. It is expected that overall productivity and business performance will improve in the first half of 2017.

Securities investments

The Hong Kong Stock market came under pressure in the first quarter of 2016 but resumed momentum quickly during the second and third quarters, mainly due to positive factors including delay in US interest rate hikes, more stable post-Brexit impact and approval of Shenzhen-Hong Kong Stock Connect implementation plan. As the fear of global economic slowdown and uncertainty of US interest rate hikes continued, the stock market experienced correction near the end of 2016. During 2016, the Hang Seng Index points rose by 0.4% from 21,914 points as at 31 December 2015 to 22,000 points as at 31 December 2016, reaching the highest and the lowest points of 24,364 and 18,278 respectively. Market turnover recorded a significant drop from average daily turnover of HK$105.6 billion in 2015 to average daily turnover of HK$66.9 billion in 2016. For the year ended 31 December 2016, the securities investments division recorded loss on change of fair value of HK$150.8 million (2015: loss of HK$18.2 million), comprised realised loss of HK$12.4 million and unrealised loss of HK$138.4 million. As at 31 December 2016, the Group's securities portfolio comprised only the listed equity shares of Hong Kong was valued at HK$34.6 million (2015: HK$256.0 million) on a fair value basis.

MANAGEMENT DISCUSSION AND ANALYSIS

Breakdown of the Group's significant investments held as at 31 December 2016

Stock Code	Name	Principal businesses	Market value as at 31 December 2016 *HK$'000*	Number of shares held as at 31 December 2016	Percentage held to the total issued share capital of the stock	Gain/(loss) on change of fair value during the year ended 31 December 2016 *HK$'000*
235	China Strategic Holdings Ltd.	Trading of metal minerals and electronic components, investment in securities and money lending	–	–	–	(3,773)
527	China Ruifeng Renewable Energy Holdings Ltd.	Wind power generation	–	–	–	(11,439)
928	Tack Fiori International Group Ltd.	Development and promotion of education software products and provision of technical support services in the PRC; sale of apparel in the PRC; and securities trading and investments in Hong Kong	9,718	63,104,000	2.64%	(115,228)
8055	China E-Learning Group Ltd.	Provision of an internet platform for education program	–	–	–	5,228
8316	Pak Wing Group (Holdings) Ltd.	Properties & construction – Construction – Heavy construction & engineering	2,081	1,530,000	0.19%	(7,252)
8356	CNC Holdings Ltd.	Provision of waterworks engineering services for public sector in Hong Kong, television broadcasting business in the Asia-Pacific region (excluding PRC) and large outdoor display screen advertisement business in the PRC	21,113	124,930,000	3.08%	(15,392)
	Others		1,683			(2,946)
Total			**34,595**			**(150,802)**

MANAGEMENT DISCUSSION AND ANALYSIS

Breakdown of the Group's significant investments held as at 31 December 2015

Stock Code	Name	Principal businesses	Market value as at 31 December 2015 *HK$'000*	Number of shares held as at 31 December 2015	Percentage held to the total issued share capital of the stock	Gain/ (loss) on change of fair value during the year ended 31 December 2015 *HK$'000*
928	Tack Fiori International Group Limited	Development and promotion of education software products and provision of technical support services in the PRC; Apparel retail business in the PRC; Securities trading and investment	122,000	61,000,000	2.85%	18,110
8356	CNC Holdings Limited	Television broadcasting business and provision of waterworks engineering services	43,100	153,930,000	3.80%	(19,165)
527	China Ruifeng Renewable Energy Holdings Limited	Wind power generation	40,351	42,032,000	2.80%	(9,672)
235	China Strategic Holdings Limited	Trading of metal minerals and electronic components, investment in securities and money lending	19,469	89,305,000	0.53%	(41)
61031	CS#HKEX RC1510C	Callable Bull/Bear Contracts	–	–	–	(3,691)
64039	UB#HKEX RC1510E	Callable Bull/Bear Contracts	–	–	–	(615)
69741	CS#HKEX RC1511B	Callable Bull/Bear Contracts	–	–	–	(1,750)
61466	UB#HSI RC1512S	Callable Bull/Bear Contracts	–	–	–	(1,800)
69995	SC#HKEX RC1604A	Callable Bull/Bear Contracts	–	–	–	(5,094)
	Others	–	31,072	–	–	5,480
Total			**255,992**			**(18,238)**

MANAGEMENT DISCUSSION AND ANALYSIS

The Group's significant investments held as at 31 December 2016 mainly consisted of three stocks, namely: (1) Tack Fiori International Group Ltd. (Stock code: 928) ("TF"); (2) Pak Wing Group (Holdings) Ltd. (Stock code: 8316) ("PW") and (3) CNC Holdings Ltd. (Stock code: 8356) ("CNC"). The value of these stocks recorded a substantial drop in 2016. During the year of 2016, the share price of TF opened from HK$1.788 (adjusted), reaching the highest and lowest price of HK$1.832 (adjusted) and HK$0.134 (adjusted) respectively and closed at HK$0.138 (adjusted); the share price of PW opened at HK$6.10, reaching the highest and lowest price of HK$7.80 and HK$0.90 respectively and closed at HK$1.36; the share price of CNC opened from HK$ 0.280, reaching the highest and lowest price of HK$0.300 and HK$0.166 respectively and closed at HK$0.169.

The stocks disposed of by the Group during the year mainly included the following: (1) a total of 120,545,000 shares of China Strategic Holdings Ltd. (Stock code: 235) at an average share price of HK$0.185 and recorded disposal loss of HK$3.8 million; (2) a total of 42,036,000 shares of China Ruifeng Renewable Energy Holdings Ltd. (Stock code: 527) at an average share price of HK$0.688 and recorded disposal loss of HK$11.4 million; and (3) a total of 122,384,000 shares of China E-Learning Group Ltd. (Stock code: 8055) at an average share price of HK$0.275 and recorded disposal gain of HK$5.2 million.

Amid the good start of Hong Kong stock market in the first quarter of 2017 evidenced by the increase of Hang Seng Index from 22,000 points as at 30 December 2016 to 24,301 points as at 30 March 2017, it is expected that the Hong Kong stock market will continue to benefit from China's economic recovery and improving market liquidity. The positive outlook is however overshadowed by several risk factors such as the potential interest rate hike in the US, and slower economic recovery caused by the property tightening measures in both China and Hong Kong and the political-driven volatility triggered by the regional events.

The shares held by the Group continued to suffer from uncertain trend in the first quarter of 2017. During the period from 1 January 2017 to 30 March 2017, the share price of TF opened from HK$0.138, reaching the highest and lowest price of HK$0.236 and HK$0.130 respectively and closed at HK$0.194; the share price of PW opened from HK$1.36, reaching the highest and lowest price of HK$2.70 and HK$1.36 respectively and closed at HK$1.80; the share price of CNC opened from HK$0.169, reaching the highest and lowest price of HK$0.174 and HK$0.075 respectively and closed at HK$0.076.

In consideration of the market uncertainty, the Group will continue to adopt a conservative strategy and reduce its stock portfolio accordingly.

Medical and Health Division

During the year, the Group continued to look for new investment opportunities in the medical and health industry while setting up the research and development platform relating to the Peptide Secretion Technology.

MANAGEMENT DISCUSSION AND ANALYSIS

As mentioned on the 2015 annual and 2016 interim reports, the Group formed the joint venture ("Novotide JV") with Beijing Novotide Biodmedical Technology Company Limited ("Novotide") to engage in the research and development of the Peptide Secretion Technology for malignant tumor treatment. After entering into acquisition agreement of 70% equity interest of Beijing Wufang Hospital Management Company Limited ("BWHM"), Novotide JV collaborated with BWHM and expedited the research and development of the technology relating to the patents owned by Novotide in relation to the Peptide Secretion Technology. A total of HK$20.7 million was incurred during the year in research and development, mainly on the studies relating to the Peptide Secretion Technology.

Although the Group announced on 29 July 2016 that it decided not to proceed with the acquisition of 70% equity interest in BWHM, mainly due to the unfulfilled conditions precedent, the Group will continue to engage in the research and development of advanced technology or treatment for malignant tumor.

Completion of acquisition of 100% equity interest of Yi Nuo Technology (Suzhou) Company Limited ("Yi Nuo")

The Group completed its acquisition of Yi Nuo in November 2016 and commenced consolidating the financial results of Yi Nuo thereafter. Yi Nuo owned a piece of land at Jiangsu Suzhou Hi-Tech Zone of approximately 67,000 square meters and a factory thereon. Part of the land and the factory has been leased to an independent third parties until 30 June 2018. During the year, the Group entered into agreements with an independent contractor to undergo renovation and engineering upgrade work on its existing plants and facilities at a total contract sum of RMB58.0 million (approximately HK$65.3 million). As at 31 December 2016, deposit of RMB54.7 million (HK$61.2 million) have been paid to the contractor. The plant and office building upon completion of renovation and engineering upgrade work will be used for rental purpose or utilised by its medical and health business.

FINANCIAL REVIEW

Liquidity, Financial Resources and Capital Structure

At 31 December 2016, the Group had current assets of HK$286,487,000 (2015: HK$439,942,000) comprising cash and cash equivalents of HK$78,497,000 (2015: HK$26,005,000) (excluding pledged bank deposits). The Group's current ratio, calculated as current assets divided by current liabilities of HK$203,894,000 (2015: HK$179,356,000), remained at an acceptable ratio of 1.41 (2015: 2.45). The Group's borrowings as at 31 December 2016 were denominated in Hong Kong dollars and Renminbi in the proportion of 84% and 16% (2015: 58% and 42%) respectively. Apart from borrowings of HK$45,000,000 (2015: HK$Nil) which would mature within a period of more than one year but not exceeding two years, borrowings totaling HK$119,569,000 (2015: HK$100,329,000) would mature within one year, out of which all bore fixed interest rate and none bore floating interest rate.

MANAGEMENT DISCUSSION AND ANALYSIS

The equity attributable to owners of the Company decreased by 34% to HK$255,564,000 (2015: HK$388,897,000) mainly as a result of equity fund raising activities offset by the loss incurred by the Group during the year. The Group financed its operations through a combination of debt financing and shareholder's equity. The Group's gearing ratio was determined as its net debt divided by total equity plus net debt where net debt included borrowings, trade payables and other payables less pledged bank deposits and cash and cash equivalents. The gearing ratio of the Group as at 31 December 2016 was 39% (2015: 26%).

Despite the loss incurred by the Group, the financial position of the Group remains solid with sufficient cash to support the Group's ongoing business operations.

Foreign Currency Management

The monetary assets and liabilities and business transactions of the Group were mainly carried and conducted in Hong Kong dollars, Renminbi and United States dollars. The Group maintained a prudent position in its foreign currency risk management. To a large extent, foreign exchange risks were minimised by matching the foreign currency monetary assets versus the corresponding currency liabilities, and foreign currency revenues versus the corresponding currency expenditures.

When considered appropriate, the Group would enter into various financial derivative instruments in order to mitigate foreign exchange rate exposure. In light of the above, it was considered that the Group's exposure to foreign exchange risks was not significant.

Charge on Assets

At 31 December 2016, the Group's certain leasehold buildings and prepaid land premium in Mainland China with aggregate carrying amount of HK$100,398,000 (2015: HK$105,349,000), and bank deposits of HK$2,570,000 (2015: 12,649,000) were pledged to secure general banking facilities granted to the Group.

Contingent Liabilities

At 31 December 2016, the Group had no significant contingent liability (2015: nil).

Capital Commitments

Details of the capital commitments are provided in note 34 of the Notes to the Consolidated Financial Statements of this report.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2016, the Group had a total of approximately 1,789 (2015: 1,899) employees, including directors, in Hong Kong and Mainland China. The Group's total staff costs, including directors' remuneration, and value of share options granted to directors and other employees, decreased by 2.4% to HK$136,568,000 (2015: HK$139,970,000). Remuneration packages for employees and directors were structured by reference to market terms, individual performance and experience. Benefit plans maintained by the Group included provident fund scheme, pension scheme, medical insurance, discretionary bonuses and share options. The Group also provided subsidies to staff for external training.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

This Environmental, Social and Governance ("ESG") Report ("ESG Report") is prepared by the Group pursuant to the Appendix 27 Environmental, Social and Governance Reporting Guide of the Listing Rules. The ESG report covers the Group's operations for the financial year ended 31 December 2016. The board has overall responsibility for the ESG strategy and reporting.

A. ENVIRONMENTAL PROTECTION

The Group is committed to minimize the environmental impact of its business activities and maintain green operations and green office practices in order to implement its commitment to sustainable development and compliance with environmental laws and regulations.

A.1 Emissions

In order to reduce or avoid emissions, regular assessments are performed on the Group's air and greenhouse gas emissions, as well as the generation and disposal of hazardous and non-hazardous waste, which are mainly incurred in its toys division. The Group collects and analyzes relevant data and summarizes the findings on a regular basis.

The Group gained the ISO14001 Environmental Management Systems Certification since 2011 for its manufacturing arm in the PRC. Through planning and evaluation of the environmental management system, the Group set a clear goal and develop related management program to ensure the effectiveness of the management system and to achieve the purpose of continuous improvement. Products of the Group have been inspected by professional organizations and met the environmental standards for export.

The Group engaged an external professional organization to examine the environmental factors, including noise and emission of gas and water, of our manufacturing plant in the PRC. The results revealed that the operations fulfilled relevant national emission standards in all material aspects.

Besides, by encouraging employees for the use of digital communication tools and digital storage which reduces the need of traveling and use of paper further reduce the carbon footprint of the Group.

A.2 Use of Resources

The Group promotes energy conservation continuously. For better management of its use of resources, the Group encourages employees to switch off (or onto energy-saving mode) all idle equipment including computers, monitors and other electrical appliances after work or any time when they are not in use.

The Group is gradually replacing the traditional light bulbs with energy-saving light bulbs and have introduced Injection Molding Machine Energy Saving Servo System for the factory of its toys division in the PRC in order to reduce electricity consumption.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A.3 The Environment and Natural Resources

Various natural resources are used in the Group's manufacturing processes. The Group is committed in maintaining its high utilization efficiency in order to reduce the impacts on the environment and natural resources. We maintains highly trained engineers in our product development and manufacturing process design cycles in order to enhance the efficiency of the materials usage and reduce wastage.

B. SOCIAL COMMITMENT

The Company believes that employees are valuable assets. The Group had endeavoured to establish a safe and healthy working environment for employees to ensure employee satisfaction, and to retain talents through improving the training system and providing competitive remuneration package and welfare.

B.1 Employment and Labour Practices

The Group offers competitive remuneration packages to employees, and distributes discretionary bonuses based on individual performance and its business performance.

The Group also pays attention to the work-life balance of employees. During the year, a number of activities were organized for its employees and a healthy working environment was established to enhance their sense of belonging to the Group. All employees are entitled to a particular number of days of annual leave in accordance with their positions, departments and working years, not less than the number prescribed by the laws.

As to ensure an equal and fair working environment, the Group recruits and promotes employees without regard to age (applicants under the age of 15 years are excluded from consideration), nationality, race, religion, sexual orientation, marital status, pregnancy, disability and political beliefs, so as to practice principle of fairness. The Group's resignation and dismissal policies also comply with the provisions of the Labor Law of the PRC, the Labor Contract Law of the PRC, Employment Ordinance of Hong Kong and Employee Handbook of Group. The Group complied with the requirements of ICTI Code of Business Practices and received the Class A Certificate issued by ICTI CARE Foundation in 2016.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B.2 Health and Safety

To protect employees' occupational health and safety, the Group is committed to provide a safe, healthy and comfortable working environment and has complied with the Labor Law of the PRC, the Law of the PRC on the Protection of Labor Rights and Interests and other applicable regulations. Employees are required to comply strictly with all safety rules and regulations, and use available and applicable protection measures at all times to avoid accidents and protect themselves and other staff from safety risks in accordance with the relevant laws and regulations. The Group offers its employees comprehensive health care coverage and maintains sufficient fire safety facilities and emergency lighting systems in its factory and offices in accordance with relevant standards.

The Group gained the OHSAS18001 Occupational Health and Safety Management System Certification since 2007 for its manufacturing arm in the PRC. The Group also invited local fire agency to organize a fire evacuation drill for employees in the PRC with the aim of enhancing employee awareness.

B.3 Development and Training

In order to enhance the knowledge and skills of employees, the Group provides in- house trainings, including tailor-made training courses to equip employees with the knowledge and relevant skills to help them develop managerial knowledge and other professional skills that facilitate employees' career development.

On-board trainings are provided to new hire to help them familiarize themselves with the Company's culture, business and operations. In addition, senior staff will provide guidance to the new hire on work methods and skills, answering their problems encountered, the senior staff will also set good examples to guide the new hire so that they can adapt to the Company's environment as soon as possible.

B.4 Labour Standards

The Group strictly complies with relevant labour regulations and laws relating to working hours, rest and holidays in the PRC and Hong Kong to ensure the physical and mental health of all employees. Employees are entitled to overtime pay in accordance with local regulations.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B.5 Supply Chain Management

The Group has adopted a strict and standardized internal control system with absolute emphasis on the strict compliance to relevant laws and regulations. Through strategic cooperation and comprehensive assessment, the Group has established long term, close and stable relationships with its core suppliers for critical products/services in order to mitigate the risks from its supply chain. Taking into account the efficiency, effectiveness and standardization, the Group tightly monitors the procurement process and the assessment principles.

B.6 Product Responsibility

Quality is the cornerstone of the Group's long-term development and the source of its high credibility. Over the years, the Group has been continuously introducing international standards, domestic standards and customer standards management system to ensure product safety and quality.

The Group is qualified for the ISO9001 Quality Management System, ISO14001 Environmental Management Systems and Social Responsibility Management Systems Certification. Our products are tested by third-party laboratories before export and meet the requirements of the European Union (EN71), the United States (ASTM), the PRC (GB6675) and relevant requirements of other importing countries.

As to provide customers with quality products, the Group has a strict quality inspection system from selection of raw materials, design and development to the production process. We maintains in-house physical and chemical laboratories, advanced testing equipment and experienced technicians. Our products are repeatedly tested by our in-house quality control expert teams. Sample products are delivered to external laboratories for comprehensive tests on annual basis.

Besides, the employees of production team are required to strictly enforce the Group's Quality Management System requirements including regular physical examination, use of protective equipment, occupational health and safety and so on.

In the event that any defects or safety problem are found in the products, the products will be recalled or remedied according to the Return and Replacement Process of Defective Products. The Group also provides comprehensive after-sale services for handling customer complaints.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B.7 Anti-Corruption, Bribery, Extortion, Fraud and Money Laundering

The Group maintains a high standard of business integrity throughout its operations and prohibits any form of corruption or bribery. The Group strictly complies with the Criminal Law of the PRC and Hong Kong, the Anti-Unfair Competition Law of the PRC, anti-corruption policies as stated in the Group's Internal Control Manual that includes Integrity of Business Practices, ethical standard, conflicts of interest, handling of confidential information and legal requirement on prevention of bribery, and other relevant laws and regulations relating to anti-corruption, bribery, extortion, fraudulent behavior and money-laundering in the PRC and Hong Kong. During the year, the Group does not identify any corruption incident.

B.8 Community Investment

The Group is committed to fulfill corporate social responsibility for the communities where it operates. The Group aims to address community concerns through participating in volunteer activities and charity donation. The Group also encourages the employees to participate in community services.

In 2016, the volunteer team of the Group participated in more than 300 hours of volunteer activities such as traffic management, voluntary tree planting and community support. The Group also organized an internship program for 40 local technical college students to be trained in our manufacturing plants before their graduation as part of our community investment.

BIOGRAPHICAL DETAILS OF DIRECTORS

The biographical details of Directors as at 30 March 2017, the date of this annual report, are set out below:

EXECUTIVE DIRECTOR

Mr. Zhang Jack Jiyei, *Chief Executive Officer and Chief Financial Officer*

Aged 52, joined the Company as an Executive Director on 4 November 2014 and was appointed the Chief Financial Officer of the Company on 10 November 2014 and Chief Executive Officer of the Company on 2 December 2016. Mr. Zhang is also a director of several subsidiaries of the Company. He holds a Bachelor of Applied Mathematics degree from Tsinghua University, a Master of Science degree from the University of Manitoba and a Master of Business Administration degree from the University of Western Ontario. He has extensive experience in investment analysis and direct investment and is specialised in environmental, water treatment, telecommunication, information technology and media transactions. Mr. Zhang had held senior positions in a number of reputable companies including General Water of China Co., Ltd.# (中環保水務投資有限公司), BOCI Asia Limited and Beijing Long Shine Technology Co. Ltd.# (北京朗新科技有限公司). He was a director of Heilongjiang Interchina Water Treatment Co., Ltd.# (黑龍江國中水務股份有限公司) whose shares are listed on the Shanghai Stock Exchange (stock code: 600187) ("Heilongjiang Interchina") from 22 January 2009 to 16 July 2012 and was appointed as the president of Heilongjiang Interchina from 20 April 2012 to 16 July 2012. Mr. Zhang was also an executive director of EverChina Int'l Holdings Company Limited (formerly known as "Interchina Holdings Company Limited") (stock code: 202) from 1 January 2010 to 22 June 2010, Peace Map Holding Limited (formerly known as "Mongolia Investment Group Limited") (stock code: 402) from 25 July 2013 to 6 August 2014 and Tack Fiori International Group Limited (stock code: 928) from 13 April 2015 to 17 December 2015, whose shares are listed on the main board of the Stock Exchange.

Unofficial literal translation of the Chinese company name

NON-EXECUTIVE DIRECTOR

Mr. Lo Ming Chi, Charles

Aged 67, joined the Company as an Executive Director on 3 October 2009 and was appointed the Chief Executive Officer and Deputy Chairman of the Company on 25 November 2009 and 24 June 2011 respectively. He had stepped down from his positions as the Deputy Chairman and the Chief Executive Officer of the Company and had been re-designated as a Non-executive Director of the Company with effect from 10 November 2014. He is a certified practising accountant of the CPA Australia and is a fellow of the Financial Services Institute of Australasia. He has extensive experience in financial and investment services in Australia, Hong Kong and other Asian countries. Mr. Lo is an Independent Non-executive Director of Carrianna Group Holdings Company Limited (formerly known as "Tak Sing Alliance Holdings Limited") (stock code: 126) and CASH Financial Services Group Limited (stock code: 510). He was also an Executive Director and the Chief Executive Officer of Huajun Holdings Limited (formerly known as "New Island Development Holdings Limited") (stock code: 377) until 25 September 2014. All of the above companies are listed in Hong Kong.

BIOGRAPHICAL DETAILS OF DIRECTORS

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Li Fang, *Chairman of the Audit Committee and the Nomination Committee and member of the Remuneration Committee*

Aged 63, joined the Company as an Independent Non-executive Director on 10 November 2014. Mr. Li holds a Bachelor's degree of Law and a Master's degree of Law from Peking University Law School, a LL.M degree from Harvard Law School and a Diploma for Harvard International Tax Research Programme. Mr. Li is a partner of Tian Yuan Law Firm, Beijing office and an arbitrator of China International Economic and Trade Arbitration Commission as well as Shenzhen Court of International Arbitration.

Mr. Wong Kee Fung Kenneth, *Chairman of the Remuneration Committee and member of the Audit Committee and the Nomination Committee*

Aged 52, joined the Company as an Independent Non-executive Director on 3 June 2015. Mr. Wong holds a Bachelor of Social Sciences degree from the Chinese University of Hong Kong and a Diplôme HEC from Ecole des Hautes Etudes Commerciales, Paris, France. Mr. Wong is a fellow member of the Association of Chartered Certified Accountants, United Kingdom and the Hong Kong Institute of Certified Public Accountants. Mr. Wong is currently the managing director of Joymaster (Beijing) Consulting Co., Limited and the director of Chengde Tianyuan Shengshi Enterprises Co., Limited. Mr. Wong has been appointed as an independent non-executive director of Sky Light Holdings Limited (stock code: 3882), a listed company in Hong Kong, on 12 June 2015. He has more than 27 years of experience in accounting and finance.

Mr. Wong Kwok Tai, *Member of the Audit Committee, the Remuneration Committee and the Nomination Committee*

Aged 78, joined the Company as an Independent Non-executive Director on 1 November 2009. He is a Practising Certified Public Accountant and a fellow member of the CPA Australia and the Hong Kong Institute of Certified Public Accountants. Mr. Wong is the director of W. Wong CPA Limited and has more than 45 years of financial experience. Mr. Wong is also an independent non-executive director of China Power New Energy Development Company Limited (stock code: 735). Mr. Wong was also an independent non-executive director of New Century Group Hong Kong Limited (stock code: 234) until 4 September 2012, Skyway Securities Group Limited (formerly known as "Mission Capital Holdings Limited") (stock code: 1141) until 30 July 2015 and Takson Holdings Limited (stock code: 918) until 22 November 2016. All of the above companies are listed in Hong Kong.

REPORT OF THE DIRECTORS

The Directors hereby present their report and the audited consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company is investment holding and the principal activities of its subsidiaries are set out in note 41 to the financial statements.

Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a description of the principal risks and uncertainties facing the Company and an indication of likely future development in the Company's business, can be found in the Chief Executive Officer's Statement and the Management Discussion and Analysis set out on pages 4 to 14 of this annual report. This discussion forms part of this Report of the Directors.

RESULTS

The results of the Group for the year ended 31 December 2016 are set out in the consolidated statement of profit or loss on page 44.

FINAL DIVIDEND

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

FIVE YEARS FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the last five financial years is set out on page 120.

SHARE CAPITAL

Details of movement in the share capital of the Company during the year and details of share capital of the Company are set out in note 28 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2016, the Company's reserve available for distribution, calculated in accordance with the provisions of the Companies Act 1981 of Bermuda and the Bye-laws of the Company, amounted to HK$nil (2015: HK$nil).

REPORT OF THE DIRECTORS

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws or the Companies Act 1981 of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

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

During the year ended 31 December 2016, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

MAJOR CUSTOMERS AND SUPPLIERS

During the year under review, sales to the Group's five largest customers accounted for approximately 76.0% of the total sales for the year and sales to the largest customer accounted for approximately 24.7%. Purchases from the Group's five largest suppliers accounted for approximately 34.9% of the total purchases for the year and purchases from the largest supplier accounted for approximately 14.1%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, owns more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers during the year.

DIRECTORS

Executive Directors:

Mr. Gao Feng	(resigned on 29 November 2016)
Mr. Zhang Jack Jiyei	
Mr. Wu Jiang	(retired on 1 June 2016)

Non-executive Director:

Mr. Lo Ming Chi, Charles

Independent Non-executive Directors:

Mr. Li Fang
Mr. Wong Kee Fung Kenneth
Mr. Wong Kwok Tai

REPORT OF THE DIRECTORS

DIRECTORS' SERVICE CONTRACTS

None of the directors has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

UPDATES ON DIRECTORS' INFORMATION

The following is updated information of directors of the Company required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules:

1. Mr. Wong Kwok Tai resigned as an independent non-executive director of Takson Holdings Limited (stock code: 918), a listed company in Hong Kong, on 22 November 2016.

DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Details of the directors' and the chief executive's remuneration are set out in note 10 to the consolidated financial statements.

INDEMNITY OF DIRECTORS

The Company has arranged appropriate Directors' and officers' liability insurance coverage for the Directors and other officers of the Company during the year.

DIRECTORS' AND CONTROLLING SHAREHOLDER'S INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section headed "MATERIAL RELATED PARTY TRANSACTIONS" disclosure in note 35 to the consolidated financial statements, no contract of significance to which the Company or any of its subsidiaries was a party and in which a director or the controlling shareholder 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.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2016, the interests of each of the directors or the chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Listing Rules were as follows:

Long positions in the shares and underlying shares of the Company

Name of Director	Capacity and nature of interest	Personal interest	Corporate interest	Total interest	Approximate percentage of the Company's issued share capital *(Note 2)*
Mr. Zhang Jack Jiyei	Beneficial owner	20,200,000	–	20,200,000	0.68%
("Mr. Zhang")	Interest of controlled corporation	–	651,995,472	651,995,472 *(Note 1)*	21.87%
Mr. Li Fang	Beneficial owner	1,820,000	–	1,820,000	0.06%

Note:

1. 651,995,472 shares were held by Right Perfect Limited, which was a wholly-owned subsidiary of Brilliant Vision Global Limited ("BVG"). BVG was owned as to 50% by each of Mr. Zhang, an Executive Director of the Company, and Mr. Gao Feng. Accordingly, Mr. Zhang , Mr. Gao Feng and BVG were deemed to be interested in 651,995,472 shares of the Company under the SFO.

2. The percentage of shareholding is calculated on the basis of 2,981,864,729 shares of the Company in issue as at 31 December 2016.

Save as disclosed above and in the "EQUITY-SETTLED SHARE-BASED PAYMENTS" disclosure in note 30 to the consolidated financial statements, as at 31 December 2016, none of the directors or chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME

Details of the share option scheme of the Company are set out in note 30 to the consolidated financial statements.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the sections headed "DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES" and "EQUITY-SETTLED SHARE-BASED PAYMENTS" disclosure in note 30 to the consolidated financial statements, at no time during the year ended 31 December 2016 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, and none of the Directors or their spouse or minor children had any rights to subscribe for the securities of the Company, or had exercised any such rights during the year.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 31 December 2016, the following interests of more than 5% of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to section 336 of the SFO:

Long positions in the shares of the Company

Name of shareholder	Capacity and nature of interest	Number of shares held	Approximate percentage of the Company's issued share capital *(Note 4)*
Mr. Zhang Jack Jiyei ("Mr. Zhang")	Interest of controlled corporation	651,995,472 *(Note 1)*	21.87%
Mr. Gao Feng ("Mr. Gao")	Interest of controlled corporation	651,995,472 *(Note 1)*	21.87%
China Strategic Holdings Limited ("CSH")	Interest of controlled corporation	651,995,472 *(Note 2)*	21.87%
Mr. Ji Xiang (" Mr. Ji")	Interest of controlled corporation	496,976,000 *(Note 3)*	16.67%

REPORT OF THE DIRECTORS

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO (Continued)

Notes:

1. 651,995,472 shares were held by Right Perfect Limited, which was a wholly-owned subsidiary of Brilliant Vision Global Limited ("BVG"). BVG was owned as to 50% by each of Mr. Zhang, an Executive Director of the Company, and Mr. Gao. Accordingly, Mr. Zhang, Mr. Gao and BVG were deemed to be interested in 651,995,472 shares of the Company under the SFO.

2. CSH had an indirect interest in the Company through its 100% indirect ownership in U Credit (HK) Limited, which had security interest in 651,995,472 shares of the Company.

3. 496,976,000 shares were held by Excel Jade Limited, which was owned as to 100% by Mr. Ji. Accordingly, Mr. Ji was deemed to be interested in 496,976,000 shares of the Company under the SFO.

4. The percentage of shareholding is calculated on the basis of 2,981,864,729 shares of the Company in issue as at 31 December 2016.

Save as disclosed above, the Company had not been notified of other relevant interests or short positions in the shares and underlying shares of the Company as at 31 December 2016 as required pursuant to section 336 of the SFO.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, it is confirmed that there is sufficient public float of at least 25% of the Company's issued shares at the date of the annual report.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

The Group recognises the importance of compliance with laws and regulations and any non-compliance may bring significant impact on the Group's operations. The Group's products are exported globally and the major markets include the USA, the European union, Japan and the PRC. The Group complied with those importing requirements, including product safety and material selections, imposed by these importing countries. Compliance with the PRC regulations are also essential to the Group manufacturing operations in the PRC. The Group is continuously monitoring the evolving regulations and ensure its compliance.

RELATIONSHIP WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group understands the importance of maintaining a good relationship with its employees, customers and suppliers to meet its immediate and long-term business goals. During the year ended 31 December 2016, there were no material and significant dispute between the Group and its employees, customers and suppliers.

REPORT OF THE DIRECTORS

ENVIRONMENTAL POLICY AND PERFORMANCE

The Group encourages environmental protection and is committed to fulfil its environmental, social and corporate responsibilities. Various investments in optimizing energy use and paper use were made and will be made. Measures were made to prevent or minimize pollutions and provide a safe and healthy working environment. The Group continues to review the latest technology and the best practices in the industry for adoption to address the environmental, social and corporate responsibilities.

AUDITORS

The financial statements for the year ended 31 December 2016 have been audited by Deloitte Touche Tohmatsu who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Zhang Jack Jiyei
Executive Director

Hong Kong, 30 March 2017

CORPORATE GOVERNANCE REPORT

The Board is committed to maintaining high standards of corporate governance practices at all times. The Board believes that good corporate governance helps the Company to safeguard the interests of its shareholders and to enhance the performance of the Group.

CORPORATE GOVERNANCE

During the year ended 31 December 2016, the Company had complied with all the applicable code provisions of the Corporate Governance Code set out in Appendix 14 to the Listing Rules except for the following deviation with reason as explained.

Pursuant to Code A.2.7, the chairman should at least annually hold meetings with the non-executive directors (including independent non-executive directors) without the executive directors present. However, the post of chairman of the Company (the "Chairman") has been vacant since the resignation of Mr. Gao Feng as the Chairman with effect from 29 November 2016 and therefore no meeting of the Chairman and Non-executive Directors has been held during the year ended 31 December 2016. If candidate with suitable skills and experience is identified within or outside the Group, the Company will make necessary arrangement for the new appointment at appropriate time.

Pursuant to Code A.6.7, the independent non-executive directors and other non-executive directors, as equal board members, should give the board and any committees on which they serve the benefit of their skills, expertise and varied backgrounds and qualifications through regular attendance and active participation. They should also attend general meetings and develop a balanced understanding of the views of shareholders.

Two Executive Directors and two Independent Non-executive Directors of the Company were unable to attend the special general meeting of the Company held on 6 January 2016 due to other prior business engagements. Two Executive Directors, one Non-executive Director and two Independent Non-executive Directors of the Company were unable to attend the special general meeting of the Company held on 15 January 2016 due to other prior business engagements. One Independent Non-executive Director of the Company was unable to attend the annual general meeting of the Company held on 1 June 2016 due to other prior business engagements. However, there were at least one Executive Director and one Independent Non-executive Director presented at each meeting to enable the Board to develop a balanced understanding of the views of shareholders of the Company.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted its own code of conduct regarding directors' dealings in the Company's securities (the "Own Code") on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. Specific enquiries have been made with the Directors and they have confirmed their compliance with the Own Code and the Model Code during the year ended 31 December 2016.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS

The overall management and control of the Group's business are vested in the Board. The Board is responsible for establishing policies, strategies and plans, providing leadership in creating value and overseeing the Group's financial performance on behalf of shareholders of the Company.

The Board reserves for its decision on all major matters of the Company, including the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

The day-to-day management, administration and operations of the Group are delegated to the executive director and senior management of the Company. Prior to entering into any significant transactions, the executive director and senior management of the Company have to obtain Board approval.

As at the date of this annual report, the Board comprises five Directors, including one Executive Director, namely Mr. Zhang Jack Jiyei (Chief Executive Officer and Chief Financial Officer); one Non-executive Director, namely Mr. Lo Ming Chi, Charles; and three Independent Non-executive Directors, namely Mr. Li Fang, Mr. Wong Kee Fung Kenneth and Mr. Wong Kwok Tai. The Company has received from each of the Independent Non-executive Director an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all Independent Non-executive Directors are independent in accordance with the independence guidelines set out in the Listing Rules. Biographical details of the Directors are set out under the section headed "BIOGRAPHICAL DETAILS OF DIRECTORS" on pages 20 to 21 of this annual report.

The Company will provide a comprehensive, formal and tailored induction to each newly appointed director on his/her first appointment in order to enable him/her to have appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

All directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. Directors are continually updated on developments in the statutory and regulatory regime and the business environment to facilitate the discharge of their responsibilities. The Company has provided timely technical updates, including the briefing on the amendments on the Listing Rules and the news release published by the Stock Exchange to the directors. Continuing briefing and professional development for directors are arranged where necessary.

BOARD OF DIRECTORS (Continued)

During the year ended 31 December 2016, three regular full Board meetings and three general meetings were held and the attendance of each director is set out as follows:

Name of director	Number of attendance Board Meetings	General Meetings
Executive Directors		
Mr. Gao Feng (resigned on 29 November 2016)	3/3	2/3
Mr. Zhang Jack Jiyei	3/3	2/3
Mr. Wu Jiang (retired on 1 June 2016)	2/3	1/3
Non-executive Director		
Mr. Lo Ming Chi, Charles	3/3	2/3
Independent Non-executive Directors		
Mr. Li Fang	3/3	0/3
Mr. Wong Kee Fung Kenneth	3/3	1/3
Mr. Wong Kwok Tai	3/3	3/3

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

There are two key aspects of the management of the Company – the management of the Board and the day-to-day management of the Group’s business. The Company supports that there should be a clear division of these responsibilities at the Board level to ensure a balance of power and authority, so that power is not concentrated in any one individual. Currently, Mr. Zhang Jack Jiyei (“Mr. Zhang”), the Chief Executive Officer, Chief Financial Officer and Executive Director of the Company, takes up the responsibility of the day-to-day management of the Group’s business. Following Mr. Gao Feng’s resignation as the Chairman of the Board and the Executive Director of the Company on 29 November 2016, the Board does not have designated Chairman nor deputy Chairman. The responsibility for the management of the Board has been shared by the directors of the Company to balance the power and authority. The Board would review and monitor the situation on a regular basis and would ensure that the present structure would not impair the balance of power in the Company.

CORPORATE GOVERNANCE REPORT

NON-EXECUTIVE DIRECTORS

Each of the Non-executive Director and Independent Non-executive Director is appointed for a term of twelve-month period which automatically renews for successive twelve-month periods unless terminated by either party in writing prior to the expiry of the term. The Non-executive Directors and all the Independent Non-executive Directors are also subject to retirement by rotation and re-election at least once every three years at the annual general meetings of the Company in accordance with the Company's Bye-laws.

REMUNERATION COMMITTEE

The Remuneration Committee has specific written terms of reference as set out in the CG Code. As at the date of this annual report, the Remuneration Committee comprises three Independent Non-executive Directors, namely Mr. Li Fang, Mr. Wong Kee Fung Kenneth and Mr. Wong Kwok Tai. Mr. Wong Kee Fung Kenneth is the Chairman of the Remuneration Committee.

The principal responsibilities of the Remuneration Committee include making recommendations to the Board on the Company's remuneration policy and structure and the remuneration packages of directors and senior management. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his associates will participate in deciding his own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions. The full terms of reference of the Remuneration Committee are available on the Company's website and the Stock Exchange's website.

The Remuneration Committee met two times during the year ended 31 December 2016 to review the remuneration packages for directors. The attendance of each member is set out as follows:

Name of member	Number of attendance
Mr. Wong Kee Fung Kenneth	2/2
Mr. Li Fang	2/2
Mr. Wong Kwok Tai	2/2

NOMINATION COMMITTEE

The Nomination Committee has specific written terms of reference as set out in the CG Code. As at the date of this annual report, the Nomination Committee comprises three Independent Non-executive Directors, namely Mr. Li Fang, Mr. Wong Kee Fung Kenneth and Mr. Wong Kwok Tai. Mr. Li Fang is the Chairman of the Nomination Committee.

The Nomination Committee is mainly responsible for making recommendations to the Board on the appointment of directors, evaluation of board composition, assessment of the independence of independent non-executive directors and the management of the Board succession. The full terms of reference of the Nomination Committee are available on Company's website and the Stock Exchange's website.

The Nomination Committee met one time during the year ended 31 December 2016 to review the appointment of the directors, the structure, size and composition of the Board. The attendance of each member is set out as follows:

Name of member	Number of attendance
Mr. Li Fang	1/1
Mr. Wong Kee Fung Kenneth	1/1
Mr. Wong Kwok Tai	1/1

The Board had adopted a board diversity policy (the "Policy") in September 2013 which sets out the approach to achieve diversity on the Board. All Board appointments shall be based on meritocracy, and candidates will be considered against selection criteria, having regard for the benefits of diversity on the Board. Selection of candidates will be based on range of diversity perspectives, which would include but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. The Nomination Committee will monitor the implementation of the Policy and will from time to time review the Policy, as appropriate, to ensure the effectiveness of the Policy.

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE

The Audit Committee has specific written terms of reference as set out in the CG Code. As at the date of this annual report, the Audit Committee comprises three Independent Non-executive Directors, namely Mr. Li Fang, Mr. Wong Kee Fung Kenneth and Mr. Wong Kwok Tai. Mr. Li Fang is the Chairman of the Audit Committee.

The main duties of the Audit Committee are reviewing the financial information and reports of the Group and considering any significant or unusual items raised by the financial officers of the Group or external auditor before submission to the Board; reviewing the relationship with and the terms of appointment of the external auditor and making the relevant recommendation to the Board; and reviewing the Group's financial reporting system, internal control system and risk management system. The Audit Committee is also delegated the corporate governance function of the Board to monitor, procure and manage corporate governance compliance within the Group. The full terms of reference of the Audit Committee are available on Company's website and the Stock Exchange's website.

The Audit Committee met three times during the year ended 31 December 2016 and the attendance of each member is set out as follows:

Name of member	Number of attendance
Mr. Li Fang	3/3
Mr. Wong Kee Fung Kenneth	3/3
Mr. Wong Kwok Tai	3/3

The following is a summary of work performed by the Audit Committee during the year ended 31 December 2016:

1. Reviewed and approved the remuneration and terms of engagement of the Company's auditor; and reviewed and made recommendations to the Board on the appointment of the Company's auditor;

2. reviewed and discussed the Group's management accounts; and

3. adoption of internal control review report in order to assess the internal control system of the Group.

CORPORATE GOVERNANCE REPORT

AUDITOR AND AUDITOR'S REMUNERATION

The consolidated financial statements of the Company for the year ended 31 December 2016 have been audited by Deloitte Touche Tohmatsu ("DTT"). The statement of the external auditor of the Company about its reporting responsibilities on the Company's consolidated financial statements for the year ended 31 December 2016 is set out in the section headed "Independent Auditor's Report" on pages 39 to 43 of this annual report.

During the year ended 31 December 2016, the following fees were paid or payable to DTT, the auditor of the Company, and Deloitte & Touche Corporate Finance Ltd. ("DTCF"):

	HK$'000
Fee for audit services *(Note a)*	1,780
Fee for non-audit services (Note b)	1,096
Total	2,876

Notes:

(a) The audit services provided by DTT.

(b) The amount included HK$1,000,000 and HK$96,000 non-audit services provided by DTCF and DTT respectively.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the consolidated financial statements of the Company for the year ended 31 December 2016 and are not aware of any material uncertainties relating to events or conditions which may cast significant doubt over the Company's ability to continue as a going concern. Accordingly, the Directors continue to adopt the going concern basis in preparing the consolidated financial statements.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE FUNCTIONS

In order to establish the duties and responsibilities of the Board in performing its corporate governance functions, the Board has delegated certain corporate governance functions to the Audit Committee, which include (i) developing and reviewing policies and practices on corporate governance; (ii) reviewing and monitoring the training and continuous professional development of directors and senior management; (iii) reviewing and monitoring the policies and practices on compliance with legal and regulatory requirements; (iv) developing, reviewing and monitoring the code of conduct and compliance manual applicable to employees and directors; and (v) reviewing the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

INTERNAL CONTROL

The Board recognises its responsibilities for maintaining an adequate system of internal control to safeguard the Group's assets and shareholders' interests. An internal control system, including a defined management structure with limits of authority, is designed to help achieving business objectives, safeguarding assets against unauthorised use, and maintaining proper accounting records for the provision of reliable financial information for internal use and for publication. The internal control system is set up to provide reasonable, but not absolute, assurance against material misstatement of financial statements or loss of assets and to manage rather than eliminate risks of failure in operational systems and achievement of the Group's objectives.

The Group has a positive attitude to internal controls improvements. For the purpose of strengthening its existing internal control system, the Company has appointed an independent professional firm to perform a review of the Group's selected internal control cycles during the year ended 31 December 2016. The internal control review report has been reviewed by the Audit Committee.

COMPANY SECRETARY

Mr. Lau On Kwok ("Mr. Lau") was appointed as the Company Secretary of the Company on 10 November 2014. Mr. Lau is a full time employee of the Company who has day-to-day knowledge of the Company. Mr. Lau has taken no less than 15 hours of the relevant professional training during the year ended 31 December 2016.

SHAREHOLDERS' RIGHTS

Procedures for shareholders to convene a special general meeting

According to bye-law 58 of the Company's Bye-laws, shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary of the Company, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting the requisitionists themselves may do so in accordance with the provisions of Section 74(3) of the Companies Act 1981 of Bermuda (the "Companies Act").

Procedures for shareholders to put forward proposals at general meetings

Pursuant to the Companies Act, any number of shareholders representing not less than one-twentieth of the total voting rights of all the shareholders having at the date of the requisition a right to vote at the meeting to which the requisition relates; or not less than one hundred shareholders, can request the Company in writing to:

(a) give to shareholders of the Company entitled to receive notice of the next annual general meeting notice of any resolution which may properly be moved and is intended to be moved at that meeting;

(b) circulate to shareholders of the Company entitled to have notice of any general meeting send to them any statement of not more than one thousand words with respect to the matter referred to in any proposed resolution or the business to be dealt with at that meeting.

The requisition must be deposited to the Company not less than six weeks before the meeting in case of a requisition requiring notice of a resolution or not less than one week before the meeting in case of any other requisition.

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS (Continued)

Procedures for shareholders to propose a person for election as a director of the Company

According to bye-law 88 of the Company's Bye-laws, no person other than a director retiring at the general meeting of the Company shall, unless recommended by the Board for election, be eligible for election to the office of director at any general meeting of the Company unless a notice in writing of the intention to propose such person for election as a director, signed by a shareholder of the Company (other than the person to be proposed for election as a director) duly qualified to attend and vote at the general meeting of the Company for which such notice is given, and a notice in writing signed by such person of his/her willingness to be elected shall have been lodged at the Company's head office in Hong Kong or at the Company's branch share registrar in Hong Kong, Tricor Tengis Limited provided that the minimum length of the period, during which such notice(s) are given, shall be at least seven days and the period for lodgement of such notice(s) shall commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven days prior to the date of such general meeting.

Procedures for directing shareholders' enquiries to the Board

Shareholders may at any time send their enquiries and concerns in writing to the Company Secretary of the Company at the Company's head office in Hong Kong at Rooms 2202–2203, 22/F., Harbour Centre, 25 Harbour Road, Wanchai, Hong Kong.

INVESTOR RELATIONS

The Company has established a range of communication channels between itself and its shareholders, investors and other stakeholders. These include the annual general meeting, the annual and interim reports, constitutional documents, notices, announcements and circulars and the Company's website at www.winshine.com and www.tricor.com.hk/webservice/000209. Information on the Company's website will be updated from time to time.

INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

TO THE SHAREHOLDERS OF
WINSHINE SCIENCE COMPANY LIMITED
瀛晟科學有限公司
(incorporated in the Bermuda with limited liability)

Opinion

We have audited the consolidated financial statements of Winshine Science Company Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 44 to 119, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with 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 judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT

Key audit matters	How our audit addressed the key audit matters
Valuation of inventories	
We identified the valuation of inventories as a key audit matter because of the significant judgement exercised by management in identifying obsolete and slow-moving inventory items that are no longer suitable for use in production or for sale and determining the appropriate levels of write down of inventories. As set out in note 5 to the consolidated financial statements, in determining the write down of obsolete and slow-moving inventory items, the management considers the ageing of inventories and carries out an inventory review on a product-by-product basis. As at 31 December 2016, the carrying amount of inventories is HK$41,566,000 and write down of inventories of HK$9,072,000 was charged to profit or loss for the year then ended.	Our audit procedures in relation to evaluating the reasonableness of the valuation of inventory included: • Understanding the inventory write down policy of the Group in the identification of obsolete and slow-moving inventories and measurement of the write down of inventories; • Assessing whether the write down of inventory at the end of the reporting period was calculated in a manner consistent with the Group's inventory write down policy; • Testing the accuracy of the Group's inventory ageing analysis, on a sample basis, to purchase invoices or production notes and assessing whether the write down of inventories is reasonable based on the factors considered by the management; • Enquiring the management and the sales team about any expected changes in plans for markdown or disposal of obsolete and slow-moving inventories on a product-by-product basis; and • Comparing the carrying value of inventories to actual prices for sales transactions subsequent to the end of the reporting period, on a sample basis.

INDEPENDENT AUDITOR'S REPORT

Key audit matters	How our audit addressed the key audit matters
Valuation of trade receivables	
We identified the valuation of trade receivables as a key audit matter due to the use of judgement and estimates by the management on the evaluation of the recoverability of trade receivables. As set out in note 5 to the consolidated financial statements, in determining the impairment loss on trade receivables, the management considers the credit history of its customers, including default or delay in payments, settlement records, subsequent settlements and ageing analysis of the trade receivables. As at 31 December 2016, the carrying amount of trade receivables is HK$29,311,000. An amount of HK$2,609,000 was recognised as impairment loss during the year ended 31 December 2016 due to financial difficulties of the relevant customers.	Our procedures in relation to evaluating the recoverability of trade receivables included: • Obtaining an understanding of the Group's trade receivables impairment policy and the controls over monitoring of trade receivables; • Testing the accuracy of the Group's trade receivables ageing analysis, on a sample basis, to sales invoices; • Assessing whether impairment assessment by management is reasonable based on the credit history of its customers, including default or delay in payments, settlement records, subsequent settlements and ageing analysis of the trade receivables; • Testing the subsequent settlements, on a sample basis, to bank remittance advice; and • Inquiring management for follow up plan on overdue trade receivables without subsequent settlement.

Other Information

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.

INDEPENDENT AUDITOR'S REPORT

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

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

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

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

The engagement partner on the audit resulting in the independent auditor's report is Wan Chi Lap.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
30 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2016

	NOTES	2016 HK$'000	2015 HK$'000
Revenue	6	**236,174**	247,732
Cost of sales		**(220,750)**	(220,459)
Gross profit		**15,424**	27,273
Other income and gain	7	**26,558**	11,100
Selling and distribution costs		**(5,063)**	(8,025)
Administrative expenses		**(75,763)**	(123,604)
Research and development expenses		**(20,690)**	–
Changes in fair value of trading securities		**(150,802)**	(18,238)
Other operating expenses		**(6,895)**	(12,954)
Finance costs	9	**(6,993)**	(5,971)
Loss before taxation	8	**(224,224)**	(130,419)
Income tax expense	12	**(3,072)**	(2,842)
Loss for the year		**(227,296)**	(133,261)
Loss per share			
Basic and diluted	14	**(HK8.92 cents)**	(HK5.71 cents)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

	NOTES	2016 HK$'000	2015 HK$'000
Loss for the year		**(227,296)**	(133,261)
Other comprehensive loss			
Items that will not be reclassified to profit or loss:			
Revaluation deficit on leasehold buildings	*15*	**(1,440)**	(1,006)
Deferred tax charge arising from revaluation surplus on leasehold buildings	*27*	**(287)**	(264)
		(1,727)	(1,270)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		**(14,089)**	(9,112)
Reclassification adjustments relating to foreign operation disposed of during the year	*36*	**–**	49
		(14,089)	(9,063)
Other comprehensive loss for the year, net of tax		**(15,816)**	(10,333)
Total comprehensive loss for the year		**(243,112)**	(143,594)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	NOTES	2016 HK$'000	2015 HK$'000
Non-current assets			
Property, plant and equipment	15	**110,530**	118,875
Prepaid land premiums	16	**4,246**	4,397
Investment properties	17	**37,631**	–
Deposit paid for construction of properties		**61,151**	–
Deposit paid for purchase of property, plant and equipment		**12,500**	12,500
		226,058	135,772
Current assets			
Trading securities	18	**34,595**	255,992
Inventories	19	**41,566**	37,362
Prepaid land premiums	16	**152**	152
Trade receivables	20	**29,311**	27,159
Loan receivables	21	**48,403**	48,000
Prepayments, deposits and other receivables	22	**51,393**	32,623
Pledged bank deposits	23	**2,570**	12,649
Cash and cash equivalents	23	**78,497**	26,005
		286,487	439,942
Current liabilities			
Trade and bills payables	24	**51,187**	48,286
Other payables and accruals	25	**28,256**	26,471
Borrowings	26	**119,569**	100,329
Tax payables		**4,882**	4,270
		203,894	179,356
Net current assets		**82,593**	260,586
Total assets less current liabilities		**308,651**	396,358
Non-current liabilities			
Borrowings	26	**45,000**	–
Deferred tax liabilities	27	**8,087**	7,461
		53,087	7,461
Net assets		**255,564**	388,897

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	NOTES	2016 HK$'000	2015 HK$'000
Equity			
Share capital	28	**298,186**	248,489
(Deficit) reserves		**(42,622)**	140,408
Total equity		**255,564**	388,897

The consolidated financial statements on pages 44 to 119 were approved and authorised for issue by the directors on 30 March 2017 and are signed on its behalf by:

Zhang Jack Jiyei	**Li Fang**
Director	*Director*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Issued share capital HK$'000	Share premium HK$'000	Asset revaluation reserve HK$'000	Statutory reserve fund HK$'000 (Note)	Share options reserve HK$'000	Warrant reserve HK$'000	Exchange fluctuation reserve HK$'000	Accumulated losses HK$'000	Total equity HK$'000
At 1 January 2015	202,369	718,073	50,653	8,349	26,500	–	39,339	(739,474)	305,809
Loss for the year	–	–	–	–	–	–	–	(133,261)	(133,261)
Other comprehensive loss	–	–	(1,270)	–	–	–	(9,063)	–	(10,333)
Total comprehensive loss for the year	–	–	(1,270)	–	–	–	(9,063)	(133,261)	(143,594)
Issue of shares	40,000	120,000	–	–	–	–	–	–	160,000
Transaction costs attributable to issue of shares	–	(4,812)	–	–	–	–	–	–	(4,812)
Share option exercised	6,120	24,921	–	–	(10,647)	–	–	–	20,394
Revaluation reserve realised	–	–	(1,562)	–	–	–	–	1,562	–
Appropriation to statutory reserve fund	–	–	–	396	–	–	–	(396)	–
Recognition of equity-settled share-based payments *(note 30)*	–	–	–	–	51,100	–	–	–	51,100
At 31 December 2015	**248,489**	**858,182**	**47,821**	**8,745**	**66,953**	**–**	**30,276**	**(871,569)**	**388,897**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(227,296)**	**(227,296)**
Other comprehensive loss	**–**	**–**	**(1,727)**	**–**	**–**	**–**	**(14,089)**	**–**	**(15,816)**
Total comprehensive loss for the year	**–**	**–**	**(1,727)**	**–**	**–**	**–**	**(14,089)**	**(227,296)**	**(243,112)**
Issue of shares	**49,697**	**29,818**	**–**	**–**	**–**	**–**	**–**	**–**	**79,515**
Issue of warrants *(note 29)*	**–**	**–**	**–**	**–**	**–**	**31,200**	**–**	**–**	**31,200**
Transaction costs attributable to issue of warrants	**–**	**–**	**–**	**–**	**–**	**(936)**	**–**	**–**	**(936)**
Revaluation reserve realised	**–**	**–**	**(1,562)**	**–**	**–**	**–**	**–**	**1,562**	**–**
Appropriation to statutory reserve fund	**–**	**–**	**–**	**640**	**–**	**–**	**–**	**(640)**	**–**
At 31 December 2016	**298,186**	**888,000**	**44,532**	**9,385**	**66,953**	**30,264**	**16,187**	**(1,097,943)**	**255,564**

Note:

The Group's People's Republic of China ("PRC") subsidiaries are required to allocate at least 10% of net profit according to their PRC audited financial statements to a statutory reserve fund until the balance of such reserve has reached 50% of the subsidiaries' registered capital. Any further appropriation is optional. The statutory reserve fund shall only be used for making up losses or for capitalisation into share capital, provided that the remaining balance is not less than 20% of the registered capital of the entity after such capitalisation.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	NOTES	2016 HK$'000	2015 HK$'000
Operating activities			
Loss before taxation		**(224,224)**	(130,419)
Adjustments for:			
Finance costs		**6,993**	5,971
Interest income		**(7,980)**	(5,538)
Amortisation of prepaid land premiums		**151**	150
Depreciation of property, plant and equipment		**9,166**	5,363
Unrealised loss on fair value of trading securities		**138,413**	3,007
Change in fair value of investment properties		**(3,953)**	–
Equity-settled share-based payments		**–**	51,100
Loss on disposal of property, plant and equipment		**78**	894
Gain on disposal of subsidiaries		**–**	(837)
Impairment loss on trade receivables		**2,609**	1,893
Write down of inventories, net		**9,072**	9,117
Operating cash flows before changes in working capital		**(69,675)**	(59,299)
Increase in inventories		**(13,276)**	25,697
(Increase) decrease in trade receivables		**(16,454)**	27,338
Decrease (increase) in prepayments, deposits and other receivables		**22,846**	(20,701)
Increase (decrease) in trade payables		**2,901**	(19,750)
Decrease in other payables and accruals		**(7,913)**	(9,037)
Decrease (increase) in trading securities		**82,984**	(244,767)
Cash generated from (used in) operations		**1,413**	(300,519)
Interest received		**310**	2,666
Interest paid		**(6,993)**	(5,971)
Income tax paid		**(2,121)**	(2,247)
Net cash used in operating activities		**(7,391)**	(306,071)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	NOTES	2016 HK$'000	2015 HK$'000
Investing activities			
Payment for the purchase of property, plant and equipment		**(3,549)**	(5,768)
Proceeds from disposal of property, plant and equipment		**74**	364
Refundable deposits refunded		**–**	100,000
Acquisition of assets through acquisition of a subsidiary	*36(a)*	**(69,443)**	–
Disposal of subsidiaries	*36(b)*	**–**	(58)
Advance of loan receivables		**(13,300)**	(96,000)
Receipt of loan receivables		**12,897**	48,000
Interest received		**10,542**	–
Deposit paid for construction of properties		**(61,151)**	–
Deposit paid for purchase of property, plant and equipment		**–**	(12,500)
Withdrawal (placement) of pledged bank deposits		**10,079**	(9,652)
Net cash (used in) from investing activities		**(113,851)**	24,386
Financing activities			
Proceeds from borrowings		**366,037**	335,649
Repayment of borrowings		**(301,797)**	(347,823)
Proceeds from issue of shares		**79,515**	160,000
Transaction costs attributable to issue of shares		**–**	(4,812)
Proceeds from exercise of share options		**–**	20,394
Proceeds from issue of warrants		**31,200**	–
Transaction costs attributable to issue of warrants		**(936)**	–
Net cash from financing activities		**174,019**	163,408
Net increase (decrease) in cash and cash equivalents		**52,777**	(118,277)
Cash and cash equivalents at 1 January		**26,005**	145,879
Effect of foreign exchange rate changes		**(285)**	(1,597)
Cash and cash equivalents at 31 December		**78,497**	26,005
Analysis of balances of cash and cash equivalents			
Cash and cash equivalents		**78,497**	26,005

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in Bermuda. The address of the registered office and principal place of business of the Company are disclosed in the Corporation Information section of the annual report. The Company's shares are listed on The Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The principal activity of the Company is investment holding. The principal activities of its principal subsidiaries are set out in note 41.

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

2. STATEMENT OF COMPLIANCE

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") and by the Hong Kong Companies Ordinance.

The HKICPA has issued certain new and amendments to HKFRSs which are first effective or available for early adoption for the current accounting period of the Group. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs

The Group has applied the following amendments to HKFRSs issued by the HKICPA for the first time in the current year:

Amendments to HKFRS 11	Accounting for Acquisitions of Interest in Joint Operations
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 HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012–2014 Cycle

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

<u>New and revised HKFRSs in issue but not yet effective</u>

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[1]
HKFRS 15	Revenue from contracts with customers and the related amendments[1]
HKFRS 16	Leases[2]
Amendments to HKFRS 2	Classification and measurement of share-based payment transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial instruments with HKFRS 4 Insurance contracts[1]
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture[3]
Amendments to HKAS 7	Disclosure initiative[4]
Amendments to HKAS 12	Recognition of deferred tax assets for unrealised losses[4]
Amendments to HKFRSs	Annual improvements to HKFRSs 2014 – 2016 cycle[5]

3. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs (CONTINUED)

[1] Effective for annual periods beginning on or after 1 January 2018
[2] Effective for annual periods beginning on or after 1 January 2019
[3] Effective for annual periods beginning on or after a date to be determined
[4] Effective for annual periods beginning on or after 1 January 2017
[5] Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate

HKFRS 9 "Financial instruments"

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 are described below:

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs (CONTINUED)

HKFRS 15 "Revenue from contracts with customers"

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 "Revenue", HKAS 11 "Construction contracts" and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

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

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

In 2016, the HKICPA issued clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the directors of the Company do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

3. APPLICATION OF NEW AND REVISED HKFRSs (Continued)

HKFRS 16 "Leases"

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 "Leases" and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Under the HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows.

Under HKAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. APPLICATION OF NEW AND REVISED HKFRSs (Continued)

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2016, the Group has non-cancellable operating lease commitments of HK$5,474,000 as disclosed in note 33. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors complete a detailed review.

The directors of the Company anticipate that the application of the other new and amendments to HKFRSs will have no material impact on the Group's consolidated financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation of the financial statements

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). These financial statements are presented in Hong Kong dollars, rounded to the nearest thousand except for per share data.

The measurement basis used in the preparation of the financial statements is the historical cost basis except for certain properties and financial instruments that are measured at fair values.

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of preparation of the financial statements (Continued)

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.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly, other than quoted prices included within Level 1

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying amounts of assets and liabilities not readily apparent from other sources. Actual results may differ from these estimates.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. The Group controls an entity when it has power over the entity, it is exposed, or has rights, to variable returns from its involvement with the entity; and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

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

Consolidation of a subsidiary begins with 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

Profit or loss and each component of other comprehensive income and attributed that 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 intergroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Acquisition of a subsidiary not constituting a business

When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to the financial assets and financial liabilities at the respective fair values, with the remaining balance of the purchase price is then allocated to the other individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

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.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is indication that the unit may be impaired. If some or all of the goodwill allocated to a cash-generating unit was acquired in a business combination during the current annual period, that unit shall be tested for impairment before the end of the current annual period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit 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. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On the disposal of a cash-generating unit during the year, any attributable amount of goodwill is included in the calculation of the profit or loss on disposal.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

Leasehold buildings, comprising buildings situated on operating leasehold land, are stated at valuation less accumulated depreciation. Revaluations are performed with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair values at the end of the reporting period. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Changes arising on the revaluation of properties held for own use are generally dealt with in other comprehensive income and are accumulated separately in equity in the asset revaluation reserve. The only exceptions are as follows:

- when a deficit arises on revaluation, it will be charged to profit or loss to the extent that it exceeds the amount held in the reserve in respect of that same asset immediately prior to the revaluation; and

- when a surplus arises on revaluation, it will be credited to profit or loss to the extent that a deficit on revaluation in respect of that same asset had previously been charged to profit or loss.

Depreciation on revalued buildings is recognised in profit or loss. Upon disposal, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the asset revaluation reserve to retained profits.

Other property, plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and any subsequent accumulated impairment losses.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each item of property, plant and equipment less its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold buildings	Over the remaining lease terms
Leasehold improvements	10% to 33%
Plant and machinery	10% to 15%
Furniture, fixtures and office equipment	15% to 20%
Motor vehicles	20%

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis between the parts and each part is depreciated separately. The estimated useful life of an asset, its residual value, if any, and depreciation method are reviewed annually.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the sales proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties include land held for undetermined future use, which is regarded as held for capital appreciation purpose.

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 the profit or loss in the period in which the property is derecognised.

Impairment of tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets 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).

Recoverable amount is the higher of fair value less costs of disposal and value in use. 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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of tangible assets (Continued)

When 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.

Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

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.

The Group as lessee

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss on a straight-line basis over the lease terms.

Prepaid land premiums under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as being held under a finance lease and accounted for in accordance with the accounting policies for property, plant and equipment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

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

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

Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss and loans and receivables. The classification depends on the nature and purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. Regular way purchase and sales of financial assets are recognised on the trade-date, the date on which the Group commits to purchase or sell the asset.

Effective interest method

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

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at fair value through profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated and effective as hedges. Financial assets carried at fair value through profit or loss are initially recognised at fair value.

Gains or losses arising on remeasurement of the fair value of "financial assets at fair value through profit or loss" are recognised in profit or loss in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated statement of profit or loss as part of revenue when the Group's right to receive payments is established.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Group's loans and receivables comprise trade receivables, loan receivables, deposits and other receivables, pledged bank deposits and cash and cash equivalents. Loans and receivables are subsequently carried at amortised cost using the effective interest method less any impairment.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence that, as a result of one or more events that has occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty; or, default or delinquency in interest or principal payments; or it becoming probable that they will enter bankruptcy or other financial reorganisation; or observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Impairment of financial assets (Continued)

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced either directly or through the use of an allowance account and the amount of the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to profit or loss.

Financial liabilities and equity instruments

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

Equity instruments

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Financial liabilities

The Group's financial liabilities include trade and bills payables, other payables and borrowings are subsequently measured at amortised cost using effective interest method. The Group determines the classification of its financial liabilities at initial recognition.

Derecognition

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

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and is recognised in profit or loss.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

Inventories are carried at the lower of cost and net realisable value.

Costs of inventories are determined on a weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less all estimated costs of completion and costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write down or loss occurs. The amount of any reversal of any write down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Taxation

Income tax expense for the year comprises current tax and deferred tax. Current and deferred tax are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable profit for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided that those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary differences or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

For the purposes of measuring deferred tax 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.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group; when the revenue can be measured reliably; and the costs incurred or to be incurred in respect of the transaction can be measured reliably, on the following bases:

(a) revenue from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains 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. This is usually taken as the time when the goods are delivered and titles have passed;

(b) mould income from the manufacture of moulds for customers is recognised upon completion of the production;

(c) rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned;

(d) interest income is recognised on an accrual basis using the effective interest method;

(e) subcontracting income are recognised when services are rendered.

Employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries accordance with the rules of the MPF Scheme and are recognised as an expense when employees have rendered services entitling them to the contribution payable in.

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute certain amounts for the employees in the PRC, pursuant to the local municipal government regulations. The contributions are recognised as an expense when employees have rendered services entitling them to the contribution.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee benefits (Continued)

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

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.

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.

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 share options 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 continue to be held in share options reserve.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective foreign exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the foreign exchange rates ruling at the end of the reporting period. All exchange differences are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

As at the end of the reporting period, the assets and liabilities of the subsidiaries are translated into the presentation currency of the Group at the exchange rates ruling at the end of the reporting period and income and expense items are translated at the weighted average exchange rate for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve (attributed to non-controlling interest as appropriate). On disposal of a foreign operation, all of the exchange differences accumulated in equity relating to that particular foreign operation is recognised in profit or loss.

Borrowing costs

Borrowing costs are capitalised as part of the cost of a qualifying asset when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are being undertaken. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

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

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Valuation of inventories

The management of the Group reviews ageing analysis and also carries out inventory review on a product-by-product basis with reference to its plans of markdown or disposal at the end of each reporting period and writes down obsolete and slow-moving inventory items identified that are no longer suitable for use in production or for sale. Where the actual net realisable values of the inventories are less than expected, further write down of inventories may arise.

During the year ended 31 December 2016, write down of inventories of HK$9,072,000 (2015: HK$9,117,000) was charged to profit or loss. As at 31 December 2016, the carrying amount of the Group's inventories is HK$41,566,000 (2015: HK$37,362,000).

Valuation of trade receivables

In determining the impairment loss on trade receivables, management's judgement and estimation on the evaluation of recoverability of the trade receivables is used. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables based on credit history of its customers, including default or delay in payments, settlement records, subsequent settlements and ageing analysis of the trade receivables. The amount of the impairment loss on trade receivables is measured as the difference between the carrying amount of the trade receivables and the expected cash inflows in foreseeable future. Where the future cash flows are less than expected, or being revised downward due to changes in facts and circumstances, further impairment loss may arise.

As at 31 December 2016, the carrying amount of the Group's trade receivable is HK$29,311,000 (2015: HK$27,159,000). An amount of HK$2,609,000 (2015: HK$1,893,000) was recognised as impairment loss due to financial difficulties of the relevant customers.

Estimate fair value of leasehold buildings

The Group's leasehold buildings are stated at valuation less accumulated depreciation in accordance with the accounting policies stated in note 4 to the consolidated financial statements. The valuations of the leasehold buildings are determined by an independent firm of professional valuers, as set out in note 15 to the consolidated financial statements. Such valuation was based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. As at 31 December 2016, the carrying amount of the Group's leasehold buildings is HK$96,000,000 (2015: HK$100,800,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

5. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Estimate fair value of investment properties

Investment properties were revalued at the end of the reporting period using direct comparison approach by independent qualified professional valuer. Such valuation was based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the valuation, the Group's management has made judgement in identifying relevant properties for comparison. The assumptions used are intended to reflect conditions existing at the end of the reporting period. Where there are any changes in the assumptions due to the market conditions in the PRC, the estimate of fair value of investment properties may be significantly affected. As at 31 December 2016, investment properties of approximately HK$37,631,000 were revalued.

Collectability of loan receivables

The policy for impairment of loan receivables of the Group is based on management's judgement on the evaluation of collectability and the values of underlying collateral. A considerable amount of judgement is required in assessing the ultimate realisation of loan receivables, including the credit quality and repayment history of interest and penalty, if any, of the borrowers. If the management considers the collectability is doubtful or the values of the underlying collateral fall below the carrying amounts of the loan receivables, impairment may be required. The aggregate carrying value of loan receivables at 31 December 2016 was HK$48,403,000 (2015: HK$48,000,000).

Impairment of property, plant and equipment

Property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of the assets exceeds its recoverable amount. Impairment loss is recognised for the amount by which the respective recoverable amount of property, plant and equipment is lower than its carrying amount. Due to the Group's continuous losses of the manufacturing and trading of toys segment, the management conducted impairment assessments of the Group's property, plant and equipment, which are used in the Group's manufacturing and trading of toys segment. Based on an analysis of recoverable amounts of property, plant and equipment determined based on their fair value less costs of disposal, no further impairment loss in respect of property, plant and equipment has been recognised during the years ended 31 December 2016 and 2015. It is possible that actual outcomes may be different from assumptions, having a material impact on the carrying amount of property, plant and equipment in the period when such estimate is revised. As at 31 December 2016, the carrying amounts of property, plant and equipment included in the manufacturing and trading of toys segment are approximately HK$108,471,000 (2015: HK$118,245,000).

6. REVENUE AND SEGMENT REPORTING

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

An analysis of the Group's revenue is as follows:

	2016 *HK$'000*	2015 *HK$'000*
Revenue		
Sale of goods	**236,174**	247,732

The Group is organised and its businesses are managed by divisions, which are a mixture of both business lines and geographical location. However, based on the information that is reported internally to the executive directors of the Company, being the chief operating decision maker of the Group, for the purposes of resources allocation and performance assessment, the Group has presented the following three reportable segments. No operating segments have been aggregated to form the following reportable segments.

1. Securities investments: this segment derives its revenue from dividends received from equity securities investments.

2. Manufacturing and trading of toys: this segment derives its revenue from manufacturing and trading of toys (the "Toys Segment").

3. Medical and health: this segment is under development stage in which research and development expenses for the medical and health technology development have been incurred.

In accordance with HKFRS 8, segment information disclosed in these consolidated financial statements has been prepared in a manner consistent with the information used by the chief operating decision maker for the purposes of assessing segment performance and allocating resources among segments. In this regard, the chief operating decision maker monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

All assets are allocated to reportable segments other than loan receivables, certain property, plant and equipment, investment properties, certain prepayments and certain cash and cash equivalents, which are grouped as unallocated corporate assets.

All liabilities are allocated to reportable segments other than certain accruals, which are grouped as unallocated corporate liabilities.

Segment profit or loss before taxation exclude unallocated interest income and unallocated corporate expenses which are not directly attributable to the business activities of any operating segment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

6. REVENUE AND SEGMENT REPORTING (Continued)

(a) Segment results, assets and liabilities

For the year ended 31 December 2016 and 2015

	Securities investments		Manufacturing and trading of toys		Medical and health		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Reportable segment revenue								
Revenue from external customers	–	–	236,174	247,732	–	–	236,174	247,732
Reportable segment loss before taxation	(151,424)	(19,882)	(22,217)	(24,175)	(20,690)	–	(194,331)	(44,057)
Unallocated corporate income							17,090	5,901
Unallocated corporate expenses							(46,983)	(92,263)
Loss before taxation							(224,224)	(130,419)
Other segment information (included in the measure of segment profit or loss or regularly provided to chief operating decision maker)								
Depreciation of property, plant and equipment	–	–	(8,382)	(5,157)	–	–	(8,382)	(5,157)
Amortisation of prepaid land premiums	–	–	(151)	(150)	–	–	(151)	(150)
Impairment loss of trade receivables	–	–	(2,609)	(1,893)	–	–	(2,609)	(1,893)
Write down of inventories, net	–	–	(9,072)	(9,117)	–	–	(9,072)	(9,117)
Loss on disposal of property, plant and equipment, net	–	–	(78)	(883)	–	–	(78)	(883)
Changes in fair value of trading securities	(150,802)	(18,238)	–	–	–	–	(150,802)	(18,238)
Bank interest income	–	2	310	34	–	–	310	36
Interest expense	–	–	(6,992)	(5,971)	–	–	(6,992)	(5,971)
Research and development expenses	–	–	–	–	(20,690)	–	(20,690)	–
Addition to non-current assets								
Property, plant and equipment	–	–	2,823	3,891	–	–	2,823	3,891

Note: There were no inter-segment sales in both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

6. REVENUE AND SEGMENT REPORTING (Continued)

(b) Reconciliation of reportable segment, assets and liabilities

As at 31 December 2016

	Securities investments *HK$'000*	Manufacturing and trading of toys *HK$'000*	Medical and health *HK$'000*	Total *HK$'000*
Reportable segment assets	**34,635**	**203,974**	**–**	**238,609**
Unallocated corporate assets				**273,936**
Total assets				**512,545**
Reportable segment liabilities	**–**	**(198,154)**	**–**	**(198,154)**
Unallocated corporate liabilities				**(58,827)**
Total liabilities				**(256,981)**

As at 31 December 2015

	Securities investments *HK$'000*	Manufacturing and trading of toys *HK$'000*	Total *HK$'000*
Reportable segment assets	267,936	218,890	486,826
Unallocated corporate assets			88,888
Total assets			575,714
Reportable segment liabilities	–	(176,225)	(176,225)
Unallocated corporate liabilities			(10,592)
Total liabilities			(186,817)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

6. REVENUE AND SEGMENT REPORTING (Continued)

(c) Geographical information

The following is an analysis of geographical location of (i) the Group's revenue and (ii) the Group's non-current assets include property, plant and equipment, prepaid land premiums, investment properties and deposit paid for purchase of property, plant and equipment and deposit paid for construction of properties. The geographical location of customers refers to the customers' place of domicile. The geographical locations of property, plant and equipment, prepaid land premiums and investment properties, deposit paid for purchase of property, plant and equipment and deposit paid for construction of properties are based on the physical location of the asset under consideration.

	Revenue from external customers		Non-current assets	
	2016	2015	**2016**	2015
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**19,862**	39,792	**2,109**	3,991
The PRC	**–**	–	**223,949**	131,781
United States and Canada	**157,418**	161,361	**–**	–
Japan and Europe	**58,894**	46,579	**–**	–
	236,174	247,732	**226,058**	135,772

(d) Information about major customers

Revenue from customers contributing 10% or more of the total revenue of the Group is as follows:

	2016	2015
	HK$'000	*HK$'000*
Revenue from manufacturing and trading of toys		
Customer A	**58,389**	33,979
Customer B	**48,630**	74,379
Customer C	**29,632**	N/A*
Customer D	**24,091**	43,712

* Customer C contributing less than 10% of the total revenue of the Group for the year ended 31 December 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

7. OTHER INCOME AND GAIN

	2016 *HK$'000*	2015 *HK$'000*
Bank interest income	**310**	36
Loan interest and late charge	**7,670**	5,502
Changes in fair value of investment properties	**3,953**	–
Gain on disposal of a subsidiary	**–**	837
Mould income	**1,118**	2,292
Net foreign exchange gain	**11,693**	102
Sundry income	**1,814**	2,331
	26,558	11,100

8. LOSS BEFORE TAXATION

The Group's loss before taxation is arrived at after charging (crediting) the following:

	Note	2016 *HK$'000*	2015 *HK$'000*
Employee benefit expense (including directors' remuneration):			
Wages and salaries		**121,195**	116,741
Other employee benefits		**2,895**	5,400
Contributions to defined contribution retirement plans		**12,478**	10,238
Equity-settled share-based payments	*30*	**–**	7,591
		136,568	139,970
Auditors' remuneration		**1,780**	1,600
Cost of inventories		**204,974**	200,641
Equity settled share based payments to other participants		**–**	43,509
Depreciation of property, plant and equipment		**9,166**	5,363
Amortisation of prepaid land premiums		**151**	150
Impairment loss on trade receivables		**2,609**	1,893
Net foreign exchange gain		**(11,693)**	(102)
Write down of inventories, net (included in cost of sales)		**9,072**	9,117
Loss on disposal of property, plant and equipment, net		**78**	894
Operating lease charges in respect of land and buildings		**4,307**	5,260
Rental income		**(1,399)**	–

9. FINANCE COSTS

	2016 *HK$'000*	2015 *HK$'000*
Interest on borrowings	**6,993**	5,971

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

10. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' remuneration disclosed pursuant to the Hong Kong Companies Ordinance and chief executive's remuneration for the year, are as follows:

	Fees	Salaries, allowances and benefits in kind	Retirement scheme contributions	Share-based payments	Total remuneration
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2016					
Executive directors:					
Mr. Gao Feng *(Note i)*	–	2,817	17	–	2,834
Mr. Zhang Jack Jiyei *(Note iii)*	–	8,600	18	–	8,618
Mr. Wu Jiang *(Note ii)*	–	1,650	9	–	1,659
	–	13,067	44	–	13,111

The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group.

Independent non-executive directors:					
Mr. Wong Kee Fung Kenneth	96	–	–	–	96
Mr. Wong Kwok Tai	96	–	–	–	96
Mr. Li Fang	96	–	–	–	96
	288	–	–	–	288

The independent non-executive directors' emoluments shown above were mainly for their services as directors of the Company.

Non-executive directors:					
Mr. Lo Ming Chi, Charles	120	–	6	–	126

The non-executive directors ' emoluments shown above were mainly for their services as directors of the Company or its subsidiaries.

Total	408	13,067	50	–	13,525

Notes:

(i) Resigned on 29 November 2016.

(ii) Retired on 1 June 2016.

(iii) Appointed as chief executive officer on 2 December 2016.

10. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (Continued)

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Retirement scheme contributions HK$'000	Share-based payments HK$'000	Total remuneration HK$'000
2015					
Executive directors:					
Mr. Gao Feng	–	2,468	18	859	3,345
Ms. Liu Ying *(Note i)*	–	662	–	–	662
Mr. Zhang Jack Jiyei	–	8,458	18	859	9,335
Mr. Wu Jiang	–	1,569	18	2,302	3,889
	–	13,157	54	4,020	17,231

The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group.

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Retirement scheme contributions HK$'000	Share-based payments HK$'000	Total remuneration HK$'000
Independent non-executive directors:					
Mr. Wong Kee Fung Kenneth *(Note ii)*	55	–	–	–	55
Mr. Wong Kwok Tai	96	–	–	–	96
Mr. Li Fang	96	–	–	35	131
Ms. Yang Qinyan *(Note i)*	41	–	–	–	41
	288	–	–	35	323

The independent non-executive directors' emoluments shown above were mainly for their services as directors of the Company.

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Retirement scheme contributions HK$'000	Share-based payments HK$'000	Total remuneration HK$'000
Non-executive directors:					
Mr. Lo Ming Chi, Charles	120	–	6	–	126
Ms. Chan Yuk Yee *(Note iii)*	32	–	2	–	34
	152	–	8	–	160

The non-executive directors ' emoluments shown above were mainly for their services as directors of the Company or its subsidiaries.

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Retirement scheme contributions HK$'000	Share-based payments HK$'000	Total remuneration HK$'000
Total	440	13,157	62	4,055	17,714

Notes:

(i) Resigned on 3 June 2015.

(ii) Appointed on 3 June 2015.

(iii) Resigned on 8 April 2015.

As at 31 December 2016 and 2015, the directors held share options under the Company's share option scheme *(note 30)*.

There was no arrangement under which a director has waived or agreed to waive any remuneration for the years ended 31 December 2016 and 2015.

No remuneration was paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for the loss of office for the years ended 31 December 2016 and 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

11. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2015: three) directors, details of whose remuneration are set out in note 10 above. Details of the remuneration of the remaining two (2015: two) individuals were as follows:

	THE GROUP	
	2016	2015
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	**3,305**	2,962
Retirement scheme contributions	**72**	70
Share-based payments	**–**	2,020
	3,377	5,052

The number of the highest paid employees who are not the directors of the Company whose remuneration fell within the following bands is as follows:

	No. of individuals	
	2016	2015
HK$1,000,001 to HK$1,500,000	**–**	1
HK$1,500,001 to HK$2,000,000	**2**	–
HK$3,500,001 to HK$4,000,000	**–**	1

For the years ended 31 December 2016 and 2015, no remuneration was paid by the Group to such individuals as an inducement to join or upon joining the Group or as compensation for the loss of office.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

12. INCOME TAX EXPENSE

Income tax expense in the consolidated statement of profit or loss represents:

	2016 *HK$'000*	2015 *HK$'000*
Hong Kong – current income tax charge for the year	–	900
The PRC – current income tax		
– charge for the year	**2,377**	1,700
– underprovision in prior year	**356**	32
Withholding tax paid during the year	–	555
	2,733	3,187
Deferred tax charge (credit) *(note 27)*	**339**	(345)
Income tax expense	**3,072**	2,842

Hong Kong Profits Tax has been provided at the rate of 16.5% (2015: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

The tax affairs of a subsidiary (incorporated in Hong Kong) of the Group for the period starting from 1 January 2004 are currently under field audit by the Hong Kong Inland Revenue Department ("IRD"). The directors, after consultation with the subsidiary's tax advisers, consider that the IRD is still in the information gathering stage and it is premature to quantify the amount of potential liabilities of the subsidiary, if any, that may arise.

Enterprise Income Tax ("EIT") in the PRC has been provided on the estimated assessable profits of subsidiaries operating in the PRC at 25% (2015: 25%).

Pursuant to the PRC Enterprise Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate of 5% is applied to the Group as there is a double tax treaty between the PRC and Hong Kong and the relevant Hong Kong companies should be qualified for the preferential tax rate based on the prescribed conditions.

The Group is therefore liable to withholding taxes on dividends distributed by the subsidiaries established in the PRC in respect of earnings generated from 1 January 2008.

Taxation arising in other jurisdictions is calculated at the rates of tax prevailing in the relevant jurisdictions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

12. INCOME TAX EXPENSE (Continued)

Reconciliation between income tax expense and loss before taxation at the applicable tax rates:

	2016	2015
	HK$'000	*HK$'000*
Loss before taxation	**(224,224)**	(130,419)
Notional tax on loss before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	**(38,131)**	(19,499)
Tax effect of unused tax losses not recognised	**16,874**	14,623
Tax effect of non-taxable income	**(1,203)**	(676)
Tax effect of non-deductible expenses	**25,033**	11,020
Tax effect of unrecognised temporary differences	**809**	189
Utilisation of deductible temporary differences previously not recognised	**(1,005)**	(2,804)
Effect of withholding tax at 5% on the distributable profits of the Company's subsidiaries in the PRC	**339**	210
Underprovision in prior years	**356**	32
Utilisation of tax losses previously not recognised	**–**	(253)
Income tax expense	**3,072**	2,842

13. DIVIDENDS

No dividend was paid or proposed by the directors for both years nor has any dividend been proposed since the end of the reporting period.

14. LOSS PER SHARE

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

	2016 *HK$'000*	2015 *HK$'000*
Loss		
Loss attributable to owners of the Company for the purposes of basic and diluted loss per share	**(227,296)**	(133,261)
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	**2,547,350**	2,332,334

The computation of diluted loss per share for the year ended 31 December 2016 does not assume the exercise of warrants issued or share options granted by the Company as the exercise prices of those options and warrants were higher than the average market price.

The computation of diluted loss per share for the year ended 31 December 2015 does not assume the exercise of share options granted by the Company as such assumed exercise would be anti-dilutive.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
2016						
At 1 January 2016						
Cost or valuation	100,800	937	55,797	29,970	4,534	192,038
Accumulated depreciation	–	(53)	(46,642)	(23,584)	(2,884)	(73,163)
Carrying amount	100,800	884	9,155	6,386	1,650	118,875
Year ended 31 December 2016						
Opening net carrying amount	100,800	884	9,155	6,386	1,650	118,875
Additions	–	93	721	1,192	1,543	3,549
Disposals	–	–	(34)	(10)	(108)	(152)
Surplus on revaluation	(1,440)	–	–	–	–	(1,440)
Depreciation	(3,360)	(379)	(1,815)	(2,957)	(655)	(9,166)
Exchange realignment	–	(16)	(680)	(381)	(59)	(1,136)
Closing net carrying amount	96,000	582	7,347	4,230	2,371	110,530
At 31 December 2016						
Cost or valuation	96,000	994	53,292	29,450	5,382	185,118
Accumulated depreciation	–	(412)	(45,945)	(25,220)	(3,011)	(74,588)
Carrying amount	96,000	582	7,347	4,230	2,371	110,530
Analysis of cost or valuation:						
At cost	–	994	53,292	29,450	5,382	89,118
At valuation	96,000	–	–	–	–	96,000
	96,000	994	53,292	29,450	5,382	185,118

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For the year ended 31 December 2016

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Leasehold buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
2015						
At 1 January 2015						
Cost or valuation	105,200	1,088	62,420	31,649	4,675	205,032
Accumulated depreciation	–	(898)	(52,866)	(26,113)	(3,661)	(83,538)
Carrying amount	105,200	190	9,554	5,536	1,014	121,494
Year ended 31 December 2015						
Opening net carrying amount	105,200	190	9,554	5,536	1,014	121,494
Additions	–	1,015	1,930	2,415	894	6,254
Disposals	–	(211)	(579)	(398)	(70)	(1,258)
Deficit on revaluation	(1,006)	–	–	–	–	(1,006)
Depreciation	(3,394)	(93)	(998)	(729)	(149)	(5,363)
Exchange realignment	–	(17)	(752)	(438)	(39)	(1,246)
Closing net carrying amount	100,800	884	9,155	6,386	1,650	118,875
At 31 December 2015						
Cost or valuation	100,800	937	55,797	29,970	4,534	192,038
Accumulated depreciation	–	(53)	(46,642)	(23,584)	(2,884)	(73,163)
Carrying amount	100,800	884	9,155	6,386	1,650	118,875
Analysis of cost or valuation:						
At cost	–	937	55,797	29,970	4,534	91,238
At valuation	100,800	–	–	–	–	100,800
	100,800	937	55,797	29,970	4,534	192,038

(a) The carrying amounts of the leasehold buildings of the Group at 31 December 2016 would have been approximately HK$42,913,000 (2015: HK$44,393,000) had they been carried at cost less accumulated depreciation.

(b) At 31 December 2016, the Group's leasehold buildings in the PRC with carrying amounts of approximately HK$96,000,000 (2015: HK$100,800,000) were pledged to secure general banking facilities granted to the Group *(note 26)*.

(c) The leasehold buildings situated in the PRC of HK$96,000,000 (2015: HK$100,800,000) are located on part of the leasehold land as disclosed in note 16.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

(d) Due to the Group's recurring loss resulted in Toys Segment, the directors of the Company conducted an impairment assessment of the Group's relevant assets at the end of the reporting period. The fair values less cost of disposal of the relevant assets were determined by reference to the depreciated replacement cost approach. The fair value measurement of the relevant assets are categorised as Level 3 fair value hierarchy as at 31 December 2016 and 2015. No further impairment loss was recognised during the two years ended 31 December 2016 and 2015.

(e) Fair value measurement of leasehold buildings

Fair value hierarchy

The following table presents the fair value of the Group's leasehold buildings measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13 "Fair value measurement".

	Fair value at 31 December 2016	**Fair value measurement as at 31 December 2016 categorised into**		
		Level 1	**Level 2**	**Level 3**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Recurring fair value measurement				
Leasehold buildings in the PRC	**96,000**	**–**	**–**	**96,000**

	Fair value at 31 December 2015	Fair value measurement as at 31 December 2015 categorised into		
		Level 1	Level 2	Level 3
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Recurring fair value measurement				
Leasehold buildings in the PRC	100,800	–	–	100,800

During the year ended 31 December 2016, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2015: nil).

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

(e) Fair value measurement of leasehold buildings (Continued)

Fair value hierarchy (Continued)

The Group's leasehold buildings were revalued at 31 December 2016 by reference to a depreciated replacement cost basis calculated based on the current cost of replacement of a property less deductions for physical deterioration and all relevant forms of obsolescence and optimisation. The valuations were carried out by an independent firm of surveyors, RHL Appraisal Limited, whose has among their staff members of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued. The Group's finance department had discussions with the surveyors on the valuation assumptions and valuation results when the valuation was performed at the annual reporting date.

Information about Level 3 fair value measurements

For the years ended 31 December 2016 and 2015

	Valuation technique	Significant unobservable input	Range	Weighted average
Leasehold buildings in the PRC	Depreciated replacement cost approach	General increasing rate of construction cost	13% to 20%	16%

A significant increase in the general increasing rate of construction cost would result in a significant increase in fair value, and vice versa.

There has been no change to the valuation technique during the year.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

16. PREPAID LAND PREMIUMS

	The Group	
	2016	2015
	HK$'000	*HK$'000*
Current portion	**152**	152
Non-current portion	**4,246**	4,397
	4,398	4,549

At 31 December 2016, the Group's prepaid land premiums in the PRC with carrying amounts of approximately HK$4,398,000 (2015: HK$4,549,000) were pledged to secure general banking facilities granted to the Group (note 26).

The leasehold land is held under medium term leases and is situated in the PRC.

17. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
At 1 January 2015 and 2016	–
Additions *(note 36)*	34,421
Changes in fair value recognised in profit or loss	3,953
Exchange realignment	(743)
At 31 December 2016	37,631
Unrealised gain on property revaluation included in profit or loss	3,953

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes and land held for undetermined future use, which is regarded as held for capital appreciation purpose are measured using the fair value model and are classified and accounted for as investment properties.

The fair value of the Group's investment properties as at 31 December 2016 has been arrived at on the basis of a valuation carried out on the date by Roma Appraisals Limited, an independent qualified professional valuers not connected to the Group.

The Group engages third party qualified valuers to perform the valuation. The management of the Group works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The management of the Group reports the findings to the board of directors of the Company to explain the cause of fluctuations in the fair value of the investment properties.

17. INVESTMENT PROPERTIES (Continued)

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

	Valuation technique(s)	Significant unobservable input(s)	Sensitivity
Manufacturing plant located in Suzhou, the PRC completed properties	Direct comparison approach	Recent transaction price, taking into account the differences in location, and individual factors, such as frontage and size, between the comparables and the property, at an average of Renminbi ("RMB") 1,645 per square metre per month.	A significant increase in the recent transaction price used would result in a significant increase in fair value, and vice versa.
Leasehold land located in Suzhou, the PRC	Direct comparison approach	Recent transaction price, taking into account the differences in location, and individual factors, such as frontage and size, between the comparables and the property, at an average of RMB336 per square metre per month.	A significant increase in the recent transaction price used would result in a significant increase in fair value, and vice versa.

Details of the Group's investment properties and information about the fair value hierarchy as at the end of the reporting period are as follows:

		Fair value
	Level 3	2016
	HK$'000	HK$'000
Located in Suzhou, the PRC		
Manufacturing plant and leasehold land	37,631	37,631

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

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18. TRADING SECURITIES

	2016 HK$'000	2015 HK$'000
Listed equity securities, at fair value	**34,595**	255,992

19. INVENTORIES

	2016 HK$'000	2015 HK$'000
Raw materials	**9,368**	8,763
Work in progress	**19,055**	15,370
Finished goods	**13,143**	13,229
	41,566	37,362

20. TRADE RECEIVABLES

	2016 HK$'000	2015 HK$'000
Trade receivables	**29,311**	27,159

Ageing analysis

The following is an analysis of the trade receivables by age, presented based on the invoice date which is approximate to the revenue recognition date and net of allowance:

	2016 HK$'000	2015 HK$'000
0 to 30 days	**15,813**	19,816
31 to 90 days	**13,028**	7,023
Over 90 days	**470**	320
	29,311	27,159

The Group's trading terms with its customers are mainly on credit with credit periods generally ranging from 30 to 180 days. The Group seeks to maintain strict control over its outstanding receivables, and overdue balances are reviewed regularly by management. Trade receivables are non-interest bearing.

20. TRADE RECEIVABLES (Continued)

Impairment of trade receivables

At the end of the reporting period, the Group reviewed trade receivables for evidence of impairment. The impairment on receivables are recognised based on the credit history of its customers, including default or delay in payments, settlement records, subsequent settlements and ageing analysis of the trade receivables. As at 31 December 2016 and 2015, none of the trade receivables of the Group were individually determined to be impaired except for an amount of HK$2,609,000 (2015: HK$1,893,000) due from a customer (2015: two customers) due to financial difficulties of the customer.

Movement in the allowance for doubtful debts

	2016	2015
	HK$'000	*HK$'000*
1 January	**–**	–
Impairment loss recognised	**2,609**	1,893
Amount written off as uncollectible	**(2,609)**	(1,893)
31 December	**–**	–

Trade receivables that are not impaired

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired are as follows:

	2016	2015
	HK$'000	*HK$'000*
Neither past due nor impaired	**28,124**	23,957
Past due but not impaired		
Less than 1 month past due	**958**	2,882
1 to 3 months past due	**121**	180
Over 3 months	**108**	140
	29,311	27,159

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20. TRADE RECEIVABLES (Continued)

Trade receivables that are not impaired (Continued)

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

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

21. LOAN RECEIVABLES

	2016 HK$'000	2015 HK$'000
Fixed-rate loan receivables	**48,403**	48,000

As at 31 December 2016, the loans are unsecured, carry interest at fixed rates range from 8% to 15% (2015: 8%) per annum and are repayable within one year, except for an amount of HK$13,000,000 (2015: nil) which is secured. At the end of the reporting period, HK$35,103,000 (2015: HK$48,000,000) of the loan receivables were past due but not impaired. Subsequent to 31 December 2016, the past due loan receivables of HK$35,103,000 were fully settled.

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2016 HK$'000	2015 HK$'000
Other receivables	**48,528**	18,830
Deposits	**1,486**	12,930
Prepayment	**1,379**	863
	51,393	32,623

23. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

At 31 December 2016, the cash and bank balances and pledged deposits of the Group denominated in RMB amounted to approximately HK$3,365,000 (2015: HK$3,073,000) and HK$2,570,000 (2015: HK$12,649,000). RMB is not freely convertible into other currencies. However, subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange Renminbi for other currencies through banks authorised to conduct foreign exchange business.

Bank balances carried interest rates which ranged from 0.001% to 0.300% per annum (2015: 0.001% to 0.300% per annum). The bank balances were deposited with creditworthy banks with no recent history of default.

Pledged bank deposits represented deposits pledged to banks to secure banking facilities and bank borrowings granted to the Group. As at 31 December 2016, deposits amounting to HK$2,570,000 (2015: HK$12,649,000) were pledged to secure bank borrowings (note 26). The pledged bank deposits would be released upon the settlement of relevant bank borrowings.

The interest rates on the pledged bank deposits was 0.001% per annum (2015: 0.001% per annum).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

24. TRADE AND BILLS PAYABLES

The ageing analysis of the trade and bills payables as at 31 December 2016 is as follows:

	2016 *HK$'000*	2015 *HK$'000*
0 to 30 days	**19,701**	20,366
31 to 90 days	**18,356**	10,504
Over 90 days	**13,130**	17,416
	51,187	48,286

Note: The trade and bills payables are expected to be settled within one year.

25. OTHER PAYABLES AND ACCRUALS

	2016 *HK$'000*	2015 *HK$'000*
Accrued staff cost	**11,230**	5,867
Other payables	**367**	11,340
Consideration payable *(note 36(a))*	**5,033**	–
Receipt in advance	**4,981**	6,176
Accruals	**6,645**	3,088
	28,256	26,471

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For the year ended 31 December 2016

26. BORROWINGS

	2016 Contractual interest rate (%)	2016 HK$'000 (%)	2015 Contractual interest rate	2015 HK$'000
Current				
Bank loans – secured	**Fixed rates of 3.2% to 5.7% per annum**	**76,569**	Fixed rates of 3.2% to 6.4% per annum	90,329
Other loans – unsecured	**Fixed rates of 10.0% per annum**	**43,000**	Fixed rates of 10% per annum	10,000
		119,569		100,329
Non-current Other loans – secured	**Fixed rates of 6.0% per annum**	**45,000**		

	2016 HK$'000	2015 HK$'000
The carrying amounts of the above borrowings are repayable:		
Within one year	**119,569**	100,329
Within a period of more than one year but not exceeding two years	**45,000**	–
	164,569	100,329

Notes:

(a) The Group's bank borrowings were secured by:

(i) mortgage over the Group's leasehold buildings and prepaid land premiums with aggregate carrying amount of approximately HK$96,000,000 (2015: HK$100,800,000) and approximately HK$4,398,000 (2015: HK$4,549,000) respectively;

(ii) pledge over the Group's bank deposits (note 23) of approximately HK$2,570,000 (2015: HK$12,649,000); and

(b) The Group's non-current borrowings were secured by pledge of shares of a subsidiary of the Company.

(c) The total banking facilities granted to the Group amounted to approximately HK$83,846,000 (2015: HK$102,650,000) of which approximately HK$76,569,000 (2015: HK$90,329,000) were utilised as at 31 December 2016.

(d) The above borrowings are carried at amortised costs.

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For the year ended 31 December 2016

27. DEFERRED TAX LIABILITIES

Deferred tax assets and liabilities recognised

The components of deferred tax (assets) liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Accelerate tax depreciation	Revaluation of properties	Tax losses	Withholding tax	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Deferred tax arising from:					
At 1 January 2015	1,835	5,893	(934)	775	7,569
Deferred tax credited to profit or loss for the year *(note 12)*	–	–	–	(345)	(345)
Deferred tax charged to other comprehensive income for the year	–	264	–	–	264
Exchange realignment	–	–	–	(27)	(27)
At 31 December 2015 and 1 January 2016	1,835	6,157	(934)	403	7,461
Deferred tax charged to profit or loss for the year *(note 12)*	–	–	–	339	339
Deferred tax credited to other comprehensive income for the year	–	287	–	–	287
At 31 December 2016	1,835	6,444	(934)	742	8,087

Deferred tax assets not recognised

The Group has estimated tax losses arising in Hong Kong of approximately HK$493,585,000 (2015: HK$409,623,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised as it is not probable that future taxable profits against which the losses can be utilised will be available for the companies in which losses arose. As at 31 December 2016, the Group has tax losses of approximately HK$13,463,000 (2015: HK$1,381,000) available for offsetting against future profits that may be carried forward for up to five years for EIT purpose.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

28. SHARE CAPITAL

	Number of shares		Amount	
	2016	2015	**2016**	2015
	'000	'000	***HK$'000***	*HK$'000*
Authorised:				
At 31 December, ordinary shares of HK$0.10 each	**7,000,000**	7,000,000	**700,000**	700,000
Issued and fully paid:				
At 1 January	**2,484,889**	2,023,689	**248,489**	202,369
Issue of ordinary shares *(note)*	**496,976**	400,000	**49,697**	40,000
Share option exercised	**–**	61,200	**–**	6,120
At end of the year	**2,981,865**	2,484,889	**298,186**	248,489

Note:

Issues of ordinary shares

On 7 November 2016, the Company entered into a subscription agreement with a subscriber to issue 496,976,000 new ordinary shares of HK$0.1 each at a price of HK$0.16 per share. The subscription was completed on 16 November 2016. These new shares were issued under the general mandate granted to the directors at the annual general meeting of the Company held on 1 June 2016 and rank pari passu with other shares in issue in all respects.

On 9 April 2015, the Company entered into a private placement agreement with a placing agent to issue 400,000,000 new ordinary shares of HK$0.1 each to independent private investors at a price of HK$0.4 per share. The private placement was completed on 28 April 2015. These new shares were issued under the general mandate granted to the directors at the special general meeting of the Company held on 9 March 2015 and rank pari passu with other shares in issue in all respects.

The proceeds are intended to be used for securities trading business, possible investment in new projects and working capital of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

29. WARRANTS

On 29 January 2016, the Company issued an aggregate of 480,000,000 warrants at HK$0.065 per warrant to independent third parties. Each warrant carries the right initially to subscribe for one warrant share at the warrant exercise price of HK$0.46. The subscription rights attaching to the warrants may be exercised at any time during a period of 12 months commencing from the issue date of the warrants. Upon full exercise of the subscription rights attaching to the warrants, a total of 480,000,000 warrant shares will be issued. The warrant shares, when fully paid and allotted, will rank pari passu in all respects with the then existing issued shares of the Company. The warrants are classified as equity instruments. Subsequent to the end of the reporting period, the warrants lapsed in January 2017.

30. EQUITY-SETTLED SHARE-BASED PAYMENTS

Details of share options granted as at 31 December 2016 and 2015 under the share option scheme of the Company are as follows:

Name of grant	Date of grant	Exercise period	Exercise price HK$ per share	Share closing price immediately before grant date HK$ per share
2015 grant	10 April 2015	10 April 2015 to 9 April 2020	0.465	0.425
2014 grant	30 December 2014	30 December 2014 to 29 December 2019	0.305	0.270

30. EQUITY-SETTLED SHARE-BASED PAYMENTS (Continued)

The movement of share options during 2016 is presented as follows:

	Name of grant	Number of share options			
		At 1 January 2016 *'000*	**Reclassified during the year** *'000*	**Lapsed during the year** *'000*	**At 31 December 2016** *'000*
Executive directors					
Mr. Gao Feng *(Note)*	2014 grant	16,800	(16,800)	–	–
	2015 grant	3,400	(3,400)	–	–
Mr. Zhang Jack Jiyei	2014 grant	16,800	–	–	16,800
	2015 grant	3,400	–	–	3,400
Mr. Wu Jiang	2014 grant	11,080	–	(11,080)	–
	2015 grant	9,120	–	(9,120)	–
		60,600	(20,200)	(20,200)	20,200
Independent non-executive directors					
Mr. Li Fang	2014 grant	1,680	–	–	1,680
	2015 grant	140	–	–	140
		1,820	–	–	1,820
Employees	2014 grant	7,000	–	–	7,000
	2015 grant	14,000	20,200	–	34,200
Other participants	2014 grant	63,200	16,800	–	80,000
	2015 grant	161,500	(16,800)	–	144,700
Total		308,120	–	(20,200)	287,920

Notes:

1. Mr. Gao Feng resigned as a director on 29 November 2016 and has become other participant since then.

2. There were no share options granted, exercised or cancelled during the year.

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30. EQUITY-SETTLED SHARE-BASED PAYMENTS (Continued)

The movement of share options during 2015 is presented as follows:

	Name of grant	Number of share options: At 1 January 2015 '000	Granted during the year '000	Exercised during the year '000	Lapsed during the year '000	At 31 December 2015 '000
Executive directors						
Mr. Gao Feng	2014 grant	16,800	–	–	–	16,800
	2015 grant	–	3,400	–	–	3,400
Ms. Liu Ying	2014 grant	16,800	–	(16,800)	–	–
Mr. Zhang Jack Jiyei	2014 grant	16,800	–	–	–	16,800
	2015 grant	–	3,400	–	–	3,400
Mr. Wu Jiang	2014 grant	11,080	–	–	–	11,080
	2015 grant	–	9,120	–	–	9,120
		61,480	15,920	(16,800)	–	60,600
Independent non-executive directors						
Mr. Li Fang	2014 grant	1,680	–	–	–	1,680
	2015 grant	–	140	–	–	140
Ms. Yang Qinyan	2014 grant	1,680	–	–	(1,680)	–
		3,360	140	–	(1,680)	1,820
Employees	2014 grant	7,000	–	–	–	7,000
	2015 grant	–	14,000	–	–	14,000
Other participants	2014 grant	96,800	–	(33,600)	–	63,200
	2015 grant	–	172,300	(10,800)	–	161,500
Total		168,640	202,360	(61,200)	(1,680)	308,120

In respect of the share options exercised during the year ended 31 December 2015, the weighted average share price at the dates of exercise was HK$2.152.

30. EQUITY-SETTLED SHARE-BASED PAYMENTS (Continued)

Notes:

(a) The share options granted to directors, employees and other participants were vested immediately upon granted.

(b) There were no share options cancelled during the year.

The fair value of share options granted during the years ended 31 December 2015 in the amount of approximately HK$51,100,000 was recognised as expenses. The Company used the Binomial Option Pricing Model to value the share options granted.

The following major assumptions were used to calculate the fair values of share options:

	Granted on	
	10 April 2015	30 December 2014
Grant date share price	**HK$0.465**	HK$0.305
Exercisable period	**5 years**	5 years
Exercise price	**HK$0.465**	HK$0.305
Expected volatility	**66%**	66%
Expected dividend yield	**0%**	0%
Risk-free interest rate	**1.079%**	1.471%

The variables and assumptions used in computing the fair value of the share options were based on the directors' best estimate. The fair value of share option varies with different variables of certain subjective assumptions. The expected volatility was determined with reference to the historical daily volatilities of the share prices of the Company. The risk-free interest rate was determined with reference to the period average yields of the Exchange Fund Bills and Notes of comparable term issued by the Hong Kong Monetary Authority.

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31. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2016 *HK$'000*	2015 *HK$'000*
Non-current assets		
Interests in subsidiaries	**263,670**	388,561
Current assets		
Trading securities	**–**	15,616
Prepayments, deposits and other receivables	**160**	11,516
Cash and cash equivalents	**55,355**	4,701
	55,515	31,833
Current liabilities		
Other payables	**4,191**	8,383
Net current assets	**51,324**	23,450
Non-current liability		
Borrowing	**45,000**	–
Net assets	**269,994**	412,011
Equity		
Equity		
Share capital	**298,186**	248,489
(Deficit) reserves	**(28,192)**	163,522
Total equity	**269,994**	412,011

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31. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (Continued)

Movement in the Company's reserves

	Share premium	Contributed surplus	Share option reserve	Warrant reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2015	718,073	152,762	26,500	–	(829,396)	67,939
Total comprehensive loss for the year	–	–	–	–	(84,979)	(84,979)
Issue of shares	120,000	–	–	–	–	120,000
Transaction costs attributable to issue of shares	(4,812)	–	–	–	–	(4,812)
Recognition of equity-settled share-based payments	–	–	51,100	–	–	51,100
Share option exercised	24,921	–	(10,647)	–	–	14,274
At 31 December 2015	858,182	152,762	66,953	–	(914,375)	163,522
Total comprehensive loss for the year	–	–	–	–	(251,796)	(251,796)
Issue of shares	29,818	–	–	–	–	29,818
Issue of warrant	–	–	–	31,200	–	31,200
Transaction costs attributable to issue of warrant	–	–	–	(936)	–	(936)
At 31 December 2016	888,000	152,762	66,953	30,264	(1,166,171)	(28,192)

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32. CAPITAL MANAGEMENT

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2016 and 2015.

The Group monitors capital using a gearing ratio, which is net debt divided by the capital plus net debt ("adjusted capital"). Net debt includes borrowings, trade and bills payables, other payables and accruals, less cash and cash equivalents and pledged bank deposits. Capital represents total equity. The net debt-to-adjusted capital ratio as at the end of the reporting period was as follows:

	2016 ***HK$'000***	2015 *HK$'000*
Borrowings	**164,569**	100,329
Trade and bills payables	**51,187**	48,286
Other payables and accruals	**28,256**	26,471
Less: Pledged bank deposits	**(2,570)**	(12,649)
Cash and cash equivalents	**(78,497)**	(26,005)
Net debt	**162,945**	136,432
Total equity	**255,564**	388,897
Capital and net debt	**418,509**	525,329
Gearing ratio	**39%**	26%

33. OPERATING LEASE COMMITMENTS

The Group as lessee

At the end of the reporting period, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2016	2015
	HK$'000	*HK$'000*
Within one year	**3,791**	4,136
In the second to fifth year, inclusive	**1,683**	4,608
	5,474	8,744

The Group is a lessee in respect of a number of properties held under operating leases. Leases for these properties are negotiated for a term of one to two years with an early termination option. None of the leases includes contingent rentals.

The Group as lessor

The Group's total future minimum lease income under non-cancellable operating lease is receivable as follows:

	2016	2015
	HK$'000	*HK$'000*
Within one year	**4,786**	16
In the second to fifth year, inclusive	**823**	–
	5,609	16

The Group leases out its motor vehicle and investment properties under operating leases. The leases typically run for an initial period from one year to two years. The leases do not include contingent rentals.

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34. COMMITMENTS

(a) As at 31 December 2016 and 2015, the Group had the following capital commitment.

(i) Provision of financial assistance and advance to an entity

On 10 November 2015, the Group entered into a shareholders' agreement and a facility agreement, pursuant to which the Group will provide a loan facility of RMB45 million, bearing interest at a rate of 4% per annum, to Partners United Asia Limited ("Novotide BVI"), an independent third party. Novotide BVI is a wholly-owned subsidiary of Beijing Novotide Biomedical Technology Co. Ltd. (北京諾泰德生物醫藥科技有限公司) ("Beijing Novotide"). The loan will be used by Novotide BVI for its injection of shareholder's loan into Sky Grant Limited (天恩有限公司) ("Sky Grant"). Sky Grant is a non-wholly owned subsidiary of the Group and is owned as to 55% by the Group and 45% by Novotide BVI. The Group shall hold a fixed charge over Novotide BVI's shares until the full repayment of the loan facility. Novotide BVI may not utilise the loan facility unless all conditions precedent as set out in the shareholders' agreement have been fulfilled.

As at 31 December 2016, the Company is in negotiation with Beijing Novotide about its technology investment budget and measures to be taken to enhance its research efficiency. As at 31 December 2015, the condition precedent had not been fulfilled and transactions were in the process.

(ii) Acquisition of property, plant and equipment

	2016	2015
	HK$'000	*HK$'000*
Capital expenditure in respect of the construction of properties contracted for but not provided in consolidation financial statements	**56,232**	–
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in consolidation financial statements	**12,500**	12,500

35. MATERIAL RELATED PARTY TRANSACTIONS

Key management personnel remuneration

The key management personnel of the Group are the directors and chief executives of the Company. Details of their remuneration are set out in note 10.

36. ACQUISITION OF ASSETS THROUGH ACQUISITION OF A SUBSIDIARY/DISPOSAL OF SUBSIDIARIES

(a) On 17 February 2016, the Group entered into a sale and purchase agreement with independent third parties for the acquisition of certain assets and recognised certain liabilities through the acquisition of the entire equity interest of 宜諾科技(蘇州)有限公司 (Yi Nuo Technology (Suzhou) Co., Ltd., "Yi Nuo") at a cash consideration of RMB64,500,000 (equivalent to HK$74,480,000). Pursuant to the sale and purchase agreement, one of the vendors (the "Vendor") shall settle an amount owed to Yi Nuo of RMB62,000,000 (equivalent to HK$71,532,000, the "Receivables"). The Group has agreed a payment schedule with the Vendor, subject to which approximately HK$40,483,000 of the Receivables remained unsettled and receivable from the Vendor and HK$5,033,000 of the consideration remained payable to the Vendor upon the completion of the acquisition.

As at 31 December 2016, HK$5,033,000 of the consideration remained payable and was included in other payables. Net cash used in this acquisition was HK$69,443,000.

Assets acquired and liabilities recognised at the date of completion of acquisition are as follows:

	HK$'000
Investment properties	34,421
Other receivables	40,483
Cash and cash equivalents	4
Other payables	(428)
	74,480

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36. ACQUISITION OF ASSETS THROUGH ACQUISITION OF A SUBSIDIARY/DISPOSAL OF SUBSIDIARIES (Continued)

(b) During the year ended 31 December 2015, the Group entered into a disposal agreement with an independent third party to dispose of the entire registered capital of a subsidiary, 撫州崇信玩具製品有限公司 (Fuzhou Chongxin Toys Manufacturing Co. Ltd.), at a total consideration of RMB100,000 (equivalent to approximately HK$127,000).

The aggregate net assets of the subsidiary at the date of disposal were as follows:

	HK$'000
Trade receivables	875
Prepayment, deposits and other receivables	1
Cash and cash equivalent	185
Trade payables	(41)
Other payables and accruals	(1,727)
Tax payables	(52)
Net liabilities disposed of	(759)
Gain on disposal of a subsidiary	
Consideration received	127
Net liabilities disposed of	759
Cumulative exchange loss in respect of the net liabilities of a subsidiary reclassified from equity to profit or loss	(49)
	837
Net cash outflow arising on disposal of a subsidiary:	
Cash consideration received	127
Less: cash and cash equivalents disposed of	(185)
	(58)

37. MAJOR NON-CASH TRANSACTION

Part of the consideration for the acquisition of assets through the acquisition of a subsidiary during the year ended 31 December 2016 amounted to HK$5,033,000 remained unsettled at the end of the reporting period. Further details of the acquisition are set out in note 36(a).

38. EVENT AFTER END OF THE REPORTING PERIOD

On 14 December 2016, the Company entered into a subscription agreement with a subscriber to issue 680,000,000 new ordinary shares of HK$0.1 each at a price of HK$0.18 per share. As at 31 December 2016, the subscription was in the process. These new shares are to be issued under the specific mandate granted to the directors at the special general meeting of the Company held on 13 February 2017 and rank pari passu with other shares in issue in all respects.

The proceeds are intended to be used for development of existing business, possible investment in new projects and as working capital of the Company.

39. SUMMARY OF FINANCIAL ASSETS AND LIABILITIES BY CATEGORY

The carrying amounts of each of the categories of financial instruments at the end of the reporting period are as follows:

	2016 ***HK$'000***	2015 *HK$'000*
Financial assets		
Financial assets at fair value through profit or loss		
Trading securities	**34,595**	255,992
Loans and receivables (including cash and cash equivalents)		
Trade receivables	**29,311**	27,159
Loans receivables	**48,403**	48,000
Financial assets included in deposits and other receivables	**50,014**	31,760
Pledged bank deposits	**2,570**	12,649
Cash and cash equivalents	**78,497**	26,005
	243,390	401,565
Financial liabilities		
Financial liabilities measured at amortised cost		
Trade and bills payables	**51,187**	48,286
Financial liabilities included in other payables	**21,611**	23,383
Borrowings	**164,569**	100,329
	237,367	171,998

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise trading securities, trade and other receivables, loan receivables, cash and cash equivalents, pledged bank deposits, trade and bills payable, other payables, other payables and bank borrowings.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk, interest rate risk, foreign currency risk and equity price risk. The Group seeks to minimise the effects of certain interest rate and foreign currency risks by using derivative financial instruments to hedge these risk exposures. The directors review and agree policies for managing each of these risks and they are summarised below.

Credit risk

The Group trades only with recognised and creditworthy third parties. The Group's sales for the Toys Segment are made to several major customers and there is concentration of credit risk. In respect of the segment of manufacturing and sales of beverage and food products, there is no concentration of credit risk. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer having similar characteristics. The Group defines customers as having similar characteristics if they are related entities. Most of the customers are multi-national corporations with well known brands for their toy products and have satisfactory credit rating. At the end of the reporting period, the Group had certain concentrations of credit risk as 66.5% (2015: 33.0%) and 88.7% (2015: 93.7%) of the Group's trade receivables were due from the Group's largest customer and the five largest customers, respectively, in the Toys Segment.

Transactions involving trading securities are with counterparties of sound credit standing. Given their high credit standing, management does not expect any investment counterparty to fail to meet its obligations.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

At 31 December 2016, the Group had loan receivables and interest and late charges receivables of HK$48,403,000 (2015: HK$48,000,000) and HK$2,701,000 (2015: HK$2,872,000) respectively. Before entering into the loan agreements, the Group assesses the credit quality of the borrowers and defines the terms of the loans. In addition, the Group reviews the recoverable amount of each individual loan at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. The Group has concentration of credit risk on the loan receivables as the loans are made to five (2015: four) borrowers. As at 31 December 2016, HK$35,043,000 of the loan receivables were past due. In order to minimise the credit risk, the management of the Group has delegated a team responsible for monitoring procedures to ensure that follow-up action is taken to recover overdue loans. Subsequent to the end of the reporting period, the overdue amount of HK$35,043,000 have been recovered in full. The Group also received interest income and penalty income from borrowers subsequent to the end of reporting period. For another loan amount of HK$13,000,000, it is secured by certain assets of the borrower. In view of the subsequent settlement, interest and penalty repayment by the borrowers, collateral of certain loan and monitoring procedures adopted by the management, in the opinion of the directors, the credit risk in respect of the loan receivables could be monitored.

At 31 December 2016, the Group had certain concentration of credit risk as 68.6% (2015: 39.0%) of the total cash and cash equivalents was deposited with one financial institution in Hong Kong with high credit rating. The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Group also had concentration of credit risk in its other receivable due from the Vendor of approximately HK$40,483,000 (2015: nil). The management closely monitors the creditworthiness of the Vendor in order to mitigate the concentration of credit risk.

The maximum exposure to credit risk without taking account of any collateral held is represented by the carrying amount of each financial asset, including trading securities in the consolidated statement of financial position after deducting any impairment allowance.

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For the year ended 31 December 2016

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of its own operating cash reserve and borrowings. The Group maintains good business relations with its bankers and ensures compliance with covenants as stipulated in the banking facility agreements.

The maturity profile of the Group's financial liabilities at the end of the reporting period, based on the contractual undiscounted cash flows, is as follows:

	Weighted average effective interest	On demand	Less than 3 months	3 to less than 12 months	More than 1 year but within 2 years	Contractual undiscounted cash flows	Carrying amount
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2016							
Borrowings	4.73	–	51,895	75,917	47,700	175,512	164,569
Trade and bills payables	–	13,130	38,057	–	–	51,187	51,187
Other payables	–	21,611	–	–	–	21,611	21,611
		34,741	89,952	75,917	47,700	248,310	237,367
2015							
Borrowings	4.73	–	35,161	67,589	–	102,750	100,329
Trade and bills payables	–	–	20,366	27,920	–	48,286	48,286
Other payables	–	23,383	–	–	–	23,383	23,383
		23,383	55,527	95,509	–	174,419	171,998

Interest rate risk

The Group's cash flow interest rate risk arises primarily from the Group's variable-rate bank balances and pledged deposits. The Group's fair value interest rate risk arises primarily from the Group's borrowings. Borrowings raised at variable rates expose the Group to cash flow interest rate risk.

The Group currently does not have an interest rate hedging policy. However, the management closely monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Interest rate risk (Continued)

Sensitivity analysis

At 31 December 2016, it is estimated that a general increase/decrease of 100 basis point in interest rate, with all other variables held constant, would decrease/increase the Group's loss for the year and accumulated losses by approximately HK$811,000 (2015: HK$386,000).

The sensitivity analysis has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for the variable financial instruments in existence at that date. The 100 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the end of the next reporting period. The analysis was performed on the same basis for year ended 31 December 2015.

Foreign currency risk

The Group mainly operates in Hong Kong and the PRC, with certain of their business transactions being settled in United States dollars, Hong Kong dollars and Renminbi. The Group is thus exposed to currency risk arising from fluctuations on foreign currencies, primarily United States dollars, Hong Kong dollars and Renminbi, against the functional currency of the relevant group entities. The management continuously monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

As Hong Kong dollars is pegged to United States dollars, the Group does not have material exchange rate risk on such currency.

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40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Foreign currency risk (Continued)

Exposure to currency risk

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. Differences resulting from the translation of the financial statements of the entities within the Group into the Group's presentation currency are excluded.

	2016			2015	
	United States dollars	**Hong Kong dollars**	**Renminbi**	Hong Kong dollars	Renminbi
	HK$'000	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*
Cash and cash equivalents	**1,476**	**95**	**1**	78	5
Borrowings	**–**	**(50,500)**	**–**	(48,950)	–
Other payables	**–**	**(189)**	**–**	(171)	–
Overall exposure to currency risk	**1,476**	**(50,594)**	**1**	(49,043)	5

As at 31 December 2016, the directors considered that the Group's exposure to foreign currency risk arose from intra-group balances due to foreign operations of HK$270,600,000 (2015: HK$206,390,000), which were not denominated in the functional currency of the respective group entities, do not form part of the Group's net investment in foreign operations.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Foreign currency risk (Continued)

Sensitivity analysis

The following table demonstrates the sensitivity at the end of reporting period to a reasonably possible change in the Renminbi exchange rate for group entities with Renminbi as functional currency, with all other variables held constant, of the Group's loss for the year and accumulated losses.

		Increase (decrease) in loss for the year and accumulated losses
	%	***HK$'000***
2016		
If Hong Kong dollars weakens against Renminbi	**5**	**6,081**
If Hong Kong dollars strengthens against Renminbi	**(5)**	**(6,081)**
2015		
If Hong Kong dollars weakens against Renminbi	5	5,901
If Hong Kong dollars strengthens against Renminbi	(5)	(5,901)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the group entities' loss for the year and accumulated losses measured in the respective functional currencies, translated into Hong Kong dollars at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group, including intra-group balances with foreign operations within the Group denominated in a currency other than the functional currency of the foreign operations, which expose the Group to foreign currency risk at the end of the reporting period. The analysis is performed on the same basis for year ended 31 December 2015.

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40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Equity price risk

The Group is exposed to equity price changes arising from equity investments classified as trading securities. All of these investments are listed. The Group's listed investments are listed on the Stock Exchange. Decisions to buy and sell trading securities are based on daily monitoring of the performance of individual securities compared to that of the index and other industry indicators, as well as the Group's liquidity needs.

If the price of the respective trading securities had been 10% higher/lower (2015: 10%), with all other variables held constant, loss for the year and accumulated losses would decrease/increase by approximately HK$3,460,000 (2015: HK$25,599,000). No effect on other components of equity for years ended 31 December 2016 and 2015.

The sensitivity analysis indicates the instantaneous change in the Group's loss for the year that would arise assuming that the changes in the price of the respective trading securities had occurred at the end of the reporting period and had been applied to remeasure those financial instruments held by the Group which expose the Group to equity price risk at the end of the reporting period. The analysis is performed on the same basis for year ended 31 December 2015.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Fair value measurements

Financial assets and liabilities measured at fair value

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13 Fair Value Measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

– Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

– Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

– Level 3 valuations: Fair value measured using significant unobservable inputs.

	Level 1 *HK$'000*	**Level 2** *HK$'000*	**Level 3** *HK$'000*	**Total** *HK$'000*
Financial assets at fair value through profit or loss – Trading securities:				
2016	**34,595**	**–**	**–**	**34,595**
2015	255,992	–	–	255,992

During the years ended 31 December 2016 and 2015, there have been no significant transfers between Level 1 and 2 or transfers into or out of Level 3.

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For the year ended 31 December 2016

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration	Registered capital paid up	2016 Percentage of equity attributable to the Company		2015 Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	Direct	Indirect	
Alliance Credit Services Limited	Hong Kong	Ordinary HK$10,000	–	100%	–	100%	Provision of credit finance services
Big Crown Investments Limited	Hong Kong	Ordinary HK$1	–	100%	–	100%	Trading of securities
Billion Pride Group Limited	British Virgin Islands	Ordinary US$1	100%	–	100%	–	Investment holding
Central Information Limited	Hong Kong	Ordinary HK$100	–	100%	–	100%	Trading of securities and provision of management services
Chongxin Co., Limited	Hong Kong	Ordinary HK$1	–	100%	–	100%	Investment holding
Luxtone HK Limited	Hong Kong	Ordinary HK$1	–	100%	–	100%	Investment holding
Sewco (B.V.I.) Limited	British Virgin Islands	Ordinary US$401	100%	–	100%	–	Investment holding
Sewco Toys & Novelty Limited	Hong Kong	Ordinary HK$200 Non-voting deferred HK$420,000	–	100%	–	100%	Investment holding and trading of toys products
Talent Management Services Limited	Hong Kong	Ordinary HK$1	–	100%	–	100%	Provision of management services
中山崇高玩具製品廠有限公司 (Zhongshan Sewco Toys & Novelty Limited*)#	The PRC	Paid-up capital HK$124,300,000	–	100%	–	100%	Manufacturing and sales of toys products
北京琥石網絡技術有限公司#	The PRC	Paid-up capital US$1,750,000	–	100%	–	100%	Investment holding
宜諾科技(蘇州)有限公司 (Yi Nuo Technology (Suzhou) Company Limited)#	The PRC	Paid-up capital US$22,349,950	–	100%	–	–	Lease of properties
海南瀛晟科技產業投資有限公司#	The PRC	Paid-up capital US$200,000	–	100%	–	–	Investment holding

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

A wholly foreign-owned enterprise registered in the PRC.

* For identification purpose only.

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the published audited financial statements, is set out below:

	Year ended 31 December				
	2016	2015	2014	2013	2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
RESULTS				(Restated)	(Restated)
Continuing operations					
Revenue	**236,174**	247,732	422,953	330,158	443,670
Cost of sales	**(220,750)**	(220,459)	(412,261)	(286,209)	(408,836)
Gross profit	**15,424**	27,273	10,692	43,949	34,834
Other income and gain	**26,558**	11,100	7,629	12,093	4,935
Selling and distribution costs	**(5,063)**	(8,025)	(13,045)	(5,932)	(7,115)
Administrative expenses	**(75,763)**	(123,604)	(87,280)	(51,079)	(56,907)
Research and development expenses	**(20,690)**	–	–	–	–
Changes in fair value of trading securities	**(150,802)**	(18,238)	(17,553)	(29,320)	2,601
Other operating expenses	**(6,895)**	(12,954)	(11,323)	(524)	(457)
Finance costs	**(6,993)**	(5,971)	(5,643)	(4,579)	(5,822)
Loss before taxation from continuing operations	**(224,224)**	(130,419)	(116,523)	(35,392)	(27,931)
Income tax expense	**(3,072)**	(2,842)	(1,873)	(1,128)	(2,175)
Loss for the year from continuing operations	**(227,296)**	(133,261)	(118,396)	(36,520)	(30,106)
Discontinued operation					
Loss for the year from discontinued operation	**–**	–	(3,622)	(10,303)	(33,994)
Loss for the year	**(227,296)**	(133,261)	(122,018)	(46,823)	(64,100)

	As at 31 December				
	2016	2015	2014	2013	2012
ASSETS AND LIABILITIES	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Total assets	**512,545**	575,714	533,167	523,107	581,159
Total liabilities	**(256,981)**	(186,817)	(227,358)	(185,207)	(215,111)
Total equity	**255,564**	388,897	305,809	337,900	366,048