PING SHAN TEA GROUP LIMITED
坪山茶業集團有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code : 364)

坪山
PING SHAN

Annual Report 2016

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Cai Zhenrong *(Chairman)*
Mr. Cai Zhenyao
Mr. Cai Zhenying
Mr. Cai Yangbo *(Managing Director)*
Mr. Choi Wing Toon
Mr. Zhang Lu
Mr. Zhou Yao Bo

Independent Non-executive Directors

Mr. Lawrence Gonzaga
Ms. Choy So Yuk, *BBS, JP*
Mr. Chin Hon Siang
Mr. Lin Hann Ruey

AUDIT COMMITTEE

Mr. Lawrence Gonzaga *(Chairman)*
Ms. Choy So Yuk, *BBS, JP*
Mr. Chin Hon Siang

REMUNERATION COMMITTEE

Mr. Lawrence Gonzaga *(Chairman)*
Ms. Choy So Yuk, *BBS, JP*
Mr. Chin Hon Siang

NOMINATION COMMITTEE

Mr. Lawrence Gonzaga *(Chairman)*
Ms. Choy So Yuk, *BBS, JP*
Mr. Chin Hon Siang

AUTHORIZED REPRESENTATIVES

Under the Stock Exchange:
Mr. Cai Yangbo
Mr. Choi Wing Toon

Under the Companies Registry:
Mr. Cai Zhenrong
Mr. Choi Wing Toon

COMPANY SECRETARY

Mr. Ip Wai Sing, *ACPA*

REGISTERED OFFICE

Cricket Square
Hutchins Drive, P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 3505, West Tower
Shun Tak Centre
200 Connaught Road Central
Hong Kong

REGISTRARS

Principal Share Registrar and Transfer Office

Maples Fund Services (Cayman) Limited
P.O. Box 1093
Boundary Hall, Cricket Square
Grand Cayman KY1-1111
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Union Registrars Limited
Suites 3301-04, 33/F.
Two Chinachem Exchange Square
338 King's Road
North Point
Hong Kong

AUDITOR

PKF Hong Kong
26/F., Citicorp Centre
18 Whitfield Road
Causeway Bay
Hong Kong

LEGAL ADVISER

As to Cayman Islands laws

Conyers Dill & Pearman

PRINCIPAL BANKERS

Bank of Communications Co., Ltd
Hang Seng Bank Limited

WEBSITE

www.pingshantea.com.hk

STOCK CODE

364

Five-Year Financial Summary

The following is a summary of the published consolidated results and of the assets and liabilities of Ping Shan Tea Group Limited (the "Company") and its subsidiaries (collectively, the "Group") for the last five financial years:

RESULTS

	Year ended 31 December 2016 HK$'000	Year ended 31 December 2015 HK$'000	Year ended 31 December 2014 HK$'000 (restated)	15 months ended 31 December 2013 HK$'000 (restated)	Year ended 30 September 2012 HK$'000
REVENUE	**302,250**	822,524	479,316	262,329	–
LOSS FROM OPERATIONS	**(862,070)**	(706,069)	(377,741)	(26,065)	(16,754)
Finance costs	**(196,711)**	(115,694)	(72,742)	(37,081)	(9,016)
Gain on bargain purchase from acquisition of an associate	**99,373**	–	–	–	–
Loss on modifications of convertible bonds	**–**	–	–	–	(1,943)
Share of losses of an associate	**(224)**	(2,894)	(1,913)	–	–
Loss on disposals of subsidiaries	**(14,665)**	–	–	–	–
LOSS BEFORE TAX	**(974,297)**	(824,657)	(452,396)	(63,146)	(27,713)
Income tax expense	**693**	(2,949)	(1,508)	(4,557)	–
LOSS FROM CONTINUING OPERATIONS	**(973,604)**	(827,606)	(453,904)	(67,703)	(27,713)
LOSS FROM DISCONTINUED OPERATIONS	**–**	–	(402,651)	(1,142)	(163,062)
LOSS BEFORE NON-CONTROLLING INTERESTS	**(973,604)**	(827,606)	(856,555)	(68,845)	(190,775)
Non-controlling interests	**(869)**	(933)	(314)	–	–
LOSS FOR THE YEAR/PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY	**(972,735)**	(826,673)	(856,241)	(68,845)	(190,775)

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	At 31 December 2016 HK$'000	At 31 December 2015 HK$'000	At 31 December 2014 HK$'000 (restated)	At 31 December 2013 HK$'000 (restated)	At 30 September 2012 HK$'000
NON-CURRENT ASSETS	**1,739,158**	2,587,241	3,118,570	3,942,152	1,033,382
CURRENT ASSETS	**2,204,853**	2,125,850	1,848,685	1,576,780	694,271
TOTAL ASSETS	**3,944,011**	4,713,091	4,967,255	5,518,932	1,727,653
CURRENT LIABILITIES	**1,117,703**	730,608	873,855	601,062	268,318
NON-CURRENT LIABILITIES	**855,122**	1,099,027	544,905	759,166	147,168
TOTAL LIABILITIES	**1,972,825**	1,829,635	1,418,760	1,360,228	415,486
NET ASSETS	**1,971,186**	2,883,456	3,548,495	4,158,704	1,312,167
NON-CONTROLLING INTERESTS	**1,547**	2,499	3,544	–	–

Note 1: The summary of the results, assets, liabilities and non-controlling interests of the Group for 15 months ended 31 December 2013 and year ended 31 December 2014 and 2015 are extracted from the Company's annual report 2015 prepared in accordance with International Financial Reporting Standards, with restatement as mentioned in note 2(c) to the consolidated financial statements on page 80 of this annual report.

Note 2: The comparatives of assets, liabilities and non-controlling interests have been restated to reflect the effect of early adoption of new International Financial Reporting Standards in issue but not yet effective in 2015 (see note 2(c) to the consolidated financial statements).

Chairman's Statement

FINAL RESULTS

On behalf of the board (the "Board") of directors (the "Directors") of the Company, I am pleased to present the Group's audited results for the year ended 31 December 2016 (the "Year"). The Group's consolidated revenue for the Year decreased by 63.3% to approximately HK$302.3 million (year ended 31 December 2015 ("Year 2015"): approximately HK$822.5 million). Gross profit decreased by 35.0% to approximately HK$135.2 million (Year 2015: approximately HK$208.0 million). Loss attributable to owners of the Company increased by 17.7% and amounted to approximately HK$972.7 million (Year 2015: approximately HK$826.7 million). The loss was mainly attributable to impairment loss on goodwill of approximately HK$910.0 million (Year 2015: approximately HK$815.0 million).

BUSINESS REVIEW

During the Year, the Company continued to expand the tea business through acquisitions of tea related business as mentioned in "Material Acquisition or Disposal of Subsidiaries and Affiliated Companies" in addition to the acquisitions made in previous years. However, the consumer market condition, especially the tea products for business gifts, continued to deteriorate which resulted in revenue decreased by 63.3% from approximately HK$822.5 million for the Year 2015 to approximately HK$302.3 million for the Year. There is a pressure on sales of the Group's tea products. The depreciation of Renminbi ("RMB") has negative impact on the Group as the Group's revenue is transacted in RMB but the reporting currency is in Hong Kong dollars ("HK$"). The loss of the Group increased from approximately HK$827.6 million for the Year 2015 to approximately HK$973.6 million for the Year.

Loss attributable to equity shareholders of the Company for the Year increased by 17.7% to approximately HK$972.7 million (Year 2015: approximately HK$826.7 million). The loss attributable to equity shareholders of the Company for the Year was mainly due to impairment loss on goodwill of approximately HK$910.0 million (Year 2015: approximately HK$815.0 million). Excluding this item, there was loss attributable to equity shareholders of the Company for the Year of approximately HK$62.7 million (Year 2015: approximately HK$11.7 million).

EVENTS AFTER THE REPORTING PERIOD

Apart from the events as disclosed in Notes 15, 20(a), 27(a) and 30 to the consoldiated financial statements, the Group did not have other material events after the reporting period up to the date of this report.

Chairman's Statement

PROSPECTS

Through various acquisitions and/or investments in tea related business, the Group is now in the process of integrating all tea businesses in order to realise their full potential to contribute the profit to the Group. In addition, the Group continues to proactively search for other potential favourable expansion, merger and acquisition opportunities in tea business and other health products related business, so as to realise the long-term potential of the business, and to further enhance its revenue, sources and profitability, and bring maximised returns to the shareholders of the Company (the "Shareholders").

APPRECIATION

I would like to take this opportunity to express my hearty thanks and gratitude to the Group's management and staff who dedicated their endless efforts and devoted services, and to our Shareholders, suppliers, customers and bankers for their continuous support.

Cai Zhenrong
Chairman

Hong Kong, 30 March 2017

Management Discussion and Analysis

FINANCIAL PERFORMANCE

During the Year, the Group's consolidated revenue decreased by 63.3% to approximately HK$302.3 million (Year 2015: approximately HK$822.5 million). The decrease was mainly due to continued sluggish consumer markets, especially the tea products for business gifts.

During the Year, gross profit of the Group decreased by 35.0% to approximately HK$135.2 million (Year 2015: approximately HK$208.0 million) but gross profit margin increased by 19.4 percentage points from 25.3% for the Year 2015 to 44.7% for the Year. Increase in gross profit margin was due to the Group intention to maintain a healthy margin despite of decrease in revenue. The loss after tax was mainly attributable to impairment loss on goodwill of approximately HK$910.0 million (Year 2015: approximately HK$815.0 million).

BUSINESS DEVELOPMENT AND OUTLOOK

The Group has acquired tea related business in years and is in the process of integrating various tea related business. Looking ahead, the Group will focus on the tea business which has good potential. The Group will proactively search for favorable expansion, merger and acquisition opportunities in the tea business and other health products related business and also look at various possible business strategies to expand our tea business and other health products related business.

ANALYSIS BY CUSTOMER GEOGRAPHICAL REGIONS

Sales to customers located in the China region accounted for 100% (Year 2015: 100%) of total revenue for the Year.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2016, the Group had current assets of approximately HK$2,204.9 million (as at 31 December 2015: approximately HK$2,125.9 million) and current liabilities of approximately HK$1,117.7 million (as at 31 December 2015: approximately HK$730.6 million). The current ratio (calculated as current assets to current liabilities) decreased from 2.91 as at 31 December 2015 to 1.97 as at 31 December 2016. The gearing ratio (calculated as the total bank borrowings, the convertible bonds, debentures, financial liabilities at fair value through profit or loss and promissory notes to total shareholders' equity) increased from 0.58 as at 31 December 2015 to 0.92 as at 31 December 2016. These ratios were at reasonably adequate levels as at 31 December 2016 while the Group had sufficient resources in meeting its short-term and long-term obligations.

During the Year, the net cash generated from operating activities and financing activities were approximately HK$430.6 million (Year 2015: used in operating activities of approximately HK$50.6 million) and approximately HK$3.4 million (Year 2015: approximately HK$683.6 million) respectively.

As at 31 December 2016, total bank borrowings decreased to approximately HK$34.3 million (as at 31 December 2015: approximately HK$36.7 million), and all the borrowings as at 31 December 2016 were repayable within one year.

During the Year, the Group issued unlisted debentures of approximately HK$526.2 million (Year 2015: approximately HK$879.5 million) at face value with issuing costs of approximately HK$134.9 million (Year 2015: approximately HK$44.4 million). The debentures are interest bearing at a rate ranging from 0% to 10% (Year 2015: 4.5% to 8%) of the face value per annum, unsecured and repayable on the six months to eighth anniversary of the respective date of issue. In addition, the Group redeemed unlisted debentures with principal amounts of HK$136 million during the Year (Year 2015: HK$199.5 million). As at 31 December 2016, the carrying values of the debentures were approximately HK$1,293 million (as at 31 December 2015: HK$1,107.7 million).

During the Year, the original convertible bonds with principal amount of approximately HK$65.6 million were converted to ordinary shares of the Company. As at 31 December 2016, the carrying values of convertible bonds and convertible notes (included financial liabilities at fair value through profit and loss) amounted to approximately HK$379.0 million (Year 2015: approximately HK$361.3 million) and HK$9.7 million (Year 2015: approximately HK$8.5 million) respectively. As at 31 December 2016, the carrying value of promissory notes amounted to approximately HK$93.8 million (Year 2015: HK$144.6 million).

The original convertible bonds with principal amounts of approximately HK$280 million has maturity date on 31 December 2015. The Group is currently in the process of negotiating with the bondholders for the extension and/or restructuring of the terms of these convertible bonds.

CAPITAL STRUCTURE

During the Year, there were increases in the issued share capital of the Company through the following issuance of shares of the Company:

1) issuance of 2,000,000,000 consideration shares pursuant to the Share Transfer Agreement;

2) issuance of 370,769,366 new ordinary shares upon conversion of convertible bonds;

3) issuance of 1,820,000,000 new ordinary shares pursuant to the Equity Transfer Agreement; and

4) issuance of 1,000,000,000 new ordinary shares pursuant to the Sale and Purchase Agreement.

The total number of issued share capital of the Company as at 31 December 2016 comprised 23,325,093,070 ordinary shares.

CAPITAL EXPENDITURE

During the Year, the total capital expenditure of the Group for the expansion of various plants and erection of new buildings was approximately HK$0.8 million (Year 2015: approximately HK$0.2 million).

In addition, the Group did not pay any deposits for potential business combinations during the Year (Year 2015: HK$550 million).

FOREIGN EXCHANGE EXPOSURE

Most assets, liabilities and transactions of the Group are denominated in RMB, HK$ and United States dollars ("USD"). In view of the currency peg between HK$ and USD, material fluctuations between HK$ to USD in Year 2016 were remote.

The closing exchange rate between HK$ and RMB adopted by the Group as at 31 December 2016 was RMB1: HK$1.12 (as at 31 December 2015: RMB1 to HK$1.20). Due to the depreciation of RMB against HK$ during the Year, the Group recorded a comprehensive loss in exchange differences on translating foreign operations of approximately HK$237.4 million (Year 2015: approximately HK$129.9 million) and share of other comprehensive loss of an associate (related to the translation of foreign operations) of approximately HK$19.7 million (Year 2015: HK$3.9 million). In view of a relatively stable exchange rates during the last three months before this report, the fluctuations of the foreign currencies between RMB and HK$ will not have a significant impact on the performance of the Group in the coming year.

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 31 December 2016 (as at 31 December 2015: HK$Nil).

EMPLOYMENT INFORMATION

As at 31 December 2016, the total number of employees of the Group in Hong Kong and the PRC was 218 (as at 31 December 2015: 315). The Group's emoluments policies are based on the performance of individual employees and on the basis of the salary trends in various regions, and are reviewed periodically.

For the Year, the total staff costs (including Directors' emoluments) amounted to approximately HK$18.5 million (Year 2015: approximately HK$53.4 million), the amount including approximately HK$Nil (Year 2015: approximately HK$33 million) related to the equity-settled share-based payments in year 2015 whereas there is no equity-settled share based payments for the Year. The Company maintains a share option scheme for the purpose of providing incentives and rewards to the eligible participants for their contributions to the Group.

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

On 18 March 2016, Citiasia International Limited (a subsidiary of the Company, the "Purchaser I"), Sure Right Development Limited, (the "Vendor I") and Mr. Ng Kam Mang entered into the share transfer agreement (the "Share Transfer Agreement"), pursuant to which the Vendor I agreed to sell and the Purchaser I agreed to purchase 25% of the entire issued share capital of Plenty Partner Limited (the "Target Company") and 25% of the aggregate amount of shareholder's loan due by the Target Company to the Vendor I for a total consideration of HK$200 million. The consideration was satisfied by the issue of 2,000,000,000 consideration shares at the issue price of HK$0.1 each by the Company on 6 April 2016, the date of completion of the acquisition.

On 29 June 2016, Mr. Zhou Chonghai (the "Vendor II") and Ping Shan Health Industry Limited (a subsidiary of the Company, the "Purchaser II") entered into the sale and purchase agreement, pursuant to which the Vendor II conditionally agreed to sell, and the Purchaser II conditionally agreed to acquire, the 10% of the entire issued share capital of Perfect Partner International Corporation at the consideration of HK$125 million. The consideration was satisfied by cash of HK$20,000,000 and the issue of 1,000,000,000 consideration shares at the issue price of HK$0.1 each by the Company on 12 December 2016, the date of completion of the acquisition.

On 30 September 2016, Shishi Guochuan Investment and Consultancy Limited (a subsidiary of the Company, the "Purchaser III") and Ms. Zeng Wenying (the "Vendor III") entered into the equity transfer agreement (the "Equity Transfer Agreement"), pursuant to which the Purchaser III agreed to purchase and the Vendor III agreed to sell 13% equity interest in Shenzhen Fenghui International Caibao Co., Limited at a consideration of HK$182,000,000. The consideration was satisfied by the issue of 1,820,000,000 consideration shares at the issue price of HK$0.1 by the Company each on 17 November 2016, the date of completion of the acquisition.

CORPORATE GOVERNANCE

The Company has adopted most of the code provisions as stated in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") and the Board is committed to complying with the CG Code to the extent that the Directors consider it to be practical and applicable to the Company.

The corporate governance principles of the Company emphasize an effective Board, sound internal control, appropriate independence policy, and transparency and accountability to the Shareholders. The Board will continue to monitor and revise the Company's governance policies in order to ensure that such policies meet the general rules and standards required by the Listing Rules. The Company complied with the CG Code throughout the Year except the following deviations.

Code provision A.6.7 stipulates that independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders; while code provision E.1.2 stipulates that the chairman of the board should attend the annual general meeting. Mr. Cai Zhenrong (the chairman of the Board) and two independent non-executive Directors were unable to attend the Company's annual general meeting held on 30 June 2016 due to their other business engagement. An executive director chaired that meeting whereas other attended Board members were already of sufficient calibre and number for answering questions raised by the Shareholders.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors. Having made specific enquiry by the Company, all Directors have confirmed their compliance with the required standards set out in the Model Code throughout the Year.

BOARD

The Board is responsible for directing the strategic objectives of the Group and overseeing the management of the business. The Directors are responsible for leadership and control of the Group.

A) Board Composition

The Board currently comprises seven executive Directors and four independent non-executive Directors, serving the important functions of guiding the management.

The Board members during the Year and up to the date of this report were:

Executive Directors

Mr. Cai Zhenrong *(Chairman)*
Mr. Cai Zhenyao
Mr. Cai Zhenying
Mr. Cai Yangbo *(Managing Director)*
Mr. Choi Wing Toon
Mr. Zhang Lu (Appointed on 25 August 2016)
Mr. Zhou Yao Bo (Appointed on 25 August 2016)

Independent Non-executive Directors

Mr. Lawrence Gonzaga
Ms. Choy So Yuk, *BBS, JP*
Mr. Chin Hon Siang (Appointed on 12 July 2016)
Mr. Lin Hann Ruey (Appointed on 23 November 2016)
Mr. Yuen Chun Fai (Resigned on 11 May 2016)

The biographical details of the Directors and the relationships among them are set out in "Biographical Details of Directors and Senior Management" on pages 63 to 65 of this report. Save as disclosed in the section headed "Biographical Details of Directors and Senior Management", none of the Directors has any financial, business, family or other material or relevant relationships among members of the Board.

B) Role and Function

The Board is responsible for formulating the strategic business development, reviewing and monitoring the business performance of the Group, as well as preparing and approving financial statements. The Directors, collectively and individually, are aware of their responsibilities to the Shareholders, for the manner in which the affairs of the Group are managed and operated. As and when necessary, the Directors can access to the advice and services of the company secretary of the Company (the "Company Secretary"), and in the appropriate circumstances, seeking of independent professional advice at the Group's expense to ensure that the Board procedures, and all applicable rules and regulations are followed.

The Board gives clear directions as to the powers delegated to the management for the management and administration functions of the Group, in particular, with respect to the circumstances where management should report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Group. The Board fully supports the senior management to discharge its duties and responsibilities in all circumstances. The Board will review those arrangements on a periodic basis to ensure that they remain appropriate to the needs of the Group.

Appropriate insurance cover for the Directors' and officers' liabilities in respect of legal actions against the Directors and officers of the Company arising out of corporate activities of the Group has been arranged by the Company.

C) Meeting Records

There were 22 Board meetings held for the Year. The following was an attendance record of the Board meetings held:

Board Members	Attendance at meetings held for the Year
Executive Directors	
Mr. Cai Zhenrong *(Chairman)*	16/22
Mr. Cai Zhenyao	8/22
Mr. Cai Zhenying	9/22
Mr. Cai Yangbo *(Managing Director)*	15/22
Mr. Choi Wing Toon	12/22
Mr. Zhang Lu (Appointed on 25 August 2016)	0/22
Mr. Zhou Yao Bo (Appointed on 25 August 2016)	0/22
Independent Non-executive Directors	
Mr. Lawrence Gonzaga	12/22
Ms. Choy So Yuk, *BBS, JP*	8/22
Mr. Chin Hon Siang (Appointed on 12 July 2016)	7/22
Mr. Lin Hann Ruey (Appointed on 23 November 2016)	0/22
Mr. Yuen Chun Fai (Resigned on 11 May 2016)	7/22

There was one annual general meeting held on 30 June 2016 during the Year. The attendance record of the annual general meeting is shown as follows.

Board Members	Attendance at meetings held for the Year
Executive Directors	
Mr. Cai Zhenrong *(Chairman)*	1/1
Mr. Cai Zhenyao	1/1
Mr. Cai Zhenying	1/1
Mr. Cai Yangbo *(Managing Director)*	1/1
Mr. Choi Wing Toon	1/1
Mr. Zhang Lu (Appointed on 25 August 2016)	N/A
Mr. Zhou Yao Bo (Appointed on 25 August 2016)	N/A
Independent Non-executive Directors	
Mr. Lawrence Gonzaga	1/1
Ms. Choy So Yuk, *BBS, JP*	1/1
Mr. Chin Hon Siang (Appointed on 12 July 2016)	N/A
Mr. Lin Hann Ruey (Appointed on 23 November 2016)	N/A
Mr. Yuen Chun Fai (Resigned on 11 May 2016)	0/1

D) Independent Non-executive Directors

During the Year, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise except the period mentioned below.

On 11 May 2016, the Company failed to comply with Rules 3.10(1), 3.10A, 3.21 and 3.25 of the Listing Rules after the resignation of Mr. Yuen Chun Fai as an independent non-executive Director, the member of audit committee, remuneration committee and nomination committee of the Company. Following the appointment of Mr. Chin Hon Siang on 12 July 2016, the Company has fulfilled the requirements of Rules 3.10(1), 3.10A, 3.21 and 3.25 of the Listing Rules.

On 25 August 2016, the Company failed to comply with Rule 3.10A of the Listing Rules after the appointment of Mr. Zhang Lu and Mr. Zhou Yao Bo as executive Directors. Following the appointment of Mr. Lin Hann Ruey on 23 November 2016, the Company has fulfilled the requirement of Rule 3.10A of the Listing Rules.

The Company has received written annual confirmation from each independent non-executive Director of his/her independence pursuant to rule 3.13 of the Listing Rules. Based on the contents of such confirmation, the Company considers that all four independent non-executive Directors are independent. The independent non-executive Directors bring a wide range of business and financial expertise, experiences and independent judgement to the Board. Through active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all independent non-executive Directors make various contributions to the effective direction of the Company.

E) Directors' Training

According to the code provision A.6.5 of the CG Code, all directors should participate in a programme of continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the board remains informed and relevant. The Company should be responsible for arranging and funding training, placing an appropriate emphasis on the roles, functions and duties of the Directors.

During the Year and up to the date of this report, the Company had arranged to provide to all Directors with the "A Guide on Directors' Duties" issued by Companies Registry. Each of the Directors had noted and studied the above mentioned documents and that the Company had received from each of the Directors the confirmations on taking continuous professional training.

A summary of training received by the Directors for the Year according to the records provided by the Directors is as follows:

Names of Directors	Training organised by professional organizations	Reading materials updating on new rules and regulations
Executive Directors		
Mr. Cai Zhenrong	✓	✓
Mr. Cai Zhenyao	✓	✓
Mr. Cai Zhenying	✓	✓
Mr. Cai Yangbo	✓	✓
Mr. Choi Wing Toon	✓	✓
Mr. Zhang Lu (Appointed on 25 August 2016)	✓	✓
Mr. Zhou Yao Bo (Appointed on 25 August 2016)	✓	✓
Independent Non-executive Directors		
Mr. Lawrence Gonzaga	✓	✓
Ms. Choy So Yuk, *BBS, JP*	✓	✓
Mr. Chin Hon Siang (Appointed on 12 July 2016)	✓	✓
Mr. Lin Hann Ruey (Appointed on 23 November 2016)	✓	✓
Mr. Yuen Chun Fai (Resigned on 11 May 2016)	✓	✓

CHAIRMAN AND CHIEF EXECUTIVE

The role of the chairman and chief executive/managing director are performed by Mr. Cai Zhenrong and Mr. Cai Yangbo respectively. This segregation ensures a clear distinction between the chairman's and the chief executive/managing director's responsibilities which allows a balance of power between the Board and the management of the Group, and ensures their independence and accountability.

NON-EXECUTIVE DIRECTORS

Terms of Appointment of Non-executive Directors

The two independent non-executive Directors, Mr. Lawrence Gonzaga and Ms. Choy So Yuk, *BBS, JP* entered into a letter of appointment with the Company and was appointed for an initial term of two years commencing from 16 January 2015. The independent non-executive Director, Mr. Chin Hon Siang entered into a letter of appointment with the Company and was appointed for an initial term of two years commencing from 12 July 2016. The independent non-executive Director, Mr. Lin Hann Ruey entered into a letter of appointment with the Company and was appointed for an initial term of two years commencing from 23 November 2016.

In accordance with article 108 of the Articles, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at least once every three years.

BOARD COMMITTEES

The Board has also established the following committees with defined terms of reference:–

- Audit Committee
- Remuneration Committee
- Nomination Committee

Each Board committee makes decisions on matters within its terms of reference and applicable limits of authority. The terms of reference as well as the structure and membership of each committee will be reviewed from time to time.

A) Audit Committee

The Company has established an audit committee (the "Audit Committee") which consists of three independent non-executive Directors.

Composition of the Audit Committee

Mr. Lawrence Gonzaga *(Chairman)*
Ms. Choy So Yuk, *BBS, JP*
Mr. Chin Hon Siang (Appointed on 12 July 2016)
Mr. Yuen Chun Fai (Resigned on 11 May 2016)

Role and Function

The Audit Committee is mainly responsible for:

i. discussing with the external auditor the nature and scope of audit before the audit commences;

ii. reviewing the draft Company's annual and interim accounts before submission to, and providing advice and comments to the Board;

iii. reviewing the external auditor's management letter and considering the appointment of external auditor, their audit fees and questions of resignation or dismissal;

iv. discussing problems and reservations arising from the annual and interim accounts and matters that the external auditor may wish to discuss (in the absence of the management, where necessary); and

v. assessing the risk environment and reviewing risk management and internal control systems of the Group.

Meeting Record

The Audit Committee met twice during the Year, particular in reviewing the interim and annual results, and the risk management and internal control systems of the Group. The following was an attendance record of the Audit Committee meetings for the Year:

Audit Committee Members	**Attendance at meetings held for the Year**
Mr. Lawrence Gonzaga *(Chairman)*	2/2
Ms. Choy So Yuk, *BBS, JP*	2/2
Mr. Chin Hon Siang (Appointed on 12 July 2016)	1/1
Mr. Yuen Chun Fai (Resigned on 11 May 2016)	1/1

During the Year, the Audit Committee has discussed the auditing and financial reporting matters, the risk management and internal control systems, and the annual and interim accounts. The audited financial statements of the Group for the Year have been reviewed by the Audit Committee.

B) Remuneration Committee

The Company has established a remuneration committee (the "Remuneration Committee") which consists of three independent non-executive Directors.

Composition of the Remuneration Committee

Mr. Lawrence Gonzaga *(Chairman)*
Ms. Choy So Yuk, *BBS, JP*
Mr. Chin Hon Siang (Appointed on 12 July 2016)
Mr. Yuen Chun Fai (Resigned on 11 May 2016)

Role and Function

The Remuneration Committee is mainly responsible for:

i. reviewing any significant changes in human resources policies and structure made in line with the then prevailing trend and business requirements;

ii. making recommendations to the Board on the Company's policy and structure for all remuneration of the Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;

iii. determining the specific remuneration packages of all executive Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board of the remuneration of non-executive Directors;

iv. considering factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration;

v. reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;

vi. reviewing and approving the compensation payable to executive Directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;

vii. reviewing and approving compensation arrangements relating to dismissal or removal of the Directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate;

viii. ensuring that no Director or any of his associates is involved in deciding his own remuneration; and

ix. advising the Shareholders on how to vote in respect of any service contract of the Director which shall be subject to the approval of Shareholders (in accordance with the provisions of rule 13.68 of the Listing Rules).

Meeting Record

The Remuneration Committee met once during the Year. The following was an attendance record of the Remuneration Committee meeting for the Year:

Remuneration Committee Members	Attendance at meetings held for the Year
Mr. Lawrence Gonzaga *(Chairman)*	2/2
Ms. Choy So Yuk, *BBS, JP*	1/2
Mr. Chin Hon Siang (Appointed on 12 July 2016)	1/1
Mr. Yuen Chun Fai (Resigned on 11 May 2016)	1/1

During the Year, the Remuneration Committee has reviewed the remuneration package of the Board members and the senior management of the Company.

The number of senior management of the Group whose remuneration for the year ended 31 December 2016 fell within the following band is as follows:

	Number of senior management
Nil to HK$1,000,000	1

C) Nomination Committee

The Company has established a nomination committee (the "Nomination Committee") which consists of three independent non-executive Directors.

Composition of the Nomination Committee

Mr. Lawrence Gonzaga *(Chairman)*
Ms. Choy So Yuk, *BBS, JP*
Mr. Chin Hon Siang (Appointed on 12 July 2016)
Mr. Yuen Chun Fai (Resigned on 11 May 2016)

Role and Function

The Nomination Committee is mainly responsible for:

i. reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

ii. identifying individuals suitably qualified to become members of the Board and selecting or making recommendations to the Board on the selection of individuals nominated for directorships; and

iii. assessing the independence of independent non-executive Directors and making recommendations to the Board on appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman of the Board and the Chief Executive.

Board Diversity Policy

The Nomination Committee adopted the Board diversity policy on 29 May 2013. The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

Meeting Record

The Nomination Committee met once during the Year. The following was an attendance record of the Nomination Committee meeting for the Year:

Nomination Committee Members	**Attendance at meetings held for the Year**
Mr. Lawrence Gonzaga *(Chairman)*	2/2
Ms. Choy So Yuk, *BBS, JP*	1/2
Mr. Chin Hon Siang (Appointed on 12 July 2016)	1/1
Mr. Yuen Chun Fai (Resigned on 11 May 2016)	1/1

During the Year, the Nomination Committee has reviewed the appointment of the Board members of the Company.

D) Corporate Governance Functions

The Board is responsible for performing the duties on corporate governance functions set out below:

i. developing and reviewing the Company's policies and practices on corporate governance and making recommendations;

ii. reviewing and monitoring the training and continuous professional development of Directors and senior management;

iii. reviewing and monitoring the Company's policies and practices on compliance and legal and regulatory requirements;

iv. developing, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to employees and Directors; and

v. reviewing the Company's compliance with the "Corporate Governance Code and Corporate Governance Report" as set out in Appendix 14 of the Listing Rules and the disclosures in the Corporate Governance Report contained in the annual report of the Company.

AUDITOR'S REMUNERATION

During the Year, the remuneration paid and payable to the auditor of the Company, PKF Hong Kong ("PKF"), for the provision of the Group's audit services and non-audit services amounted to HK$2,200,000 and HK$688,000 respectively.

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors are responsible for the preparation of the consolidated financial statements for each financial year which give a true and fair view of the Group's financial position and of the financial performance and cash flows for the year. In preparing the consolidated financial statements for the Year, the Directors have selected appropriate accounting policies and applied them consistently, made judgements and estimates that are prudent, fair and reasonable and on a going concern basis. The Directors acknowledge their responsibility for preparing the consolidated financial statements of the Group. Having made appropriate enquiries, the Board is not aware any material uncertainties relating to events or conditions which may cost significant doubt over the Group's ability to continue as a going concern. It is the auditor's responsibility to form an independent opinion, based on their audit, on those consolidated financial statements and to report their opinion solely to the Shareholders, as a body, and for no other purpose. They do not assume responsibility towards or accept liability to any other person for the contents of the auditor's report.

COMPANY SECRETARY

The Company Secretary is responsible for facilitating the Board process, as well as communications among Board members, with Shareholders and management. According to rule 3.29 of the Listing Rules, the Company Secretary, Mr. Ip Wai Sing has taken no less than 15 hours of relevant professional training for the Year.

SHAREHOLDERS' RIGHTS

Convening an extraordinary general meeting

Pursuant to article 64 of the articles of association of the Company, extraordinary general meetings of the Company (the "EGM(s)") shall also be convened on the requisition of one or more Shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Directors or the Company Secretary for the purpose of requiring an EGM to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within twenty one days of such deposit the Directors fail to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s), as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Putting enquiries to the Board

To ensure effective communication between the Board and the Shareholders, the Company has adopted a Shareholders' communication policy (the "Policy") on 28 March 2012. Under the Policy, the Company's information shall be communicated to the Shareholders mainly through general meetings, including annual general meetings, the Company's financial reports (interim reports and annual reports), and its corporate communications and other corporate publications on the Company's website and the Stock Exchange's website.

Shareholders may at any time make a request for the Company's information to the extent such information is publicly available. Any such questions shall be first directed to the Company Secretary at the Company's head office and principal place of business in Hong Kong or the Company's Hong Kong branch share registrar and transfer office, Union Registrars Limited, at Suites 3301-04, 33/F., Two Chinachem Exchange square, 338 King's Road, North Point, Hong Kong.

Putting forward proposals at Shareholders' meeting

The number of Shareholders necessary for a requisition for putting forward a proposal at a Shareholders' meeting shall be any number of Shareholders representing not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings at the date of the requisition.

Shareholders or investors can enquire by putting their proposals with the Company through the following means:–

Hotline no.: 2549 0669

By post: Room 3505, West Tower, Shun Tak Centre, 200 Connaught Road Central, Hong Kong

INVESTOR RELATIONS

To enhance its transparency, the Company encourages dialogue with institutional investors and analysts. Extensive information about the Company's activities is provided in its interim and annual reports, which are sent to Shareholders, analysts and interested parties. The Company also maintains regular communication with the media. The Company's news releases, announcements and publications are circulated timely, to all major news media. The same materials are also available on the Company's website. Media briefings are organized from time to time to relay details of the Group's latest business initiatives and market development plans.

Regular meetings are also held with institutional investors and analysts to disseminate financial and other information related to the Group and its business. These activities keep the public aware of the Group's activities and foster effective communication. The Group's investor relation firm in Hong Kong is Porda Havas International Finance Communications Group.

There were no changes in the constitutional documents of the Company during the Year.

RISK MANAGEMENT AND INTERNAL CONTROL

During the Year, the Board complied with the code provisions on risk management and internal control as set out in the CG Code. The Board has overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives, and maintaining appropriate and effective risk management and internal control systems for the Group. The systems are designed to manage the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The management of the Company has established a set of comprehensive policies, standards and procedures in areas of operational, financial and risk controls for safeguarding assets against unauthorized use or disposition; for maintaining proper accounting records; and for ensuring the reliability of financial information to achieve a satisfactory level of assurance against the likelihood of the occurrence of fraud and errors.

The Board has overseen the Company's risk management and internal control systems on an ongoing basis. A year end review of the effectiveness of the Company's and its subsidiaries risk management and internal control systems has been conducted annually and the systems are considered to be effective and adequate. Self-assessment and comprehensive risk assessment surveys have been conducted during the review. The Company also has an internal audit function to carry out the analysis and independent appraisal of the adequacy and effectiveness of the systems, and has procedures in place to keep information confidential and manage actual or potential conflicts of interest. Stringent internal structures have been designed to prevent the misuse of inside information and avoid conflicts of interest.

All Directors and those employees who could have access to, and monitor, the information of the Group are responsible for making appropriate precautions to prevent abuse or misuse of such information. Employees of the Group are prohibited from using inside information for their own benefit.

The Board is also vested with the responsibility to disseminate to the Shareholders and the public any inside information in the form of announcements and circulars, in accordance with the Listing Rules.

Environmental, Social and Governance Report

ABOUT THIS REPORT

Ping Shan Tea Group Limited (the "Group" or "We") completed capital reconstruction in 2013 and officially entered the tea market of PRC with great potentials. Upholding the brand philosophy of "quality tea comes from the nature", the Group strives to preserve and promote tea culture by constructing ecological tea parks with achieving "zero pollution" in tea production as a goal.

This is the first environmental, social and governance ("ESG") report of the Group covering the period from 1 January 2016 to 31 December 2016 providing a summary and conclusion regarding the Group's efforts in sustainable development during 2016. The Group wishes to conduct effective communications with all stakeholders on topics including environment, social and governance through this report so as to improve our sustainability system and practice sustainable operations. In preparing this report, the Group made disclosures in relation to its philosophies, operating process and results of sustainability works regarding tea plantation, first-stage processing of tea leaves, fine processing of tea leaves and tea product sales business, in compliance with requirements under Appendix 27 "Environmental, Social and Governance Reporting Guide" of the Rules Governing the Listing of Securities issued by the the Stock Exchange of Hong Kong Limited ("HKex"). In determining the range of reporting, the Group also took into considerations the concerns of stakeholders. Moreover, the Group included the Environmental, Social and Governance index of HKex to enhance readability of the report.

The Group welcomes any advice and suggestions in response to this report and regarding the Group's performance in sustainable development. Please send your feedbacks to info@pingshantea.com.hk.

DIRECTION OF SUSTAINABLE DEVELOPMENT

As a promoter of ecological tea operation, we fully recognize the importance of sustainable development. Our direction of sustainable development relates to the selection of location and construction of tea parks, tea plantation and processing, tea product packaging and sales, office operations, staff care, anti-corruption and community contribution, etc. Our objective is to focus and engage in environmental protection and ecological construction efforts to create better living conditions for urban and rural residents. At the same time, we strive to care for and protect staff members of the Group and provide a pleasant living and working environment for them. We also leverage on our industry influence with a view to seek community harmony and give back to the society.

COMMUNICATIONS WITH STAKEHOLDERS

It has always been the belief of the Group that effective participation of and continuing support from our stakeholders are crucial to its long-term success. The Group has explored various approaches to include stakeholders from different sectors and levels to express their opinions and suggestions regarding the results of sustainability and future development strategies of the Group. Meanwhile, for the sake of strengthening mutual respect and trust, the Group takes advantage of both official and private channels to actively establish a stakeholders' communication mechanism, hoping that our business plans can align with the requirements and expectations of stakeholders, as well as to predict the risk of participation in time, thereby solidifying our relationships with stakeholders.

Stakeholders of the Group come from different sectors and levels, including employees, shareholders, business partners and suppliers of the Group, government regulatory bodies, non-governmental organizations and local communities. Opinions and suggestions from various stakeholders form one of the bases of this report.

PASS ON THE CULTURE OF TEA AND CELEBRATE THE WISDOM OF THE NATURE

China is the origin of tea. Tea drinking has been a part of Chinese culture for thousands of years and "tea as gifts" remains prevalent among Chinese people as a tradition. Over the years, the accumulation of tea cultivation and production skills have laid down a solid foundation for the development of Chinese tea culture. Nowadays, China has reached a historic high in terms of production volume, sales and export of tea, which is mainly attributable to the monetary support of local governments, introduction and advancement of new technology, and research and development of new products.

In recent years, governments at different levels have attached great importance to the development of the tea industry, facilitating its development with capital input, structural adjustment for the industry, technology innovation, technical development and expansion of overseas market. With policy and funding support, tea corporations are eager to renovate their refinery plant and equipment and construct standardized, clean and efficient tea plantation in line with modern standards. They also apply for certifications, such as SC food production permit, ISO9000 quality management system series, ISO22000 food safety management system series, as a quality and safety assurance for tea products.

At the same time, China has developed a comprehensive tea distribution and retail market network, covering product harvest, organization, price negotiation, storage, transportation, information exchange, to serve as a diversified and smooth medium for the sales of raw tea and refined tea products.

Amid rapid development of the tea industry and tea product market, the pursuit of "integrity and self-discipline" of tea culture has also become prevalent in different aspects of material and spiritual life. Government departments and authorities in every industry have been increasingly active in the promotion of tea culture. For instance, the Anxi Government cooperates with local tea farmers and traders to organize tea culture activities so as to introduce traditional tea appreciation and tea competition to local and overseas people. From an ecological perspective, Chinese tea culture exhibits a harmonious relationship between human and the nature and urges for natural lifestyle, environmental protection and ecological balance. It respects lives and proposes a holistic view on the values of individuals and the nature, which is complementary and closely related to the development of modern material and spiritual culture.

PASS ON THE CULTURE OF TEA AND CELEBRATE THE WISDOM OF THE NATURE (continued)

With the principles of environmental protection, ecological development and respect for lives, the Group actively explores the Chinese tea industry for development opportunities. It strives to expand sales channels for the brand development of "Ping Shan Tea" in the Chinese tea market. Spreading the healthy tea drinking concepts of "ecology, technology and grade", it contributes to the preservation of traditional tea culture.

History of Business Development

2013

Transformation of principal activity

Acquisition of a subsidiary, China Natural Tea Holdings Company Limited, including its tea plantation of approximately 30,000 Mu in Anxi County, Fujian Province. In 2012, China Natural Tea Holdings Company Limited introduced the first fully automated production line for the primary processing of oolong tea in China to eliminate weather as a limiting factor in the primary processing of tea, thereby significantly boosting production efficiency.

2014

Further expansion of the tea business

Acquisition of a subsidiary, Anhui Ji Gong Tea Limited, including its tea plantation of approximately 40,000 Mu in She County, Anhui Province.

2015

Construction of plantation base of green tea

Upgrade and renovation of Anhui tea plantation to construct a modern plantation base of green tea.

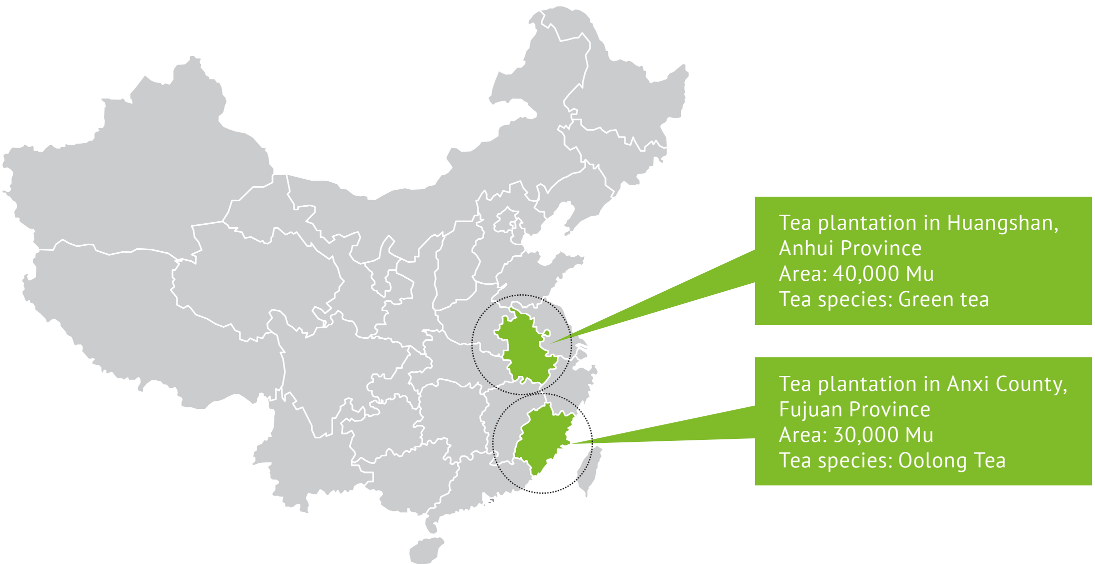
2016

Introduction of fully automated production line of refined teas

It set up the basic equipment for further enhancement of tea production and business expansion in the future.

PASS ON THE CULTURE OF TEA AND CELEBRATE THE WISDOM OF THE NATURE (continued)

History of Business Development (continued)



For the year ended 31 December 2016, the Group operated two tea cultivation bases, which were situated at Anxi county, Fujian province ("Anxi Tea Plantation") and She county, Huangshan city, Anhui province ("Anhui Tea Plantation") respectively. They occupied a total plantation area of 70,000 Mu, and cultivated various sub-varieties of oolong and green teas including, inter alia, Tie Guan Yin（鐵觀音）, Mao Xie（毛蟹）, Huangjin Gui（黃金桂）and Huangshan Maofeng（黃山毛峰）.

For the year ended 31 December 2016，total production volume of each sub-variety of raw tea at Anxi Tea Plantation were as follows:

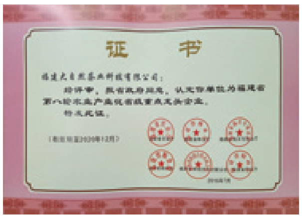
Sub-variety of raw tea	Annual production volume (kg)
Tie Guan Yin	523,044
Ben Shan	399,130
Mao Xie	2,436,980
Huangjin Gui	174,699
Total	**3,533,853**

The Anhui Tea Plantation of the Group is now fully equipped with equipment for production line and is expected to commence commercial operation in 2017. The major sub-variety of tea to be cultivated is Huangshan Maofeng. Expected total annual production volume of raw tea is approximately 1,700,000 kg.

PASS ON THE CULTURE OF TEA AND CELEBRATE THE WISDOM OF THE NATURE (continued)

Recognition from our indutry

The Group's contribution and effort in developing the tea industry had gained recognition and accreditations from government entities and authoritative bodies in the industry. For the year ended 31 December 2016, the Group received the following awards:

Description of the award		Awarded by	Time of award
	The 8th round industrialization of Fujian province agriculture sector (2016 – 2020) – Provincial Key Leading Enterprise	Fujian Department of Agriculture, Fujian Department of Forestry, Fujian Department of Marine and Fisheries, Fujian Administration of Grain, Fujian Supply and Sale Co-operation Association, Fujian Finance Department	July 2016
	The 8th round industrialization of Quanzhou agriculture sector (2016 – 2018) – Municipal Key Leading Enterprise	Quanzhou Administration of Agriculture, Quanzhou Administration of Finance	September 2016
	The 7th International Tea Expo of Anxi – China's Foremost Tea City – the Best Loved by Buyers Award	Organizing Committee of the International Tea Expo of Anxi – China's Foremost Tea City	October 2016

"PURSUIT OF HARMONIOUS HUMANS AND PLANTS RELATIONSHIP" IN DEVELOPING ECOLOGICAL TEA BUSINESS

Strict compliance with laws and regulations

Our tea business operation has been conducted in a manner that is in strict compliance with a range of laws and regulations promulgated by the central government as well as various industry standards. In addition to legal requirements as stipulated in such laws as the Food Safety Law, the Law on Product Quality, Law on Quality and Safety of Agricultural Products, the Environmental Protection Law, so far as the aspect of tea growing and processing is concerned, the Group has also been in strict compliance with various national standards including Environmental Quality Standard for Soils (GB 15618), National Standard – Oolong Tea (GB/T 30357), Methodology of Sensory Evaluation of Tea (GB/T 23776), National Food Safety Standard – Maximum Levels of Contaminants in Foods (GB 2762), National Food Safety Standard – Maximum Residue Limits for Pesticides (GB 2763). In respect of packaging and sale of tea, we have been strictly comply with national standards including the National Food Safety Standard – General Principles on Prepackaged Food Labels (GB 7718), General Principles on Tea Packaging (GH/T 1070), General Principles on Tea Storage (GH/T 1071), Rules of Metrological Testing for Net Quantity of Products in Prepackages wth Fixed Contents (JJF 1070), Packaging – Pictorial Marking for Handling of Goods (GB/T 191). The Group has always been committed to implement measures and ensure the safety, hygienic conditions and environmental protection in its operation in tea leaves growing, processing, producing, sampling, testing of contents, packaging and storage and transportation.

"PURSUIT OF HARMONIOUS HUMANS AND PLANTS RELATIONSHIP" IN DEVELOPING ECOLOGICAL TEA BUSINESS (continued)

Product certification

Anxi Tie Guan Yin" Certification Mark

The Groups's "Anxi Tie Guan Yin" product line had obtained approval from the State Administration for Industry and Commerce in 2016 for use of designated "China geographic mark" and "Anxi Tie Guan Yin" certification mark. Such approval signified the fact that our Tie Guan Yin products had met the national standards in respect of cultivation, processing, production, quality assurance and product hygiene and gave a boost to the authoritative status and brand recognition of these products.

Organic products certification

Ever since the commencement of our tea business, the Group has always stressed the importance of investing in the development work of ecological tea plantation, and endeavors to cause the tea plantation environment and conditions of the processing and production of tea products to fulfil the requirements for environmental protection and meet the national standard on place of origin of organic products. For the year ended 31 December 2016, the Group owned 500 Mu of tea-green production area which has obtained the Organic Products Certification at the Anxi Tea Plantation, and 4 Mu of Ping Shan oolong tea and Ping Shan Tie Guan Yin production area that has obtained the Organic Products Certification. The above products and their production (processing) flow were all in compliance with the requirements in the Rules of Implementing the Certification of Organic Products, and had been approved by authoritative certification body in China.

Quality management system certification

On the basis of strict compliance with the laws and regulations and the industry standards, the Group has also sought to ferociously strengthen its corporate management and enhance its product quality so as to further expand both the domestic and overseas markets. Guided by this objective, the Group has introduced the management standards under ISO9001:2008 Quality Management System and ISO22000:2005 Food Safety Management System to its Anxi tea operation, and we had obtained the ISO9001 Quality Management System Certificate covering "processing of oolong tea" and the ISO22000 Food Safety Management System Certificate covering "processing of oolong teat tea leaves processing workshop" in 2016. The obtaining of these ISO certifications demonstrates that quality management systems in areas including corporate management optimization, product safety and quality assurance, consolidation of supply-and-sale relation, market and after-sale service quality assurance have been properly established by the Group. They bode well to the further effort in enhancing production efficiency, cost reduction, expansion of sale channels, enhancing of market competitiveness and customer satisfaction.

"PURSUIT OF HARMONIOUS HUMANS AND PLANTS RELATIONSHIP" IN DEVELOPING ECOLOGICAL TEA BUSINESS (continued)

Construction and development of tea cultivation bases

Possession of tea cultivation bases with favourable natural conditions and infrastructure is instrumental to growing high quality tea leaves. The Group is in possession of two tea cultivation bases. Both bases enjoy advantageous natural conditions and ecological environment such as high altitude, long hours of sunshine and abundant rainfall, and are suitable for tea leaves cultivation. The history of tea production could be dated back a few centuries ago. Anxi Tea Plantation Base is located at Da Ping and Xi Ping, Anxi county, Fujian province, lying along the south-eastern coast of the province. The area has an average altitude of 850 meters above sea level and features mid-subtropical climate. It has an average temperature over a year of 16-18°C, with a yearly sunshine duration of 1,875 hours. Its rainfall capacity is 1,700-1,900 mm with relative humidity of 70%-80%. Anhui Tea Plantation Base is located at She county, Huangshan city, Anhui province, lying in the mountainous region of southern Anhui. The area has an average altitude of 1,000 meters above sea level and features transitional mid-subtropical and northern-subtropical climate. It has an average temperature over a year of approximately 16.3°C, with a yearly sunshine duration of 1,930 hours. Its rainfall capacity is 1,540 mm with relative humidity of 85%. Forest coverage is about 78%. Both tea cultivation bases enjoy excellent environmental conditions and the conditions of air, soils and water are completely unaffected by pollution caused by industrial activities.

The Group has strictly complied with the Forestry Law and the Law on the Contracting of Rural Land of the PRC and signed relevant forest right certificates and certificates of contractual management right of land with the owners of the land and forests covered by our tea cultivation bases. We would monitor the expiration dates of the above certificates closely and make renewal application for them in a timely manner to ensure the Group holds legal and valid land use rights and forest land use right.

On development of the tea cultivation bases, the Group is also concerned about its impact on ecological environment. Our tea cultivation bases have planted bamboos, pines and taiwania flousianas to form a natural barrier to separate the tea cultivation bases from agricultural zone and industrial zone, thereby keeping the tea trees from pollution. The separation setting also contributes to soil and land conservation and maintenance of bio-diversity in the tea cultivation bases.

Tea cultivation and processing

Tea cultivation and processing is one of the key links in the Group's tea business operation. With a meticulously designed and highly regulated cultivation and processing flow, the Group is able to provide strong assurance on the high quality of its tea products. The Group adopts a vertically integrated business model to run and manage its operation, which mainly comprises, inter alia, cultivation, processing (primary processing and refining) and sale. The Group grows raw tea from its own tea plantations and therefore is able to exercise effective control over the quality of raw materials and costing. For the process of tea tree planting, high quality and pollution-free agricultural material products (fertilizers and pesticides) have been selected for application to reduce the pollutive effect to our tea products and to the soils in tea cultivation bases. The primary processing and refining procedures of tea are conducted through an automated tea leaves processing production line of the Group, followed by a meticulous quality checking process to ensure their food safety conditions are up to required standard.

"PURSUIT OF HARMONIOUS HUMANS AND PLANTS RELATIONSHIP" IN DEVELOPING ECOLOGICAL TEA BUSINESS (continued)

Tea cultivation and processing (continued)

Proper and comprehensive organizational regulation

On organizational regulation, the Group has put in place a series of written guidelines and procedures. For example, the Code for Tea Plantation Cultivation Control sets out the methodology of tea tree planting and the cultivation control procedure, procedure of picking and processing of fresh leaves, procedure of procurement, requesting to use and inspection of materials for agricultural production ("agricultural materials"), as well as procedure of usage, repairing and maintenance of equipment. The Code of Tea Production Department covers rules of operation and hygienic requirement for personnel in the refined tea production workshop. The Code of Tea Quality Control Department sets out specific requirements on quality assurance for delivery of raw materials, semi-finished and finished products, packaging check etc. The Code of Tea Leaves Procurement Management focuses on setting out specific requirements for comparison of pricing difference among packaging materials, pricing different of product, reviewing and other procedures in the procurement function. The Group gives assurance on the regulating of its business process through those codes and guidelines.

Stringent sanitation management

The Group requires that administrative staff at our tea cultivation bases be responsible for the environmental and sanitation works at their respective regions. Sources of pollutants including domestic garbage and other wastes are removed, and the sanitary condition at each tea plantation region is inspected regularly. If any pollutant (such as garbage) is found, it must be cleaned out immediately.

In addition, the Group also closely monitors natural disasters including (among others) typhoons, storms and landslides, and requires all bases make arrangements in advance for prevention and damage control so as to minimize losses caused by extreme weathers and natural disasters.

Natural water sources for irrigation

Water source for irrigation at our tea cultivation bases depends on each geography location. Taking full advantage of the abundant rainwater resources in the local areas, we adopt the following measures: constructing water reservoirs; combining the approaches of rainwater irrigation with mountain water irrigation; and using modern techniques of sprinkler irrigation and drip irrigation. In this way, we are able to satisfy irrigation standards for tea plants while effectively preserving water.

"PURSUIT OF HARMONIOUS HUMANS AND PLANTS RELATIONSHIP" IN DEVELOPING ECOLOGICAL TEA BUSINESS (continued)

Tea cultivation and processing (continued)

Pollution-free agricultural material products

In our tea leaves growing operation, the Group has always insisted on using agricultural material products (including fertilizers and pesticides) that are safe, highly effective and pollution-free. The agricultural material products suppliers whom our Anxi Tea Plantation had been working with was a agricultural material products supplying firm co-founded by Tea Leaves Trade Union of Anxi County, Fujian Tea Leaves Import/Export Company Limited and Fujian Green Food Development Center. The supplying firm had vigorously implemented such safety regulatory standard on agricultural materials including tea leaves inputs, as stipulated by the Anxi county party committee and county government. It has adopted a modern agricultural materials regulating model and has vast experience and strong reputation in areas such a sale of agricultural material products, formula fertilization, soil upgrade, technical guidance and training on dealing with tea tree sickness and pest problem.

With the application of pollution-free agricultural material products, the Group could ensure the thorough satisfaction of the "green food" standard of its tea products and could effectively mitigate pollution caused to the soils in the tea cultivation bases, thereby achieving compliance with the relevant requirements of the Environmental Quality Standard for Soils (GB 15618) on soil quality and contaminant contents for the tea plantations.

Automative processing equipment

In 2012, the Group introduced fully automative production lines for the primary processing of oolong tea, which enabled automative, hygienic and uninterrupted operation of primary processing of tea leaves, including procedures like tea leave plucking, drying, tossing, fixation and rolling. In 2016, the Group further introduced fully automative production lines for the refinery of oolong tea, which enabled fully automative operation of refinery and processing, including procedures like stem picking, color sorting, baking, blending, purification and automative packaging.

The Group's fully automative production equipment integrates both traditional processing methods and advanced technological facilities. It adopts far infrared and hot and cold air supply to reduce labor costs and significantly enhance the efficiency of tea leaves processing. It also achieves "untouched raw tea leaves" to prevent secondary pollution in the course of tea leave production, which facilitates clean production and further ensures the product quality and safety.

"PURSUIT OF HARMONIOUS HUMANS AND PLANTS RELATIONSHIP" IN DEVELOPING ECOLOGICAL TEA BUSINESS (continued)

Tea cultivation and processing (continued)

Stringent quality control

The Group's quality inspection procedures for raw materials of tea leaves, semi-finished and finished products strictly comply with national standards including National Standard-oolong tea (GB/T 30357), Methodology of Sensory Evaluation of Tea (GB/T 23776), National Food Safety Standard-Maximum Levels of Contaminants in Foods (GB 2762) and National Food Safety Standard-Maximum Residue Limits for Pesticides (GB 2763), and formulate the Policy for Quality Control Department of Tea Leaves to implement stringent control of products quality including:

☑ At the phase of inspection for acceptance and storage of raw materials, we conduct sampling tests and inspections on all inbound raw materials of tea leaves on the day of arrival;

☑ We ensure the proper preparation of samples for receipt and inspection, semi-finished products samples in terms of purity and samples from refined production lines in terms of heating control, all of which play a crucial role during our production process. Products must be manufactured in consistency with the samples and undergo inspection for acceptance by relevant work-rooms. Commencement of production is subject to the review and approval of segment officers;

☑ In case of any changes in relation to product quantity during the production process, Quality Control Department staff should make adjustments for the blending combination of raw materials in a timely manner, which will be processed to production after approval;

☑ As for operating practices and hygiene, all staff who has accessed the work-room are required to put on worksuit and helmets properly to avoid the accidental addition of human hairs in tea leaves or other substance different than tea leaves is mixed into our products by negligence. We set up window screens for production sites operated during night time, so as to keep insects away from the production work-rooms; and

☑ Apart from inspections carried out by our department, the Group also arranges sample submission to quality inspection constitutes, such as the Entry-Exit Inspection and Quarantine Bureau by Quality Control Department in accordance with relevant regulations for the issuance of authoritative Testing Report.

In addition, the Group has engaged experts with qualifications of National First-class Tea Appraiser, National First-class Master for Tea Processing and Master Craftsman for Anxi Tie Guan Yin Tea as Production Director, offering further quality and safety assurance for our tea products.

"PURSUIT OF HARMONIOUS HUMANS AND PLANTS RELATIONSHIP" IN DEVELOPING ECOLOGICAL TEA BUSINESS (continued)

Tea cultivation and processing (continued)

Stringent selection of packaging suppliers

Packaging of tea products is the major purchase of the Group. Fujian Huidian Packing Co., Ltd, a subsidiary of the Group is its major packaging supplier for the year ended 31 December 2016. In addition, the Group also remains a long-standing relationship with an independent company of tins manufacturing.

The Group strictly adheres to the requirements set out in the Management Policy for Procurement of Tea Leaves (《茶葉採購管理制度》) during the selection process of packaging suppliers. We gather information including business license of potential suppliers while commencing the analysing procedure for purchase prices, which is conducted through comparing historical purchase record and market rate by the procurement department staff, to select qualified packaging suppliers that meet the size, quality and price standards of the Group. A processing contracting agreement will be entered upon the final review and confirmation of the department head.

The Group places great emphasis on protection of human rights and labour rights within our supply chain, and does not condone practices of child and forced labour. Since the Group expects the same from our suppliers, we will terminate our collaboration with them once we discover the existence of such practices.

Tea product sales aspect

In accordance with the "system of the tea sales department", the Group manages pricing, outlets and major customers, trade receivable collection, product return, market expansion and brand development.

Other than production and sales of raw teas, the Group also taps into the high-end tea market with the promotion of the self-developed brand, "Ping Shan Tea". For the year ended 31 December 2016, the Group has more than 39 points of sales and a sales network which covers 20 provinces, direct-controlled municipalities and autonomous regions.

坪山
PING SHAN

Primary sales channels of the Group include sales of third-party outlets, self-operated outlet and online stores and sales to major customer. In the preparation of the "Outlet List", sales department of the Group conducts a detailed survey on the information of each outlet, such as name, number, contact person, contact information and address to manage outlet operation effectively.

In strict compliance with the "Trademark Law", the Group completes the application for trademark registration properly. It is expressly stated in the "Tea distribution agreement" with distributor that without the consent of the Group, a distributor may not authorize any third-party to use the registered trademark of the Group for any purpose and shall not participate in or assist any activity that may infringe the trademark right of the Group. For any activity such as marketing, advertisement, brand building and sales promotion, a distributor shall report to the Group for prior approval.

"PURSUIT OF HARMONIOUS HUMANS AND PLANTS RELATIONSHIP" IN DEVELOPING ECOLOGICAL TEA BUSINESS (continued)

Office operation

Other than its commitment to the development of eco-friendly tea industry, the Group also encourages each staff member to support the concept of environmental protection and cherishing resources, pursuant to which, environmental protection measures are consistently implemented in each procedure from production activity to office operation. The Group has put in place various energy saving and emission reduction measures in each tea cultivation base and office area, including electricity preservation, water preservation, paper use reduction and proper waste management. It also urges employees to "take the initiatives" to participate in environmental friendly practices and reduce the impact of office operation on the environment and natural resources.

Electricity preservation

Electricity consumption is the primary sources of carbon emissions in the course of office operation of the Group. The Group has implemented a number of energy saving solutions, such as:

☑ Install efficient electronic equipment and take energy label into consideration in the selection of electronic equipment (for instance, grade 1 or grade 2 electronic equipment is chosen);

☑ Install energy saving light bulbs and adopt LED lighting, while squeezing the most out of natural lighting;

☑ Configure the temperature setting of air conditioner to save energy with an optimal setting of 24 to 26 degrees Celsius; filter screen of air conditioners is regularly cleaned to improve cooling efficiency;

☑ Switch off lighting and energy consuming devices not in use; put personal computers to sleep instead of screen saving mode; Before rest days and holidays, pull the plug of devices such as coffee makers and microwave ovens before switching off the electricity supply of the office; and

☑ Use telephone conference or electronic mail instead of overseas business trip whenever possible.

"PURSUIT OF HARMONIOUS HUMANS AND PLANTS RELATIONSHIP" IN DEVELOPING ECOLOGICAL TEA BUSINESS (continued)

Office operation (continued)

Water preservation

"Flowing water neither rots nor returns" and it is the responsibility of each citizen to protect and preserve water resources. The Group has adopted the following measures for water preservation:

☑ Water preserving devices and products are preferred for office area, such as water saving taps, dual flush toilets, to boost water efficiency;

☑ Monitor the condition of water consuming devices continuously, such as conducting regular check for damaged pipe which is leaking or cracked and immediately remedying any identified issue; and

☑ Arrange water preservation education for employees to promote water saving ideas, such as reminding employees to "turn off the tap".

Reducing use of paper

"Save paper, save trees". Paper is made from wood and forestry is an important natural resource of the Earth. Smart use of paper helps preserve forestry resources and benefits future generations. The Group puts the concept of paper use reduction into practice with the following measures:

☑ Avoid overuse of package paper and accessories;

☑ Encourage the use of electronic means of communication for notice publication, report, collection of feedback and recommendation; Use electronic mail instead of fax or letter;

☑ Collect paper documents with recycle bin, such as waste paper, letters and envelopes;

☑ Other than paper with confidential information, deliver waste paper to paper recycling company;

☑ Use electronic system to handle documentary works;

☑ Adopt double sided printing as the default setting;

☑ Print on both sides and support the principle of "think before printing"; Share documents among colleagues; print the exact number of copies required at a meeting and avoid making excessive copies; and

☑ Install electric hand dryers to reduce tissue consumption.

"PURSUIT OF HARMONIOUS HUMANS AND PLANTS RELATIONSHIP" IN DEVELOPING ECOLOGICAL TEA BUSINESS (continued)

Office operation (continued)

Waste management

The Group considers waste management an important aspect and handles recyclable and non-recyclable waste properly. For instance:

☑ Used ink bottles are recycled;

☑ In respect of office stationery, staff members are encouraged to use changeable pen refills and reuse pen barrel, instead of replacing the whole pen;

☑ Replace all disposable cup and wood chopstick with reusable one, such as porcelain cup and reusable utensil.

Through the above measures, the Group practices the idea of environmental protection in the course of office operation. At the same time, it reviews, revisits and improves the effectiveness of each measure. In future development, the Group will further explore and implement more effective solutions to save energy and reduce emissions. It will also strengthen the effort of promoting ideas of environmental protection, with a view to creating a green community through concerted efforts with our staff members.

"FULFILLING RESPONSIBILITY" TO UPHOLD THE VIRTUES OF TEA CULTURE

Chinese tea culture emphasizes the pursuit of "harmony of life", respect of lives, "fulfilling responsibility" and realization of individual values. The Group endeavors to integrate such idea into various aspects, including employee care, anti-corruption and social contribution, to develop an environmental friendly corporation that "cherishes harmony".

"TALENT NURTURING BASED ON TEA CULTURE" TO PROVIDE EMPLOYEE CARE

Adhering to the principle of "personal development based on the virtues of tea culture", the Group always regards employees as an important asset. In accordance with guidelines of the state laws and regulations, such as the "Labor Law", "Labor Contract Law" and "Employment Law", the Group has put in place "system of the human resource department" as appropriate, which covers duty and responsibility, recruitment system, training management system, promotion management system, departure management system, appraisal management system, remuneration management system and assessment policy, to ensure in various ways the human resource works of the Group are carried out in accordance with a rigid and standardized system. Human resource functions of the Group cover various aspects, including protection of employee rights, support for talent nurturing and developing a safe and healthy work environment.

Talent recruitment

The Group manages its human resources based on meritocracy and recruits through labor market, recruitment advertisement and internal recommendation and promotion when the demand for human resources arises from each department.

The Group supports fair competition and offers equal opportunity to every applicant. Recruitment decision is not affected by gender, age, ethnicity, race, nationality, religious belief, marital status, sexual orientation, gender identification, gender performance, qualification, physical and mental condition.

In the course of recruitment, the Group conducts intensive examination and inspection on the "application form" filled by the applicant and the identity document provided to ensure the applicant is over 16 years of age and complies with the requirement of prohibiting child labor under the "Labor Law".

Protection of employee rights

The Group strictly complies with the requirement of the "Sex Discrimination Ordinance", "Disability Discrimination Ordinance" and "Family Status Discrimination Ordinance" to offer equal opportunity in respect of recruitment, training, promotion, re-designation, remuneration and benefit, termination, etc. It is not affected by gender, age, ethnicity, race, nationality, religious belief, marital status, sexual orientation, gender identification, gender performance, qualification, physical and mental condition.

Further, the Group strictly complies with laws and regulations, such as the "Labor Law" and "Employment Ordinance", to provide employees with legal benefits and protection, including social security program in "five insurances and one fund (pension insurance, medical insurance, unemployment insurance, maternity insurance, work-related injury insurance and housing provident fund) and paid leave.

"TALENT NURTURING BASED ON TEA CULTURE" TO PROVIDE EMPLOYEE CARE (continued)

Nurturing talents

The Group understands fully that our employees' expertise and skills in the tea industry are crucial to the construction of ecological tea operations of the Company. Officials at the human resources department of the Group provide tailor-made training courses and training support to staff from different positions and levels in accordance with the Training and Management Programme:

☑ Each department formulates its own training and development plan for its staff based on business requirements and, subject to the approval of the human resources department, implements such plan.

☑ For new employees, the Group provides a general induction training on (among others) the Group's development history, development strategy, principal businesses, remuneration and benefits, performance assessment, to help new employees understand businesses and policies of the Company. Upon completion of the general training, new employees shall participate in a training assessment. When actual work commences, each department head shall provide guidance regarding working techniques and conduct performance reviews to new employees.

☑ For basic-rank employees, the Group arranges in-house instructors or department heads to provide trainings to them on the Company's Staff Code, Confidentiality Principle for Staff Members, rules and regulations of each department, work flow and practice, improvement and promotion of techniques, etc. In addition, the results of training assessment are included in the performance review records to encourage employees to actively participate in trainings.

☑ For department managers and heads or above-level employees, the Group provides trainings conducted by both in-house instructors and external experts on topics covering the establishment and operation of new operating models, management theories and operating principles, advancement courses for management, etc. In addition, the results of training assessment are included in the performance review records to encourage employees to actively participate in trainings.

☑ Besides internal trainings, the Group also provides strong supports for employees' involvement in external continuing development training courses and grants allowance for training expenses.

"TALENT NURTURING BASED ON TEA CULTURE" TO PROVIDE EMPLOYEE CARE (continued)

Ensuring safety and health

The Group adheres to the principle of "safety first" and strictly follows the requirements of "Safe Production Act"（安全生產法）, the "Interim Provisions on Supervision and Administration of Work Safety at Food Production Enterprises"（食品生產企業安全生產監督管理暫行規定）and other laws and regulations relating to ensuring safe production. We strive to promote the establishment of safe production standards and improvement of safe production infrastructure. In this regard, to prevent and reduce production incidents and ensure safety in production and health of our employees, we have adopted the following measures at our workshops, office buildings and staff dormitories as well as other localities:

☑ Protective measures are adopted for any appliance, facility or premise that uses electricity. For example, appliances in the production workshops are installed with residual current operated protective devices; electrical devices, wires and cables are covered with insulation layers to prevent low-pressure electric shock and electrical leakage accidents;

☑ High-temperature tea leaf drying facilities are installed with automatic alarm and cut-off systems to prevent over-heating, as well as insulation shields;

☑ Enhancing daily fire safety management. For example, workshops, offices and dormitory areas are installed with fire extinguishers, fire safety water tanks, sandbags and other fire prevention equipment; emergency exits are installed with obvious warning signs and are kept clear at all times; and

☑ All workers at the production workshops must hold standardized health certificates and wear protective gears such as gloves and face masks. The Group closely monitors health conditions of all our staff.

"UPHOLD HONESTY AND INTEGRITY AS INSPIRED BY THE WAY OF TEA MAKING" IN PREVENTING CORRUPTION

As a saying goes, "One shall live the wisdom of tea that integrity triumphs vanity". Through the ages, tea has become the symbol of spirits such as purity, courtesy and modesty in China, where literates have always had the perspective that "tea helps men stay honest and righteous". The Group sees our tea business as an opportunity, and actively implements "integrity in office" on the corporate governance level based on that principal.

The Group holds "zero tolerance" attitude towards bribery, extortion and fraud. Staff from fundamental to management levels must comply with the laws and regulations of United Nation, domestic and local government in relation to the prevention of bribery, extortion and fraud, which includes United Nations Convention Against Corruption and the Criminal Law of the People's Republic of China.

The Group clearly sets out in the Staff Code of the Company that no individuals is allowed to exploit workplace relationships for personal interest, commits corruption and bribery or misappropriate public funds. The Group encourages our staff to expose and report problematic practices once corruption and bribery is spotted, and deal with the corrupt acts/corruptive conduct in a serious manner.

"RESPECT FOR LIFE" AND CONTRIBUTE TO THE COMMUNITY

Development and growth of the Group is closely connected with the trust and support of our country and different sectors of the community. The Group is always grateful and respect for life. We make contribution to the community through active participation of the economic construction of the community to further the enhancement of people's lives and the positive economic development of the region.

The Group has strong commitment to social responsibilities such as poverty alleviation and compassion for the minorities by offering assistance such as subsidies to the poverty-stricken households within the tea cultivation bases, to render support of life improvement for the people in need.

In addition, the Group also invests in the fields of higher education and talent development. For instance, we sponsor students' activities of the Anxi Tea College, enhancing the overall quality of students and contributing to the comprehensive development and cultivation of talents of the new century.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE (ESG GUIDE) OF THE STOCK EXCHANGE OF HONG KONG LIMITED CONTENT INDEX

Subject Areas, Aspect, General Disclosure and KPI		Chapter/Statement	Page
A. Environmental **Aspect A1：Emissions**			
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.		"Pursuit of harmonious humans and plants relationship" in developing ecological tea business.	29-38
KPI A1.1	The types of emissions and respective emissions data.	We withhold disclosure of the information concerned during the year.	N/A
KPI A1.2	Greenhouse gas emissions in total and, where appropriate, intensity.	We withhold disclosure of the information concerned during the year.	N/A
KPI A1.3	Total hazardous waste produced and, where appropriate, intensity.	We withhold disclosure of the information concerned during the year.	N/A
KPI A1.4	Total non-hazardous waste produced and, where appropriate, intensity.	We withhold disclosure of the information concerned during the year.	N/A
KPI A1.5	Description of measures to mitigate emissions and results achieved.	We withhold disclosure of the information concerned during the year.	N/A
KPI A1.6	Description of how hazardous and nonhazardous wastes are handled, reduction initiatives and results achieved.	We withhold disclosure of the information concerned during the year.	N/A

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE (ESG GUIDE) OF THE STOCK EXCHANGE OF HONG KONG LIMITED CONTENT INDEX (continued)

Subject Areas, Aspect, General Disclosure and KPI		Chapter/Statement	Page
Aspect A2：Use of Resources			
General Disclosure Policies on the efficient use of resources, including energy, water and other raw materials. Note: Resources may be applied to production, storage, transportation, buildings and electronic devices, etc.		"Pursuit of harmonious humans and plants relationship" in developing ecological tea business	29-38
KPI A2.1	Direct and/or indirect energy consumption by type in total and intensity.	We withhold disclosure of the information concerned during the year.	N/A
KPI A2.2	Water consumption in total and intensity.	We withhold disclosure of the information concerned during the year.	N/A
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	We withhold disclosure of the information concerned during the year.	N/A
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	We withhold disclosure of the information concerned during the year.	N/A
KPI A2.5	Total packaging material used for finished products and, per unit produced.	We withhold disclosure of the information concerned during the year.	N/A

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE (ESG GUIDE) OF THE STOCK EXCHANGE OF HONG KONG LIMITED CONTENT INDEX (continued)

Subject Areas, Aspect, General Disclosure and KPI		Chapter/Statement	Page
Aspect A3：The Environment and Natural Resources			
General Disclosure Policies on minimising the issuer's significant impact on the environment and natural resources.		"Pursuit of harmonious humans and plants relationship" in developing ecological tea business	29-38
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	"Pursuit of harmonious humans and plants relationship" in developing ecological tea business	29-38
B. Social **Employment and Labour Practices** **Aspect B1：Employment**			
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.		"Talent nurturing based on tea culture" to provide employee care	39
KPI B1.1	Total workforce by gender, employment type, age group and geographical region.	We withhold disclosure of the information concerned during the year.	N/A
KPI B1.2	Employee turnover rate by gender, age group and geographical region.	We withhold disclosure of the information concerned during the year.	N/A

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE (ESG GUIDE) OF THE STOCK EXCHANGE OF HONG KONG LIMITED CONTENT INDEX (continued)

Subject Areas, Aspect, General Disclosure and KPI		Chapter/Statement	Page
Aspect B2：Health and Safety			
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer. relating to providing a safe working environment and protecting employees from occupational hazards.		"Talent nurturing based on tea culture" to provide employee care	41
KPI B2.1	Number and rate of work-related fatalities.	There were no work-related fatalities during the reporting period.	N/A
KPI B2.2	Lost days due to work injury.	We withhold disclosure of the information concerned during the year.	N/A
KPI B2.3	Description of occupational health and safety measures adopted, and how they are implemented and monitored.	"Talent nurturing based on tea culture" to provide employee care	41
Aspect B3：Development and Training			
General Disclosure Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.		"Talent nurturing based on tea culture" to provide employee care	40
KPI B3.1	The percentage of employees trained by gender and employee category.	We withhold disclosure of the information concerned during the year.	N/A
KPI B3.2	The average training hours completed per employee by gender and employee category.	We withhold disclosure of the information concerned during the year.	N/A

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE (ESG GUIDE) OF THE STOCK EXCHANGE OF HONG KONG LIMITED CONTENT INDEX (continued)

Subject Areas, Aspect, General Disclosure and KPI		Chapter/Statement	Page
Aspect B4：Labour Standards			
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.		The Group found no practices of child or forced labour in 2016.	N/A
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	The Group reviewed on an annual basis the sufficiency of recruitment procedures in the Recruiting Management System regarding the prevention of child and forced labour.	N/A
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	For employment of child or forced labour that fails to comply with the Company's regulations, the Group will ascertain responsibility of the management staff from specific department, and set up a dedicated panel to ensure sufficient protection of the victim(s).	N/A
Operating Practices			
Aspect B5：Supply Chain Management			
General Disclosure Policies on managing environmental and social risks of the supply chain.		Stringent selection of packaging suppliers	35
KPI B5.1	Number of suppliers by geographical region.	We withhold disclosure of the information concerned during the year.	N/A
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, and how they are implemented and monitored.	We withhold disclosure of the information concerned during the year.	N/A

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE (ESG GUIDE) OF THE STOCK EXCHANGE OF HONG KONG LIMITED CONTENT INDEX (continued)

Subject Areas, Aspect, General Disclosure and KPI		Chapter/Statement	Page
Aspect B6：Product Responsibility			
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.		Tea product sales aspect	35
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	We withhold disclosure of the information concerned during the year.	N/A
KPI B6.2	Number of products and service related complaints received and how they are dealt with.	We withhold disclosure of the information concerned during the year.	N/A
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	We withhold disclosure of the information concerned during the year.	N/A
KPI B6.4	Description of quality assurance process and recall procedures.	We withhold disclosure of the information concerned during the year.	N/A
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	We withhold disclosure of the information concerned during the year.	N/A

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE (ESG GUIDE) OF THE STOCK EXCHANGE OF HONG KONG LIMITED CONTENT INDEX (continued)

Subject Areas, Aspect, General Disclosure and KPI		Chapter/Statement	Page
Aspect B7: Anti-corruption			
General Disclosure		"Uphold honesty and integrity as inspired by the way of tea making" in preventing corruption	42
Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.		The Group found no noncompliance with relevant laws and regulations.	
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	In 2016, there were no litigations against the Group or its employees in relation to corruption, bribery, extortion, fraud and money laundering that has occurred or is now in progress.	N/A
KPI B7.2	Description of preventive measures and whistle-blowing procedures, and how they are implemented and monitored.	"Uphold honesty and integrity as inspired by the way of tea making" in preventing corruption	42
Community **Aspect B8: Community Investment**			
General Disclosure		"Respect for life" and contribute to the community	42
Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.			
KPI B8.1	Focus areas of contribution.	We withhold disclosure of the information concerned during the year.	N/A
KPI B8.2	Resources contributed to the focus area.	We withhold disclosure of the information concerned during the year.	N/A

Report of the Directors

The Directors are pleased to present their report and the audited consolidated financial statements of the Group for the Year.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of its principal activities of the principal subsidiaries are set out in note 36 to the consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during the Year.

BUSINESS REVIEW

The business review of the Group for the Year is set out in the sections of Chairman's Statement, Five-Year Financial Summary, Management Discussion and Analysis, Environmental, Social and Governance Report and the paragraphs below.

The Group complies with the requirements under the Companies Ordinance, the Listing Rules and the Securities and Futures Ordinance (the "SFO") for the disclosure of information and corporate governance. The Group also complies with the requirements of Employment Ordinance and ordinances relating to occupational safety for the interest of employees of the Group. Important events affecting the Group occurred since the end of the Year are mentioned in "Events After the Reporting Period".

Key Risk Factors

The following lists out the key risks and uncertainties facing the Group.

Impact of Local and International Regulations

The business operation of the Group is also subject to government policy, relevant regulations and guidelines established by the regulatory authorities. Failure to comply with the rules and requirements may lead to penalties, amendments or suspension of the business operation by the authorities. The Group closely monitors changes in government policies, regulations and markets as well as conducting studies to assess the impact of such changes.

Third-Party Risks

The Group has been relying on third-party service providers in parts of business to improve performance and efficiency of the Group. While gaining the benefits from external service providers, the management realizes that such operational dependency may pose a threat of vulnerability to unexpected poor or lapses in service including reputation damage, business disruption and monetary losses. To address such uncertainties, the Group engages only reputed third-party providers and closely monitors their performance.

Key Relationships with Employees, Customers and Suppliers

The Group recognizes the accomplishment of the employees by providing comprehensive benefit package, career development opportunities and internal training appropriate to individual needs. The Group provides a healthy and safe workplace for all employees. No strikes and cases of fatality due to workplace accidents are found in the Year under review.

The Group encompasses working relationships with suppliers to meet our customers' needs in an effective and efficient manner. The departments work closely to make sure the tendering and procurement process is conducted in an open, fair and just manner. The Group's requirements and standards are also well-communicated to suppliers before the commencement of a project.

The Group values the views and opinions of all customers through various means and channels, including usage of business intelligence to understand customer trends and needs and regular analyze on customer feedback. The Group also conducts comprehensive tests and checks to ensure that only quality products and services are offered to the customers.

SEGMENT INFORMATION

Details of the segment information of the Group for the Year are set out in note 8 to the consolidated financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the Year and the state of affairs of the Group as at that date are set out in the consolidated financial statements on pages 72 to 172.

The Board does not recommend the payment of a final dividend for the Year (Year 2015: HK$Nil).

CLOSURE OF REGISTER OF MEMBERS

In order to determine the entitlement to attend and vote at the forthcoming annual general meeting of the Company to be held on Wednesday, 28 June 2017 (the "AGM"), the register of members of the Company will be closed from Thursday, 22 June 2017 to Wednesday, 28 June 2017, both days inclusive, during which period no transfers of shares shall be effected. The holders of shares whose names appear on the register of members of the Company on Wednesday, 28 June 2017 will be entitled to attend and vote at the AGM. In order to qualify for attending and voting at the AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Union Registrars Limited at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong, for registration not later than 4:00 p.m. on Wednesday, 21 June 2017.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 3 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the Year are set out in note 15 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in the Company's share capital during the Year are set out in note 32 to the consolidated financial statements.

CONVERTIBLE BONDS, DEBENTURES, FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS AND PROMISSORY NOTES

Details of the convertible bonds, debentures, financial liabilities at fair value through profit or loss and promissory notes issued by the Company are set out in notes 27, 28, 29 and 30 to the consolidated financial statements respectively.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to the existing Shareholders.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the Year, there were increases in the issued share capital of the Company through the following issuance of shares of the Company:

1) issuance of 2,000,000,000 consideration shares pursuant to the Share Transfer Agreement;

2) issuance of 370,769,366 new ordinary shares upon conversion of convertible bonds;

3) issuance of 1,820,000,000 new ordinary shares pursuant to the Equity Transfer Agreement; and

4) issuance of 1,000,000,000 new ordinary shares pursuant to the Sale and Purchase Agreement.

The total number of issued share capital of the Company as at 31 December 2016 comprised 23,325,093,070 ordinary shares.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Year.

RESERVES

Details of the movements in the reserves of the Company and of the Group during the Year are set out in note 35(b) to the consolidated financial statements and the consolidated statement of changes in equity on page 76 of this annual report.

DISTRIBUTABLE RESERVES

At 31 December 2016, the Company had distributable reserves of approximately HK$1,560.1 million. Under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the share premium account of the Company of approximately HK$4,029.0 million as at 31 December 2016, is distributable to the Shareholders provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

For the Year, the percentage of sales attributable to the Group's five largest customers was approximately 18.4%, in which sales to the largest customer represented approximately 4.1% of the total sales for the Year.

The percentage of purchase attributable to the Group's five largest supplier was approximately 26.2% while total purchase from the largest supplier represented approximately 10.0% of the total purchase for the Year.

Neither the Directors, any of their close associates nor any Shareholders (which to the best knowledge of the Directors who owned more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and/or five largest suppliers during the Year.

DIRECTORS

The Directors during the Year and up to the date of this report are as follows:

Executive Directors

Mr. Cai Zhenrong *(Chairman)*
Mr. Cai Zhenyao
Mr. Cai Zhenying
Mr. Cai Yangbo *(Managing Director)*
Mr. Choi Wing Toon
Mr. Zhang Lu (Appointed on 25 August 2016)
Mr. Zhou Yao Bo (Appointed on 25 August 2016)

Independent Non-executive Directors

Mr. Lawrence Gonzaga
Ms. Choy So Yuk, *BBS, JP*
Mr. Chin Hon Siang (Appointed on 12 July 2016)
Mr. Lin Hann Ruey (Appointed on 23 November 2016)
Mr. Yuen Chun Fai (Resigned on 11 May 2016)

* On 11 May 2016, Mr. Yuen Chun Fai resigned as an independent non-executive Director and ceased to act as the member of audit committee, remuneration committee and nomination committee of the Company due to his intention to concentrate on other business commitments.

In accordance with article 108 of the Company's articles of association, Mr. Cai Zhenying, Mr. Lawrence Gonzaga and Ms. Choy So Yuk, *BBS, JP* will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company. In accordance with the article 112 of the Company's articles of association, Mr. Zhang Lu, Mr. Zhou Yao Bo, Mr. Chin Hon Siang and Mr. Lin Hann Ruey will hold office until the forthcoming annual general meeting and, being eligible, offer themselves for re-election at the meeting.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and Senior Management are set out on pages 63 to 65 of this annual report.

DIRECTORS' SERVICE AGREEMENTS

Each of the executive Directors (except Mr. Zhang Lu and Mr. Zhou Yao Bo) has entered into a service agreement with the Company for a term of three years commencing from 1 August 2002, which continues thereafter until terminated by either party giving not less than three months' notice in writing to the other party. Mr. Zhang Lu and Mr. Zhou Yao Bo have entered into a service agreement with the Company for a term of one year commencing form 25 August 2016, which shall be terminated by either party giving not less than one month's notice in writing to the other party.

Two independent non-executive Directors, namely Mr. Lawrence Gonzaga and Ms. Choy So Yuk, *BBS, JP* have entered into a letter of appointment with the Company for a term of two years from 16 January 2015 to 15 January 2017, which can be terminated by either party giving not less than one month notice in writing to the other party.

One independent non-executive Director, namely Mr. Chin Hon Siang has entered into a letter of appointment with the Company for a term of two years from 12 July 2016 to 11 July 2018, which can be terminated by either party giving not less than one month notice in writing to the other party.

One independent non-executive Director, namely Mr. Lin Hann Ruey has entered into a letter of appointment with the Company for a term of two years from 23 November 2016 to 22 November 2018, which can be terminated by either party giving not less than one month notice in writing to the other party.

Each of the Directors is subject to the provisions for retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's articles of association.

Save as disclosed above, no Director proposed for re-election at the forthcoming annual general meeting has service agreement with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed herein, no transaction, arrangement or contract of significance to which the Company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a Director or his/her connected entities had a material interest, either directly or indirectly subsisted at the end of the Year or at any time during the Year.

INDEMNITY OF DIRECTORS

The Company has maintained appropriate directors and officers liability insurance and such permitted indemnity provision for the benefit of the Directors is currently in force and was in force throughout the Year.

CONTRACT OF SIGNIFICANCE

Save as disclosed herein, there had been no contract of significance between the Company or any of its subsidiaries and a controlling shareholder (as defined in the Listing Rules) of the Company or any of its subsidiaries during the Year.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or in existence during the Year.

RELATED PARTY TRANSACTIONS

Details of the related party transactions are set out in note 43 to the consolidated financial statements.

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

As at 31 December 2016, the interests and short positions of the Directors and chief executives of the Company (the "Chief Executives") or their respective associates 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 which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or as recorded in the register of interests required to be maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company or the Stock Exchange pursuant to the Model Code as set out in Appendix 10 of the Listing Rules were as follows:

Long Positions

Ordinary shares of HK$0.01 each of the Company

Name of Director	Capacity	Type of interest	Number of shares held	Approximate percentage of shareholding in the Company
Mr. Cai Zhenrong	Beneficial owner	Personal	470,541,000 (Note 1)	2.01%
	Corporate owner	Corporate	5,487,386,474 (Note 2)	23.53%
Mr. Cai Zhenyao	Beneficial owner	Personal	52,752,000 (Note 3)	0.23%
	Corporate owner	Corporate	701,500,378	3.01%

Name of Director	Capacity	Type of interest	Number of shares held	Approximate percentage of shareholding in the Company
Mr. Cai Zhenying	Beneficial owner	Personal	5,000,000 (Note 4)	0.02%
Mr. Cai Yangbo	Beneficial owner	Personal	21,770,000 (Note 5)	0.09%
Mr. Choi Wing Toon	Beneficial owner	Personal	4,000,000 (Note 6)	0.02%
Mr. Lawrence Gonzaga	Beneficial owner	Personal	6,000,000 (Note 7)	0.03%
Ms. Choy So Yuk, *BBS, JP*	Beneficial owner	Personal	7,700,000 (Note 8)	0.03%

Notes:

1. These shares include 7,500,000 shares which are the share options granted to Mr. Cai Zhenrong under the share option scheme adopted by the Company on 24 February 2012 (the "New Scheme").

2. These shares include 10,394 conversion shares (the "Conversion Shares") which have been held and beneficially owned by Smart Fujian Group Limited upon completion of the acquisition of the entire issued share capital of China Natural Tea Holdings Company Limited (the "Acquisition").

3. These shares comprise 52,752,000 shares held and beneficially owned by Mr. Cai Zhenyao, an executive Director and 701,500,378 shares held and beneficially owned by Exalt Wealth Limited. The 52,752,000 shares include 7,500,000 shares which are the share options granted to Mr. Cai Zhenyao under the New Scheme. Exalt Wealth Limited is wholly-owned by Mr. Cai Zhenyao.

4. These shares include 5,000,000 shares which are the share options granted to Mr. Cai Zhenying under the New Scheme.

5. These shares include 7,500,000 shares which are the share options granted to Mr. Cai Yangbo under the New Scheme.

6. These shares include 1,000,000 shares which are the share options granted to Mr. Choi Wing Toon under the New Scheme.

7. These shares are the share options granted to the Directors under the New Scheme.

8. These share include 6,500,000 shares which are the share options granted to Ms. Choy So Yuk, *BBS JP* under the New Scheme.

Save as disclosed above, as at 31 December 2016, none of the Directors and Chief Executives or their respective associates had any interest or short positions 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) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or as recorded in the register of interests required to be maintained pursuant to Section 352 of the SFO, or as otherwise to be notified to the Company or the Stock Exchange pursuant to the Model Code in the Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Directors' and chief executives' interests and short positions in shares, underlying shares and debentures" and "Share option schemes", at no time during the Year was the Company, its subsidiaries or any of its associated corporations (within the meaning of Part XV of the SFO) a party to any arrangements to enable the Directors or their associates (as defined in the Listing Rules) to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DEBENTURES ISSUED

The Company issued debentures in the principal amounts of HK$526.2 million, raising the net proceeds of HK$391.3 million during the Year. The purpose of the issue is for the expansion of current production capacities, working capital and potential acquisition and repayment of the existing debts.

EQUITY-LINKED AGREEMENTS

Details of the equity-linked agreements entered into during the Year or subsisting at the end of the Year are set out below:

Share Option Schemes

On 24 February 2012, the Company has passed the resolutions in a Shareholders' meeting for the termination of the share option scheme adopted on 30 August 2002 (the "Terminated Scheme") and the adoption of a new share option scheme (the "New Scheme") for providing incentives to the eligible participants who had or may have made contributions to the Group. Outstanding share options granted under the Terminated Scheme prior to such termination shall continue to be valid and, subject to the vesting schedule, exercisable in accordance with the Terminated Scheme.

The initial maximum number of share which may be allotted and issued upon exercise of options under the New Scheme, the Terminated Scheme and under any other share option schemes of the Company must not in aggregate exceed 10% of the total number of shares in issue at the day on which the New Scheme was approved.

There are no outstanding shares available for issue under the Terminated Scheme. The total number of shares available for issue under the New Scheme is 3,267,748,370, representing approximately 14.01% of the issued shares of the Company as at the date of this annual report.

There is no minimum period for which an option must be held before it can be exercised, and the period during which an option may be exercised will be determined by the Board in its absolute discretion, however, no options shall be exercised 10 years after they have been granted. The subscription price of a share in respect of a particular option shall be not less than the highest of (a) the closing price of the shares on the daily quotation sheet of the Stock Exchange; (b) the average official closing price of the shares on the daily quotation sheet of the Stock Exchange for the five business days immediately preceding the date of grant; and (c) the nominal value of a share. Each grantee shall pay HK$1.00 to the Company at the time the option is granted. The New Scheme shall take effect from the date it is adopted and shall remain effective within a period of 10 years from that date. The remaining life of the New Scheme is 5 years.

The following table discloses details of the Company's share options held by the Directors and employees of the Group and other participants pursuant to the Terminated Scheme and the New Scheme and movements in such holdings during the Year:

				Number of share option					
Name or category of participant	Date of grant	Exercise period	Exercise price (HK$)	Outstanding as at 1.1.2016	Granted during the Year	Lapsed during the Year	Cancelled during the Year	Exercised during the Year	Outstanding as at 31.12.2016
Mr. Cai Zhenrong	24.10.2013	24.10.2013 – 23.10.2018	0.2538	3,000,000	–	–	–	–	3,000,000
	20.5.2014	20.5.2014 – 19.5.2019	0.1036	1,500,000	–	–	–	–	1,500,000
	30.04.2015	30.4.2015 – 29.4.2020	0.0990	3,000,000	–	–	–	–	3,000,000
Mr. Cai Zhenyao	24.10.2013	24.10.2013 – 23.10.2018	0.2538	3,000,000	–	–	–	–	3,000,000
	20.5.2014	20.5.2014 – 19.5.2019	0.1036	1,500,000	–	–	–	–	1,500,000
	30.04.2015	30.4.2015 – 29.4.2020	0.0990	3,000,000	–	–	–	–	3,000,000
Mr. Cai Zhenying	24.10.2013	24.10.2013 – 23.10.2018	0.2538	1,000,000	–	–	–	–	1,000,000
	20.5.2014	20.5.2014 – 19.5.2019	0.1036	1,000,000	–	–	–	–	1,000,000
	30.04.2015	30.4.2015 – 29.4.2020	0.0990	3,000,000	–	–	–	–	3,000,000
Mr. Cai Yangbo	24.10.2013	24.10.2013 – 23.10.2018	0.2538	3,000,000	–	–	–	–	3,000,000
	20.5.2014	20.5.2014 – 19.5.2019	0.1036	1,500,000	–	–	–	–	1,500,000
	30.04.2015	30.4.2015 – 29.4.2020	0.0990	3,000,000	–	–	–	–	3,000,000
Mr. Choi Wing Toon	24.10.2013	24.10.2013– 23.10.2018	0.2538	1,000,000	–	–	–	–	1,000,000

				Number of share option					
Name or category of participant	**Date of grant**	**Exercise period**	**Exercise price** (HK$)	**Outstanding as at 1.1.2016**	**Granted during the Year**	**Lapsed during the Year**	**Cancelled during the Year**	**Exercised during the Year**	**Outstanding as at 31.12.2016**
Mr. Lawrence Gonzaga Lawrence Gonzaga	24.10.2013	24.10.2013 – 23.10.2018	0.2538	2,000,000	–	–	–	–	2,000,000
	20.5.2014	20.5.2014 – 19.5.2019	0.1036	1,000,000	–	–	–	–	1,000,000
	30.4.2015	30.4.2015 – 29.4.2020	0.0990	3,000,000	–	–	–	–	3,000,000
Ms. Choy So Yuk, *BBS, JP*	24.10.2013	24.10.2013 – 23.10.2018	0.2538	2,000,000	–	–	–	–	2,000,000
	20.5.2014	20.5.2014 – 19.5.2019	0.1036	1,500,000	–	–	–	–	1,500,000
	30.4.2015	30.4.2015 – 29.4.2020	0.0990	3,000,000	–	–	–	–	3,000,000
Mr. Yuen Chun Fai (resigned on 11 May 2016)	30.4.2015	30.4.2015 – 29.4.2020	0.0990	2,000,000	–	(2,000,000)	–	–	–
Mr. Lam Kai Yeung (resigned on 18 May 2015)	30.4.2015	30.4.2015 – 29.4.2020	0.0990	1,000,000	–	(1,000,000)	–	–	–
Subtotal				44,000,000	–	(3,000,000)	–	–	41,000,000
Employees	4.4.2011	4.4.2011 – 3.4.2016	0.4000	2,200,000	–	(2,200,000)	–	–	–
Other participants	4.4.2011	4.4.2011 – 3.4.2016	0.4000	141,200,000	–	(141,200,000)	–	–	–
Employees	24.10.2013	24.10.2013 – 23.10.2018	0.2538	838,500,000	–	–	–	–	838,500,000
Other participants	24.10.2013	24.10.2017 – 23.10.2018	0.2538	320,500,000	–	–	–	–	320,500,000
Employees	20.5.2014	20.5.2014 – 19.5.2019	0.1036	12,316,000	–	–	–	–	12,316,000
Employees	30.4.2015	30.4.2015 – 29.4.2020	0.0990	42,000,000	–	–	–	–	42,000,000
Sub total				1,356,716,000	–	(143,400,000)	–	–	1,213,316,000
Total				**1,400,716,000**	**-**	**(146,400,000)**	**-**	**-**	**1,254,316,000**

During the Year, 146,400,000 share options were lapsed and no share options were granted, exercised or cancelled under the Terminated Scheme; while no share options were granted, exercised, lapsed or cancelled under the New Scheme.

Details of the specific categories of share options are as follows:

Year	Date of grant	Exercise period	Exercise price HK$
2011	4.4.2011	4.4.2011 – 3.4.2016	0.4000
2013	24.10.2013	24.10.2013 – 23.10.2018	0.2538
2014	20.5.2014	20.5.2014 – 19.5.2019	0.1036
2015	30.4.2015	30.4.2015 – 29.4.2020	0.0990

If the share options remain unexercised after the exercise period from the date of grant, the share options will expire. Share options are forfeited if the employee leaves the Group before the share options vest.

Convertible bonds

Details of the convertible bonds of the Company are set out in the note 27 to the consolidated financial statements.

Convertible notes and Unlisted warrants

Details of the convertible notes and unlisted warrants of the Company are set out in the note 29 to the consolidated financial statements.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2016, to the best knowledge of the Directors, the following person (other than a Director and Chief Executives) who had interests or short positions in the shares or underlying of the Company which would fall to be disclosed to the Company under the provision of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long Positions

Ordinary Shares of HK$0.01 each of the Company

Name of Shareholder	Capacity	Long Position/ short position	Number of shares held	Approximate percentage of shareholding in the Company
Ms. Su Li Yuan	Spousal interest	Long Position	5,957,927,474 (Note 1)	25.54%
Smart Fujian Group Limited	Beneficial interest	Long Position	5,487,386,474 (Note 2)	23.53%
Asia Equity Value Ltd.	Beneficial interest	Long Position	1,328,888,889	5.70%
	Beneficial interest	Short Position	600,000,000	2.57%
Central Huijin Investment Ltd.	Corporate interest	Long Position	2,664,605,473 (Note 3)	11.42%
China Construction Bank Corporation	Corporate interest	Long Position	2,664,605,473 (Note 3)	11.42%

Notes:

1. These shares comprise 470,541,000 shares held and beneficially owned by Mr. Cai Zhenrong, an executive Director. The remaining Shares of 5,487,386,474 include 10,394 Conversion Shares which have been held and beneficially owned by Smart Fujian Group Limited upon completion of the Acquisition. Ms. Su Li Yuan, as the spouse of Mr. Cai Zhenrong, is deemed to be interested in these 5,957,927,474 shares under the SFO.

2. These shares include 10,394 Conversion Shares which have been held and beneficially owned by Smart Fujian Group Limited upon completion of the Acquisition.

3. These shares include 743,519,616 Conversion Shares which have been held and beneficially owned by Teya Holdings Limited, a wholly-owned subsidiary upon completion of the Acquisition. Teya Holdings Limited is indirectly held by China Construction Bank Corporation, which is held and beneficially owned by Central Huijin Investment Ltd.

Save as disclosed above, as at 31 December 2016, no person, other than the Directors and Chief Executives whose interests are set out in the section “Directors’ and chief executives’ interests and short positions in shares, underlying shares and debentures” above, had any interest or short positions in the shares or underlying shares of the Company which are required to be notified to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO.

DIRECTORS’ INTERESTS IN COMPETING BUSINESSES

During the Year, no Directors or their respective close associates (as defined in the Listing Rules) are considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

CONNECTED TRANSACTIONS

During the year, there were no connected transactions or continuing connected transactions that require disclosure under chapter 14A of the Listing Rules.

PUBLIC FLOAT

As far as the information publicly available to the Company is concerned and to the best knowledge of the Directors, at least 25% of the Company's issued share capital were held by members of the public as at the date of this report as required under the Listing Rules.

AUDITOR

PKF will retire at the forthcoming annual general meeting of the Company and, being eligible, offer itself for re-appointment. A resolution for the re-appointment of PKF as auditor of the Company will be proposed at the forthcoming annual general meeting of the Company.

PROPOSED CHANGE OF COMPANY NAME

On 23 December 2016, the Board proposed to change the English name of the Company from "Ping Shan Tea Group Limited" to "Blockchain Group Co., Ltd" and the dual foreign name in Chinese of the Company from "坪山茶業集團有限公司" to "區塊鏈集團有限公司" (the "Change of Company Name"). The Change of Company Name is subject to the passing of a special resolution by the Shareholders at an extraordinary general meeting to be convened and the approval of the Registrar of Companies in the Cayman Islands to be granted.

The Board considers that the Change of Company Name will demonstrate the Group's future strategy and the new name will establish a fresh corporate image and identity. Accordingly, the Company believes that the Change of Company Name is in the best interests of the Company and the Shareholders as a whole.

Details of the Change of Company Name are set out in the announcement of the Company dated 23 December 2016.

ON BEHALF OF THE BOARD

Cai Zhenrong
Chairman

Hong Kong, 30 March 2017

EXECUTIVE DIRECTORS

Mr. Cai Zhenrong, aged 69, is the founder, the chairman and an executive Director of the Group. He is also a director of the subsidiaries of the Company. Mr. Cai Zhenrong is responsible for the overall strategic planning, business development and strategic investments of the Group. Mr. Cai Zhenrong has devoted a significant amount of time in the Philippines for the Group's business management and development. Mr. Cai Zhenrong is the brother of Mr. Cai Zhenyao and Mr. Cai Zhenying; the father of Mr. Cai Yangbo; and the cousin of Mr. Choi Wing Toon.

Mr. Cai Zhenyao, aged 62, is an executive Director and the finance director of the Group. He is also a director of one of the subsidiaries of the Company. Mr. Cai Zhenyao has been responsible for the Group's overall organisational and finance systems management since joining the Group in 1993, including the establishment of employees benefits system, production management system, accounting and treasury system and internal control system. Mr. Cai Zhenyao is the brother of Mr. Cai Zhenrong and Mr. Cai Zhenying; the uncle of Mr. Cai Yangbo; and the cousin of Mr. Choi Wing Toon.

Mr. Cai Zhenying, aged 60, is an executive Director and the marketing director of the Group. He is also a director of one of the subsidiaries of the Company. Mr. Cai Zhenying has been responsible for the Group's sales, marketing and promotion functions since joining the Group in 1993. Mr. Cai Zhenying is principally responsible for the formulation and administration of the marketing and promotion activities of the Group as well as customers' liaison for the Group. Mr. Cai Zhenying is the brother of Mr. Cai Zhenrong and Mr. Cai Zhenyao; the uncle of Mr. Cai Yangbo; and the cousin of Mr. Choi Wing Toon.

Mr. Cai Yangbo, aged 42, is a managing and executive Director. Mr. Cai Yangbo was appointed as the managing Director on 16 January 2010. He is also a director of the subsidiaries of the Company. Mr. Cai Yangbo has been responsible for the overall production and human resources of the Group since joining the Group in 1996. Mr. Cai Yangbo is the son of Mr. Cai Zhenrong; the nephew of Mr. Cai Zhenyao and Mr. Cai Zhenying.

Mr. Choi Wing Toon, aged 66, is an executive Director and the marketing and promotion manager of the Group. He is also a director of the subsidiaries of the Company. Mr. Choi Wing Toon has been responsible for the overseas sales and marketing activities of the Group since joining the Group in 1997. Mr. Choi Wing Toon is the cousin of Mr. Cai Zhenrong, Mr. Cai Zhenyao and Mr. Cai Zhenying.

Mr. Zhang Lu, aged 47, is an executive Director. Mr. Zhang graduated from Shenyang No.56 Secondary School*（瀋陽市第56中學）in 1988 and was admitted to Liaoning University with a major in Chinese in the same year. Mr. Zhang worked at Bureau of materials and equipment of Shenyang*（瀋陽物資局）in 1990. He devoted himself to the fields of finance, securities and funds since 1991. He was the vice president of Liaoning Zhongshan Group*（遼寧中山集團）, chairman of Liaoning Xianfeng Internet Technology Co., Limited*（遼寧先鋒網絡科技有限公司）, president of Dalian Jinsheng Investment Co., Limited*（大連金聖投資擔保有限公司）and chairman of Bit Technology Holding Co., Ltd.（a listed company）. Mr. Zhang was the chairman of the board of China Hualian Group Investment Holdings Limited and Hualian Electric Commerce Group Co., Ltd.*（華聯電子商務集團）in 2008 and 2013 respectively. He was involved in the M&A of Hua An Fu Investment Holdings Limited*（華安富投資控股集團）and took the position of the chairman of the board in 2015. He was one of the foremost signature people in the equity market of China.

Mr. Zhou Yao Bo, aged 57, is an executive Director. Mr. Zhou worked in Nanmu Group*（南木集團）(a state-owned enterprise) from 1978 to 1989, and Shenyin*（申銀）, Nanjing branch, from 1990 to 1995. He worked in the Nanjing office of China Southern Securities*（南方證券）from 1996 to 1999 and Nanjing Tian He Stone Co., Ltd.*（南京天和石材公司）from 2000 to 2008. Since 2009, Mr. Zhou has held office in the management office of international engineering at Zhong Jiang International*（中江國際）.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lawrence Gonzaga, aged 43, was appointed as independent non-executive Director in August 2002. He is also the chairman of the Audit Committee, the Remuneration Committee and the Nomination Committee. Mr. Lawrence Gonzaga graduated from De La Salle University in the Philippines in 1993 with a bachelor of science degree in commerce majoring in business management. Mr. Lawrence Gonzaga has worked in a securities company in the Philippines for over 14 years. Mr. Lawrence Gonzaga is a member of the Market Technicians Association and holds the Chartered Market Technician designation.

Ms. Choy So Yuk, *BBS, JP*, aged 66, was appointed as an independent non-executive Director in August 2002. She is also a member of the Audit Committee, the Remuneration Committee and the Nomination Committee. She obtained her Bachelor of Science and Master of Philosophy degrees from the University of Hong Kong in 1974 and 1980 respectively. Ms. Choy was the founding managing director of SHK International Services Limited (which was subsequently acquired by Ms. Choy and changed its name to Oriental-Western Promotions Limited). Ms. Choy is also an independent non-executive director of Loudong General Nice Resources (China) Holdings Limited, the shares of which are listed on the main board of the Stock Exchange (Stock Code: 988). Ms. Choy holds a wide variety of political, social and academic positions, such as a Deputy of the National People's Congress of China, a Member of the Eastern District Council of Hong Kong Special Administrative Region, and a director of Fujian Middle School. Ms. Choy was a member of the Legislative Council in Hong Kong from 1998 to 2008.

Mr. Chin Hon Siang, aged 47, was appointed as an independent non-executive Director in July 2016. Mr. Chin holds a bachelor of commerce degree majoring in accounting and econometrics awarded by Monash University in 1995. Mr. Chin is a member of CPA Australia. Mr. Chin has over 10 years experiences in the fields of corporate finance, financial reporting and financial management and audit experience in the United States, Singapore, Taiwan and Malaysia. Mr. Chin was the chief financial officer of Asia Green Agriculture Group Limited, a company listed in the OTCBB Stock Exchange in the United States, from 2012 to 2015; the chief finance manager of Dukang Distillers Holdings Limited, a company listed in Singapore Stock Exchange and Taiwan Stock Exchange, from 2010 to 2012; and the chief financial officer of United Food Holdings Limited, a company listed in the Singapore Stock Exchange, from 2002 to 2010.

Mr. Chin is currently an independent non-executive director of Rentian Technology Holdings Limited (Stock Code: 885), a company listed in the Stock Exchange, since October 2015.

Mr. Lin Hann Ruey, aged 51, was appointed as an independent non-executive Director in November 2016. Mr. Lin graduated from National Chengchi University, Taipei, Taiwan with a major in business administration in 1988. He obtained his Master of Finance from The University of Nottingham in the UK in 1993. Mr. Lin has extensive practical experience in project financing and M&A in Hong Kong and other overseas capital markets such as Northern America. With ten years of experience in investment banking in the Mainland China, he held different positions such as chief financial officer, business director and director of M&A in companies listed on Over the Counter Bulletin Board of the United State (OTCBB). Mr. Lin was a director of Shenzhen Runtong Jinkong Group and investment director of Shenzhen Furun Fund. He was a managing director of Financing Business of Anhui Golden Cow Group in 2013 and then joined Chinese Culture and Artwork Property Exchange Group (Hong Kong) as a director. In 2015, Mr. Lin founded Dongfang Cultural Property Right Exchange Group (Hong Kong) engaging in artwork asset management in Hong Kong. Mr. Lin specializes in assisting non-government enterprises to establish profit-making models and formulate strategies for industrial M&A with integrated techniques of investment banking and industrial strategies. He has professional sense in corporate grouping and case matching with overseas organizations, and possesses profound expertise and extensive fund network in the Mainland, Taiwan and Hong Kong.

SENIOR MANAGEMENT

Mr. Cai Yanghang, aged 31, was the general manager of Fujian Nature Tea Science and Technology Co., Ltd, the principal subsidiary of the Group. He studied computer science in Huaqiao University（國立華僑大學）from September 2001 to July 2002. Mr. Cai Yanghang has over 7 years of experience in tea industry. Mr. Cai Yanghang is the son of Mr. Cai Zhenrong; the brother of Mr. Cai Yangbo; the nephew of Mr. Cai Zhenyao and Mr. Cai Zhenying.

大信梁學濂(香港)會計師事務所

PKF
Accountants &
business advisers

26/F, Citicorp Centre
18 Whitfield Road
Causeway Bay
Hong Kong

To the members of Ping Shan Tea Group Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Ping Shan Tea Group Limited (the "Company") and its subsidiaries (collectively referred as to the "Group") set out on pages 72 to 172, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and 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 Group's financial position as at 31 December 2016, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board 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 Hong Kong Institute of Certified Public Accountants (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 Code of Ethics for Professional Accountants (the "Code") issued by the HKICPA, and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

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

Key audit matters	How our audit addressed the key audit matters
Impairment of goodwill	
The Group's impairment of goodwill disclosed in Note 17 to the consolidated financial statements were determined to be a key audit matter due to the management's assessment of the value in use of the Group's cash generating unit (the "CGU") involved significant judgements and estimates about the future results and key assumptions.	Our procedures performed to address the matter included, amongst others: – Obtain an understanding of the Group's procedures and method of estimation, including any control activities applied, significant assumptions made and management's assessment of estimation uncertainty; – Evaluate the competence, independence and works performed by experts engaged by the management to assist their estimation; – Challenge the composition of the Group's future cash flow forecasts in the CGU; – Challenge the key assumptions used by the management for the estimation; – Evaluate whether the method of estimation and assumptions made are appropriate; – Test the data used by the management in the estimation; – Re-calculate the estimation made by the management; – Review outcome of estimation made in prior period; – Challenge the adequacy of the sensitivity calculations over the CGU; – Review subsequent events relevant to the estimation; – Determine whether indication of possible management bias exist; and – Evaluate the recognition and measurement criteria used and disclosure made by management.

Key audit matters	How our audit addressed the key audit matters
Assets and liabilities measured at Level 3 fair value	
The Group's buildings at revaluation model and financial liabilities at fair value through profit or loss as disclosed in Notes 15 and 29 to the consolidated financial statements respectively were measured at a Level 3 fair values. They were determined to be key audit matters because of the significant estimation uncertainty resulted from the use of unobservable inputs and the significant judgement made in selecting the valuation methods.	Our procedures performed to address the matter included, amongst others: – Obtain an understanding of the Group's procedures and method of estimation, including any control activities applied, significant assumptions made and management's assessment of estimation uncertainty; – Evaluate the competence, independence and works performed by experts engaged by the management to assist their estimation; – Challenge the key assumptions used by the management for the estimation; – Evaluate whether the method of estimation and assumptions made are appropriate; – Test the data used by the management in the estimation; – Re-calculate the estimation made by the management; – Review outcome of estimation made in prior period; – Challenge the adequacy of the sensitivity calculations over the estimation; – Review subsequent events relevant to the estimation; – Determine whether indication of possible management bias exist; and – Evaluate the recognition and measurement criteria used and disclosure made by management.

Key audit matters	How our audit addressed the key audit matters
Impairment loss of inventories The Group's inventories and its impairment loss are disclosed in note 22 to the consolidated financial statements. Impairment loss of inventories mainly related to certain slow-moving inventories. We focused on this area as the valuation of inventories involves a high level of management's judgement and estimates. Such judgements include management's expectation for future sales and selling price estimation.	Our procedures performed to address the matter included, amongst others: – Obtain an understanding of how the management estimated the net realisable values ("NRV") of inventories and evaluating the historical accuracy of the allowance estimation by the management; – Assess, on a sample basis, whether items in the inventory ageing report prepared by the management were classified within the appropriate ageing bracket by comparing items in the report with the underlying supporting documents and records; – Assess, on a sample basis, whether items in the analysis of estimated subsequent usage and sales of inventories are materially consistent with the underlying supporting documents and records; – Discuss with management and assessing the basis of management's estimation of subsequent selling price, costs to completion and costs necessary to make the sale; – Assess the management's process for researching and analysing the current market conditions, technology changes, historical experience of selling products with similar nature and customer orders on hand to estimate the NRV; and – Assess the sufficiency of allowance where the estimated NRV is lower than the cost.

OTHER INFORMATION

The directors of the Company are responsible for the other information which comprises the information included in the Company's annual report for the year ended 31 December 2016 ("Annual Report") other than the consolidated financial statements and our auditor's report thereon.

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

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

DIRECTORS' RESPONSIBILITIES 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 IFRSs and in compliance with 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.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Tsui Kar Lam, Karen.

PKF
Certified Public Accountants
Hong Kong

30 March 2017

Consolidated Statement of Profit or Loss

For the year ended 31 December 2016

	Note	2016 HK$'000	2015 HK$'000
REVENUE	6	**302,250**	822,524
Cost of sales		**(167,065)**	(614,480)
GROSS PROFIT		**135,185**	208,044
Changes in fair value of agricultural produce less costs to sell during the year	16	**(35,204)**	9,757
Other income	7	**8,099**	6,992
Selling and distribution expenses		**(14,966)**	(16,550)
Administrative expenses		**(44,293)**	(83,809)
Impairment loss on goodwill	17	**(910,000)**	(815,013)
Changes in fair value of financial liabilities at fair value through profit or loss	29	**(1,183)**	(17,021)
Surplus on revaluation of property, plant and equipment		**292**	1,531
LOSS FROM OPERATIONS		**(862,070)**	(706,069)
Finance costs	10	**(196,711)**	(115,694)
Gain on bargain purchase from acquisition of an associate	18	**99,373**	–
Share of losses of an associate		**(224)**	(2,894)
Loss on disposals of subsidiaries	38	**(14,665)**	–
LOSS BEFORE TAX		**(974,297)**	(824,657)
Income tax credit/(expense)	11	**693**	(2,949)
LOSS FOR THE YEAR	12	**(973,604)**	(827,606)
ATTRIBUTABLE TO:			
Equity shareholders of the Company		**(972,735)**	(826,673)
Non-controlling interests		**(869)**	(933)
LOSS FOR THE YEAR		**(973,604)**	(827,606)
LOSS PER SHARE	14		
– Basic		**(HK4.86 cents)**	(HK4.81 cents)
– Diluted		**N/A**	N/A

The notes on pages 72 to 172 form part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2016

	Note	2016 HK$'000	2015 HK$'000
LOSS FOR THE YEAR		**(973,604)**	(827,606)
Other comprehensive loss:–			
Items that will not be reclassified to profit or loss:–			
Surplus/(deficit) on properties revaluation		**71**	(319)
Deferred tax relating to deficit on property revaluation	31(b)	**(18)**	80
		53	(239)
Items that may be subsequently reclassified to profit or loss:–			
Exchange differences on translating foreign operations		**(237,426)**	(129,853)
Exchange differences reclassified to profit or loss upon disposals of subsidiaries	38	**13,592**	–
Share of other comprehensive losses of associates		**(19,715)**	(3,880)
		(243,549)	(133,733)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX		**(243,496)**	(133,972)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(1,217,100)**	(961,578)
ATTRIBUTABLE TO:-			
Equity shareholders of the Company		**(1,216,148)**	(960,533)
Non-controlling interests		**(952)**	(1,045)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(1,217,100)**	(961,578)

The notes on pages 72 to 172 form part of these consolidated financial statements.

Consolidated Statement of Financial Position

At 31 December 2016

	Note	2016 HK$'000	2015 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**847,608**	948,832
Intangible assets	17	**19,340**	987,201
Interests in associates	18	**276,012**	92,578
Available-for-sale financial assets	19	**164,640**	–
Deposits paid	20	**425,600**	552,000
Other receivables and prepayments	21	**1,871**	2,014
Deferred tax assets	31	**4,087**	4,616
		1,739,158	2,587,241
CURRENT ASSETS			
Inventories	22	**11,374**	51,510
Trade receivables	23	**110**	376,578
Prepayments, deposits and other receivables	21	**102,201**	9,317
Cash and bank balances	24	**2,091,168**	1,688,445
		2,204,853	2,125,850
CURRENT LIABILITIES			
Bank loans, secured	25	**34,283**	36,732
Trade payables	26	**7,844**	12,811
Receipts in advance, other payables and accruals	26	**127,352**	122,277
Amount due to a related party	26	**1,591**	1,861
Convertible bonds	27	**379,048**	302,981
Debentures	28	**448,849**	83,336
Financial liabilities at fair value through profit or loss	29	**9,714**	8,531
Promissory notes	30	**93,813**	144,564
Current tax liabilities		**15,209**	17,515
		1,117,703	730,608
NET CURRENT ASSETS		**1,087,150**	1,395,242

Consolidated Statement of Financial Position

At 31 December 2016

	Note	2016 HK$'000	2015 HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,826,308**	3,982,483
NON-CURRENT LIABILITIES			
Convertible bonds	27	**–**	58,343
Debentures	28	**844,131**	1,024,398
Deferred tax liabilities	31	**10,991**	16,286
		855,122	1,099,027
NET ASSETS		**1,971,186**	2,883,456
CAPITAL AND RESERVES			
Share capital	32	**233,251**	181,343
Reserves	35	**1,736,388**	2,699,614
TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY		**1,969,639**	2,880,957
NON-CONTROLLING INTERESTS	39	**1,547**	2,499
TOTAL EQUITY		**1,971,186**	2,883,456

Approved and authorised for issue by the Board of Directors on 30 March 2017.

Cai Zhenyao
Director

Choi Wing Toon
Director

The notes on pages 72 to 172 form part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

		Attributable to equity shareholder of the Company										
	Note	Share capital HK$'000	Share premium HK$'000	Properties revaluation reserve HK$'000	Share-based payment reserve HK$'000	Convertible bonds reserve HK$'000	Translation reserve HK$'000	Statutory reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2015		157,775	3,470,093	330	127,564	206,135	(19,145)	546	(398,347)	3,544,951	3,544	3,548,495
Comprehensive loss												
Loss for the year		–	–	–	–	–	–	–	(826,673)	(826,673)	(933)	(827,606)
Other comprehensive loss												
Properties revaluation deficit, net of tax		–	–	(239)	–	–	–	–	–	(239)	–	(239)
Exchange differences on translation of foreign operations		–	–	–	–	–	(129,741)	–	–	(129,741)	(112)	(129,853)
Share of other comprehensive loss of an associate		–	–	–	–	–	(3,880)	–	–	(3,880)	–	(3,880)
Total comprehensive loss for the year		–	–	(239)	–	–	(133,621)	–	(826,673)	(960,533)	(1,045)	(961,578)
Conversion of convertible bonds	27(b)	6,410	142,212	–	–	(52,213)	–	–	–	96,409	–	96,409
Equity settled share-based transactions	33	–	–	–	32,958	–	–	–	–	32,958	–	32,958
Exercise of share options granted during the year	33	8,050	102,628	–	(30,983)	–	–	–	–	79,695	–	79,695
Lapse of share options granted in prior years		–	–	–	(15,331)	–	–	–	15,331	–	–	–
Conversion of financial liabilities at fair value through profit or loss	29	8,750	75,865	–	–	–	–	–	–	84,615	–	84,615
Issue of shares for settlement of interest due under financial liabilities at fair value through profit or loss	29	358	2,504	–	–	–	–	–	–	2,862	–	2,862
Appropriation		–	–	–	–	–	–	51	(51)	–	–	–
At 31 December 2015 and 1 January 2016		181,343	3,793,302	91	114,208	153,922	(152,766)	597	(1,209,740)	2,880,957	2,499	2,883,456
Comprehensive loss												
Loss for the year		–	–	–	–	–	–	–	(972,735)	(972,735)	(869)	(973,604)
Other comprehensive loss												
Properties revaluation deficit, net of tax		–	–	53	–	–	–	–	–	53	–	53
Exchange differences on translation of foreign operations		–	–	–	–	–	(237,343)	–	–	(237,343)	(83)	(237,426)
Exchange differences reclassified to profit or loss upon disposals of subsidiaries		–	–	–	–	–	13,592	–	–	13,592	–	13,592
Share of other comprehensive losses of associates		–	–	–	–	–	(19,715)	–	–	(19,715)	–	(19,715)
Total comprehensive loss for the year		–	–	53	–	–	(243,466)	–	(972,735)	(1,216,148)	(952)	(1,217,100)
Conversion of convertible bonds	27(b)	3,708	87,683	–	–	(30,201)	–	–	–	61,190	–	61,190
Issue of shares for acquisition of available-for-sale financial assets		28,200	111,440	–	–	–	–	–	–	139,640	–	139,640
Issue of shares for acquisition of an associate		20,000	84,000	–	–	–	–	–	–	104,000	–	104,000
Lapse of share options granted in prior years	33	–	–	–	(22,046)	–	–	–	22,046	–	–	–
Appropriation		–	–	–	–	–	–	25	(25)	–	–	–
At 31 December 2016		233,251	4,076,425	144	92,162	123,721	(396,232)	622	(2,160,454)	1,969,639	1,547	1,971,186

Note: The share premium account of the Group includes:–

(i) the premium arising from the issue of new shares; and

(ii) the difference between the nominal value of the share capital of the subsidiaries acquired over the nominal value of the share capital of the Company issued in exchange therefor pursuant to a reorganisation scheme ("the Group Reorganisation") to rationalise the structure of the Group in preparation for the public listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited on 30 August 2002. Further details of the Group Reorganisation and the subsidiaries acquired pursuant thereto are set out in Appendix IV "Statutory and General Information" in the Company's prospectus dated 20 August 2002.

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	2016 HK$'000	2015 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before tax	**(974,297)**	(824,657)
Adjustments for:–		
Bank interest income	**(7,083)**	(5,885)
Actual interest on convertible bonds	**76,067**	14,786
Imputed interest on convertible bonds	**2,847**	15,098
Interest on cash consideration payable for business combination	**1,324**	4,643
Interest on debentures	**60,854**	47,309
Amortisation of issuing cost of debentures	**35,498**	12,065
Interest on financial liabilities at fair value through profit or loss	**–**	1,320
Interest on promissory notes	**17,649**	18,356
Bank loan interest expenses	**2,472**	2,117
Depreciation of property, plant and equipment	**35,223**	37,067
Amortisation of intangible assets	**8,359**	8,072
Property, plant and equipment written off	**–**	148
Surplus on revaluation of property, plant and equipment	**(292)**	(1,531)
Loss on disposal of subsidiaries	**14,665**	–
Impairment loss on goodwill	**910,000**	815,013
Impairment loss on other receivables	**46**	2,158
Impairment loss on inventories	**4,754**	–
Share of losses of an associate	**224**	2,894
Gain on bargain purchase from acquisition of an associate	**(99,373)**	–
Changes in fair value of financial liabilities at fair value through profit or loss	**1,183**	17,021
Equity-settled share-based payments	**–**	32,958
Operating profit before working capital changes	**90,120**	198,952
Changes in working capital:–		
Inventories	**1,640**	142,349
Trade receivables	**338,067**	(331,079)
Prepayments, deposits and other receivables	**215**	55,514
Trade payables	**(639)**	(56,859)
Receipts in advance, other payables and accruals	**5,556**	(7,432)
Amount due to a related party	**(152)**	360
Amount due to the sole shareholder of the non-controlling interest's shareholder	**–**	(43,287)
Cash generated from/(used in) operations	**434,807**	(41,482)
Income tax paid	**(4,159)**	(9,156)
Net cash generated from/(used in) operating activities	**430,648**	(50,638)

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	Note	2016 HK$'000	2015 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments to acquire and deposits for acquisition of property, plant and equipment		**(829)**	(249)
Deposits paid for potential business combination		**–**	(550,000)
Net cash inflow from disposals of subsidiaries	38	**21,308**	139,600
Net cash outflow for business combination	37	**–**	(7,643)
Refund of deposits paid for potential business combination		**96,000**	–
Refund of deposits paid for acquisition of bearer plants		**–**	67,188
Interest received		**7,083**	5,885
Cash consideration paid for business combination in 2013		**(10,000)**	(15,000)
Net cash generated from/(used in) investing activities		**113,562**	(360,219)
CASH FLOWS FROM FINANCING ACTIVITIES			
Redemption of promissory notes		**(68,400)**	(38,000)
Net proceeds from issue of debentures		**391,230**	835,125
Redemption of debentures		**(136,000)**	(199,500)
Payment of issuing costs of existing debentures on modification of terms		**(105,482)**	–
New bank loans raised		**35,814**	37,956
Repayment of bank loans		**(35,814)**	(17,360)
Proceeds from shares issued on exercise of share options		**–**	79,695
Convertible bond interest paid		**–**	(2,341)
Interest paid on debentures		**(75,842)**	(31,894)
Interest paid on cash consideration payable for business combination		**(517)**	(2,743)
Interest paid on promissory notes		**–**	(58)
Bank loan interest paid		**(1,595)**	(2,117)
Decrease in pledged bank deposits		**–**	24,800
Net cash generated from financing activities		**3,394**	683,563
NET INCREASE IN CASH AND CASH EQUIVALENTS		**547,604**	272,706
Effect of foreign exchange rate changes		**(144,881)**	(66,499)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR		**1,688,445**	1,482,238
CASH AND CASH EQUIVALENTS AT THE END OF YEAR		**2,091,168**	1,688,445
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**2,091,168**	1,688,445

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The address of its principal place of business is Room 3505, West Tower, Shun Tak Centre, 200 Connaught Road Central, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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

2. BASIS OF PREPARATION

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board ("IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

(b) Initial application of IFRSs

In the current year, the Group initially applied the following new and revised IFRSs:

Amendments to IAS 1	Disclosure Initiative
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to IFRSs	Annual Improvements to IFRSs 2012 – 2014 Cycle

The initial application of these new and revised IFRSs does not necessitate material changes in the Group's accounting policies and retrospective adjustments of the comparatives presented in the consolidated financial statements.

2. BASIS OF PREPARATION (continued)

(c) IFRSs in issue but not yet effective

The following new and revised IFRSs in issue at 31 December 2016 have not been applied in the preparation of the Group's consolidated financial statements for the year then ended since they were not yet effective for the annual period beginning on 1 January 2016:

IFRS 9	Financial Instruments[2]
IFRS 15	Revenue from Contracts with Customers[2]
IFRS 16	Leases[3]
IFRIC 22	Foreign Currency Transactions and Advance Consideration[2]
Amendments to IFRS 4	Applying IFRS 9, Financial Instruments with IFRS 4, Insurance Contracts[2]
Amendments to IAS 7	Disclosure Initiative[1]
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[1]
Amendments to IAS 28 and IFRS 10	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to IAS 40	Transfers of Investment Property[2]
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions[2]
Amendments to IFRSs	Annual Improvements to IFRS Standards 2014 – 2016 Cycle[5]

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

The Group is in the process of making an assessment of what the impact of these new and revised IFRSs is expected to be in the period of initial application. So far, the Group considers that these new and revised IFRSs are unlikely to have a significant impact on the Group's financial performance and financial position.

3. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of buildings and financial liabilities at fair value through profit or loss which are carried at their fair values.

The preparation of consolidated financial statements in conformity with IFRSs requires the use of certain key assumptions and estimates. It also requires the directors to exercise its judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to these consolidated financial statements, are disclosed in note 4 to the consolidated financial statements.

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below.

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries controlled by the Company.

Subsidiaries are all entities controlled by the Group. The Group controls an entity when 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.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of consolidation (continued)

All intra-group transaction, balances, income and expenses are eliminated on consolidation.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the period between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position depending on the nature of the liability.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses, unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(b) Business combination and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred to the Group, liabilities assumed by the Group from the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the acquirer measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Business combination and goodwill (continued)

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability is recognised in accordance with IFRS 13 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at the end of the reporting period. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash–generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Associates

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal Group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post-acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment. Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the joint venture.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss. If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

(d) Foreign currency translation

The consolidated financial statements are presented in Hong Kong dollar ("HK$"), which is also the Company's functional currency. The functional currency of the Company or its subsidiaries is the currency of the primary economic environment in which the Company or its subsidiaries operates.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Foreign currency translation (continued)

Foreign currency transactions of the Company or its subsidiaries are initially recorded in the functional currency using the exchange rates prevailing at the dates of the transactions. At the end of reporting period, monetary items denominated in foreign currencies are translated at the rates prevailing at the end of reporting period and the exchange differences arising are recognised in profit or loss. Non-monetary items carried at fair value denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined and the exchange differences arising are recognised in the profit or loss, except for the exchange component of a gain or loss that is recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Company's foreign operations are translated into the presentation currency of the Company at the rate of exchange prevailing at the end of reporting period, and their income and expenses are translated at the average exchange rates for the reporting period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising are recognised as a separate component of equity. Such translation differences are recognised in profit or loss for the reporting period in which the foreign operation is disposed of.

(e) Property, plant and equipment

Buildings comprise mainly factories and offices. Buildings are carried at fair values, based on periodic valuations by external independent professional valuers, less subsequent depreciation and impairment losses. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

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

Revaluation increases of buildings are recognised in profit or loss to the extent that the increases reverse revaluation decreases of the same asset previously recognised in profit or loss. All other revaluation increases are credited to the properties revaluation reserve as other comprehensive income. Revaluation decreases that offset previous revaluation increases of the same asset remaining in the properties revaluation reserve are charged against the properties revaluation reserve as other comprehensive income. All other decreases are recognised in profit or loss. On the subsequent sale or retirement of a revalued building, the attributable revaluation increases remaining in the properties revaluation reserve is transferred directly to retained profits and is not reclassified to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Property, plant and equipment (continued)

A bearer plant is a living plant that:

(a) is used in the production or supply of agricultural produce;

(b) is expected to bear produce for more than one period; and

(c) has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales.

Bearer plants of the Group comprise tea trees in forests, of which the Forestry Right Certificates have been issued to the Group for the purpose of tea plantation ("Tea Forest") involved in the agricultural activities of the transformation of bearer plants into agricultural produce for sale or further processing.

Bearer plants are accounted for in the same way as self-constructed items of property, plant and equipment before they are in the location and condition necessary to be capable of operating in the manner intended by the management.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their costs or revalued amounts, less their residual values, if any, on a straight-line basis over their estimated useful lives as follows:–

Leasehold land	over the lease terms
Buildings	the shorter of the lease terms and 10 to 50 years
Plant and machinery	5 – 15 years
Furniture, fixtures, office equipment and motor vehicles	3 – 10 years
Bearer plants	over the lease terms of 28 to 45 years

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

Construction in progress represents buildings under construction and plant and machinery pending for installation, and is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

Gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Agricultural produce

Agricultural produce harvested from bearer plants is measured at its fair value less costs to sell at the point of harvest. Costs to sell include all costs that would be necessary to sell the agricultural produce. The fair value less costs to sell at the time of harvest is deemed as the cost of agriculture produce.

If an active market exists for agricultural produce with reference to comparable species, growing condition and expected yield of the crops, the quoted price in that market is adopted for determining the fair value of the agricultural produce. If an active market does not exist, the Group uses the most recent market transaction price, provided that there has not been a significant change in economic circumstances between the transaction date and the end of reporting period, or the market prices for similar assets adjusted to reflect differences to determine fair values or as determined by independent professional valuers.

(g) 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.

(i) Classification of assets leased to the Group

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, with the following exceptions:–

– property held under operating leases that would otherwise meet the definition of an investment property is classified as investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease; and

– land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Leases (continued)

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 3(e). Impairment losses are accounted for in accordance with the accounting policy as set out in note 3(w). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(iii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property.

(h) Trademarks

Trademarks acquired by the Group are stated at cost less accumulated amortisation and impairment losses.

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of trademarks. Trademarks are amortised from the date they are available for use and the estimated useful lives of five to seven years respectively from the date they are available for use according to the agreements entered by the Group for acquisition of the trademarks.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

(j) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

(k) Available-for-sale financial assets

Available-for-sale financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. Gain or loss on remeasurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting or hedge the net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

(m) Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the receivables' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in profit or loss.

Impairment losses are reversed in subsequent periods and recognised in profit or loss when an increase in the receivables' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value, having been within three months of maturity at acquisition. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

(o) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under IFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below:

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Financial guarantee contract liabilities

Financial guarantee contract liabilities are measured initially at their fair values and are subsequently measured at the higher of:–

– the amount of the obligations under the contracts, as determined in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and

– the amount initially recognised less cumulative amortisation recognised in profit or loss on a straight–line basis over the terms of the guarantee contracts.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Financial liabilities and equity instruments (continued)

Convertible bonds

Convertible bonds that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible bonds and the fair value assigned to the liability component, representing the embedded option for the holder to convert the bonds into equity of the Group, is included in equity as convertible bonds reserve.

The liability component is carried as a liability at amortised cost using the effective interest method until extinguished on conversion or redemption. The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in convertible bonds reserve until the embedded option is exercised (in which case the balance stated in convertible bonds reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible bonds reserve will be released to retained profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Transaction costs are apportioned between the liability and equity components of the convertible bonds based on their relative carrying amounts at the date of issue. The portion relating to the equity components is charged directly to equity.

The liability component (or part of the liability component) of the convertible bonds is derecognised when, and only when, it is extinguished – i.e. when the obligation specified in the contract is discharged or cancelled or expired.

A significant modification of the terms of the convertible bond is accounted for as a recognition of a new compound instrument and an extinguishment of the original compound instrument before maturity. The difference between the carrying amount of the original liability component extinguished and its fair value at the date of modification is recognised in profit or loss. The difference between the fair value at the date of modification of the original liability component extinguished and the fair value of the newly recognised liability component is recognised in the equity/convertible bond reserve. The carrying amount of the equity component of the original compound instrument extinguished is released from convertible bond reserve to retained profits.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Financial liabilities and equity instruments (continued)

Convertible notes and warrants designated at fair value through profit or loss

The convertible notes (including related embedded derivatives) and warrants are designated as financial liabilities at fair value through profit or loss on initial recognition with transaction cost charge to the profit or loss. Subsequent to initial recognition, the convertible notes and warrants are measured at fair value in subsequent period or upon derecognition of the convertible notes and warrants, with changes in fair value recognised directly in the profit or loss in the period in which they arise.

Trade and other payables

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Equity instruments

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

Debentures

Debentures are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

The terms of a debenture are substantially modified if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 percent different from the discounted present value of the remaining cash flows of the original debenture.

A substantial modification of the terms of an existing debenture or a part of it (whether or not attributable to the debenture holder) shall be accounted for as an extinguishment of the original debenture and the recognition of a new debenture. Any costs or fees incurred are recognised as part of the gain or loss on the extinguishment.

If the modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the original debenture and are amortised over the remaining term of the modified debenture using the effective interest method.

Promissory notes

Promissory notes are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Revenue recognition

Revenue from sales of goods is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

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

(q) Employee benefits

(i) Employee leave entitlements

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

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

(ii) Pension obligations

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to profit or loss represents contributions payable by the Group to the funds.

(iii) Termination benefits

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

(r) Share-based payments

The Group issues equity-settled share-based payments to certain directors, employees and business consultants. Equity-settled share-based payments are measured at the fair value (excluding the effect of non market-based vesting conditions) of the equity instruments at the date of grant. 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 shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Equity-settled share-based payments to those persons that provide the nature of business development to the Group are measured at the fair value of the services received or if the fair value of the services rendered cannot be reliably measured, at the fair value of the equity instruments granted. The fair value is measured at the date the Group receives the services and recognised as expenses.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

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

(t) Government grants

A government grant is recognised when there is reasonable assurance that the Group will comply with the conditions attaching to it and that the grant will be received.

Government grants relating to income are deferred and recognised in profit or loss over the period to match them with the costs they are intended to compensate.

(u) Taxation

Income tax represents the sum of the current tax and deferred tax.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Taxation (continued)

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(v) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:–

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Related parties (continued)

(b) An entity is related to the Group if any of the following conditions applies:–

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or a joint venture of the other entity (or an associate or a joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

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

(w) Impairment of assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets except goodwill, investments, inventories and receivables 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 any impairment loss. Where 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.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Impairment of assets (continued)

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) 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, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(x) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

(y) Segment reporting

Operating segments, and amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(y) Segment reporting (continued)

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intragroup balances and transactions are between group enterprises within a single segment.

Segment assets included all tangible, intangible, non-current and current assets with the exception of corporate assets. Segment liabilities included current and non-current liabilities attributable to the individual segments.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one year.

Unallocated items may comprise certain financial and corporate assets, certain financial and corporate liabilities, other income, certain corporate and financing expenses, income tax expenses and certain non-recurring income or expenses as disclosed in note 8.

(z) Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the consolidated financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

4. CRITICAL JUDGEMENTS AND KEY ESTIMATES

Critical judgements in applying accounting policies

In the process of applying the accounting policies, the directors have made the following judgements that have the most significant effect on the amounts recognised in the consolidated financial statements apart from those involving estimations, which are dealt with below.

Legal titles of buildings and leasehold land in the People's Republic of China (the "PRC")

As stated in note 15 to the consolidated financial statements, the ownership certificates of certain buildings and leasehold land located in the PRC were not issued to the Group as at 31 December 2016. Despite the fact that the Group has not obtained the relevant ownership certificates, the directors determine to recognise those buildings and leasehold land located in the PRC as property, plant and equipment on the grounds that they expect the transfer of legal titles in future should have no major difficulties and the Group is in substance controlling those buildings and leasehold land located in the PRC.

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 have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(a) Estimated useful lives and residual values of property, plant and equipment and trademark

The Group determines the estimated useful lives and related depreciation charges and amortisation charges for the Group's property, plant and equipment and trademark based on the historical experience of the actual useful lives and residual values of property, plant and equipment and trademark of similar nature and functions. The Group will revise the depreciation charges and amortisation charges where useful lives and residual values are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

4. CRITICAL JUDGEMENTS AND KEY ESTIMATES (continued)

Key sources of estimation uncertainty (continued)

(b) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which these items have been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value.

(c) Impairment of property, plant and equipment

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that property, plant and equipment may be impaired or an impairment loss previously recognised no longer exists or may have decreased. If any such indication exists, the Group is required to estimate the asset's recoverable amount. The recoverable amount of an asset is the greater of its fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset.

(d) Impairment of trade and other receivables

Impairment of trade receivables and other receivables is made based on assessment of their recoverability. The identification of impairment of trade receivables and other receivables requires management's judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of the receivables and impairment loss or reversal of impairment in the period in which such an estimate has been changed.

(e) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of changes in customer taste or competitor actions in response to market conditions. Management reassesses these estimates at each reporting date.

4. CRITICAL JUDGEMENTS AND KEY ESTIMATES (continued)

Key sources of estimation uncertainty (continued)

(f) Fair values of buildings

The Group appointed an independent professional valuer to assess the fair values of the buildings. In determining the fair values, the valuer has utilised a method of valuation which involves certain estimates. The directors have exercised their judgements and are satisfied that the method of valuation is reflective of the current market conditions. Any change in estimates may affect the fair values of buildings significantly.

(g) Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Details are contained in note 31 to the consolidated financial statements.

(h) Fair values of share options granted and financial liabilities at fair value through profit or loss

The Group appointed an independent professional valuer to assess the fair values of the share options granted and financial liabilities at fair value through profit or loss. In determining the fair values, the valuer has utilised a method of valuation which involves certain estimates. The directors have exercised their judgements and are satisfied that the method of valuation is reflective of the current market conditions. Any change in estimates may affect the fair values of the share options granted and financial liabilities at fair value through profit or loss significantly.

(i) Impairment of available-for-sale financial assets

The Group follows the guidance of HKAS 39 to determine when an available-for-sale financial asset is impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow. Based on the Group's estimation, no impairment loss has been made on available-for-sale financial assets. Where the final outcome of these matters is different from the management's estimates and judgements, such differences will impact the profit and loss in the period in which such determination is made.

5. FINANCIAL RISK MANAGEMENT

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

(a) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group is exposed to currency risk primarily through business transactions, assets and liabilities that are denominated in a foreign currency, i.e. a currency other than the functional currency of the Group's entitles. The currencies giving rise to this risk are primarily HK$ and RMB.

The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

At 31 December 2015 and 2016, the Group did not have significant currency risk exposure as the major recognised financial assets and liabilities denominated in RMB were held by its subsidiaries of which their functional currencies are RMB.

(b) Credit risk

Credit risk is the risk that a party to a financial instrument will cause a financial loss for the Group by failing to discharge an obligation. The Group has a credit policy in place and exposure to the credit risk is monitored on an ongoing basis.

5. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

The carrying amounts of financial assets as at 31 December 2015 and 2016, which represented the Group's significant exposure to credit risk, are as follows:–

	2016	2015
	HK$'000	HK$'000
Trade receivables	**110**	376,578
Deposits and other receivables	**94,179**	3,537
Bank balances	**2,090,525**	1,686,287
	2,184,814	2,066,402

In respect of trade receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and may take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Debtors are due within 30 to 120 days from the date of billing. Normally, the Group does not obtain collateral from customers.

The directors consider that the credit risk from pledged bank deposits and bank balances is minimal as the balances are placed with financial institutions with high credit ratings.

The directors consider that the credit risk from deposits and other receivables is minimal as there are no indications for deterioration of creditworthiness of counter parties and the recoverability are reasonably assured.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

The default risk of the industry and country in which customers operate also has an influence on credit risk but to lesser extent. At 31 December 2016, the Group has a certain concentration of credit risk, that 27.61% (2015: 51.30%) and 80.38% (2015: 93.70%) of total trade receivables was due from the largest customer and five largest customers respectively.

The Group did not provide any financial guarantees which would expose the Group to credit risk.

5. FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities. The Group manages liquidity risks by monitoring its liquidity position through periodic preparation of cash flows and cash balances forecasts and periodic evaluation of the ability of the Group to meet its financial obligations, measured by the debt-to-adjusted capital ratio.

Maturities of the financial liabilities of the Group as at 31 December 2015 and 2016 were as follows:–

	At 31 December 2016					
	Carrying amount HK$'000	**Total contractual undiscounted cash flow HK$'000**	**Within 1 year or on demand HK$'000**	**1 to 2 years HK$'000**	**2 to 5 years HK$'000**	**Over 5 years HK$'000**
Bank loans, secured	**34,283**	**34,704**	**34,704**	**–**	**–**	**–**
Trade payables	**7,844**	**7,844**	**7,844**	**–**	**–**	**–**
Other payables and accruals	**112,335**	**112,335**	**112,335**	**–**	**–**	**–**
Amount due to a related party	**1,591**	**1,591**	**1,591**	**–**	**–**	**–**
Convertible bonds	**379,048**	**379,048**	**379,048**	**–**	**–**	**–**
Debentures	**1,292,980**	**1,668,911**	**517,022**	**187,590**	**112,070**	**852,229**
Promissory notes	**93,813**	**93,813**	**93,813**	**–**	**–**	**–**
	1,921,894	**2,298,246**	**1,146,357**	**187,590**	**112,070**	**852,229**

	At 31 December 2015					
	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within 1 year or on demand HK$'000	1 to 2 years HK$'000	2 to 5 years HK$'000	Over 5 years HK$'000
Bank loans, secured	36,732	38,436	38,436	–	–	–
Trade and bills payables	12,811	12,811	12,811	–	–	–
Other payables and accruals	119,335	119,335	119,335	–	–	–
Amount due to a related party	1,861	1,861	1,861	–	–	–
Convertible bonds	361,324	368,533	302,981	65,552	–	–
Debentures	1,107,734	1,422,544	188,086	521,172	156,226	557,060
Promissory notes	144,564	144,844	144,844	–	–	–
	1,784,361	2,108,364	808,354	586,724	156,226	557,060

5. FINANCIAL RISK MANAGEMENT (continued)

(d) Interest rate risk

The following table details the fixed/variable rate financial assets/liabilities in which the Group is exposed to interest rate risk. The Group does not use financial derivatives to hedge against the interest rate risk. However, the interest rate profile of the Group is closely monitored by the management and may enter into appropriate swap contracts, when it is considered significant and cost-effective, to manage the interest rate risk.

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates as at 31 December 2015 and 2016:–

	2016 Effective interest rate % per annum	**2016** HK$'000	2015 Effective interest rate % per annum	2015 HK$'000
Fixed rate financial liabilities				
Debentures	**3.00% – 22.26%**	**(1,292,980)**	5.00% – 12.96%	(1,107,734)
Consideration payable included in other payables and accruals	**4%**	**(30,265)**	4%	(40,265)
Convertible bonds – liability component	**7.058%**	**(379,048)**	7.058% – 7.709%	(361,324)
Promissory notes	**10.179%**	**(93,813)**	10.179%	(144,564)
Variable rate financial assets				
Bank balances	**0.01% – 0.35%**	**2,090,525**	0.01% – 0.35%	1,686,287
Variable rate financial liabilities				
Bank loans, secured	**7.40% – 8.10%**	**(34,283)**	8.37% – 8.67%	(36,732)
		260,136		(4,332)

It is estimated that a general increase of 25 basis points in interest rates, with all other variables held constant, the Group's loss for the year ended 31 December 2016 would be decreased and respective retained profits would be increased by approximately HK$5,141,000 (2015: HK$4,124,000).

5. FINANCIAL RISK MANAGEMENT (continued)

(d) Interest rate risk (continued)

The sensitivity analysis above has been determined based on the exposure to interest rate for both derivatives and non-derivative instruments at the end of reporting period. The analysis is prepared assuming the amount of financial asset and liability outstanding at the end of reporting period was outstanding for the whole year. 25 basis points increase are used when reporting interest rate risk internally to key management personnel and represent management's assessment of the reasonable possible change in interest rates.

(e) Fair value

The following table presents the fair value of the Group's financial assets and liabilities measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 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

		Fair value measurements as at 31 December 2016 categorised into		
	Fair value at 31 December 2016 HK$'000	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000
The Group				
Recurring fair value measurement				
Financial liabilities at fair value through profit or loss	**9,714**	**–**	**–**	**9,714**

5. FINANCIAL RISK MANAGEMENT (continued)

(e) Fair value (continued)

	Fair value at 31 December 2015 HK$'000	Fair value measurements as at 31 December 2015 categorised into Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000
The Group				
Recurring fair value measurement				
Financial liabilities at fair value through profit or loss	8,531	–	–	8,531

During the years ended 31 December 2015 and 2016, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

The fair values of the financial liabilities at fair value through profit or loss, which includes the warrant ("Warrant") as disclosed in note 29, were estimated using binomial option pricing model and the inputs into the model at 31 December 2015 and 2016 were as follows:

	2016	2015
Quoted market price	**0.062**	0.055
Expected volatility	**40.57%**	38.26%
Expected life	**2.57 years**	3.57 years
Risk-free interest rate	**1.239%**	0.856%
Expected dividend yield	**Nil**	Nil

5. FINANCIAL RISK MANAGEMENT (continued)

(e) Fair value (continued)

Details of key unobservable inputs used in valuing the financial liability at fair value through profit or loss are as follows:–

	Key unobservable inputs	Range	Inter-relationship between key unobservable inputs and fair value measurements
Financial liability at fair value through profit or loss	Expected volatility	40.57% (2015: 38.26%)	The estimated fair value increases when expected volatility increases

The Warrant were independently valued by BMI Appraisals Limited ("BMI"). BMI and its professional valuers in charge of this valuation have appropriate qualifications and relevant experiences in various valuation assignments involving financial instruments. The professional valuers of BMI involved in this valuation include professional members of the American Institute of Certified Public Accountants ("AICPA") and the Institute of Public Accountants ("MIPA"), as well as charterholders of Chartered Financial Analyst ("CFA") and Financial Risk Manager ("FRM"). They have extensive experiences in valuing different kinds of financial instruments such as share options, forward contracts, financial guarantees and have previously performed valuations of various kinds of convertible bonds and warrants.

In valuing the Warrant, BMI has followed the International Valuation Standards laid down by the International Valuation Standards Council. Further, BMI has assessed and declared its independence based on the requirements of the International Valuation Standards.

Based on the above qualifications and various experiences of BMI and/or its members, the directors are of the view that BMI is independent and competent to determine the fair value of the Warrant.

The carrying amounts of the Group's financial assets and liabilities carried at other than fair values as reflected in the consolidated statement of financial position approximate their respective fair values.

5. FINANCIAL RISK MANAGEMENT (continued)

(f) Equity price risk

The Group is exposed to market price changes arising from the financial liabilities at fair value through profit or loss of HK$9,714,000 (2015: HK$8,531,000). The Group is required to estimate the fair value of the financial liabilities at fair value through profit or loss at the end of the reporting period with changes in fair value to be recognised in the profit or loss. The fair value adjustment would be affected either positively or negatively, amongst others, by the changes in the Company's share market price. At the end of the reporting period, the Group is exposed to the equity price risk through the change in fair values of the Warrant.

If the Company's share price at 31 December 2016 had been 5% higher and all other variables were held constant, the Group's carrying amount of the financial liabilities at fair value through profit or loss would increase by approximately HK$1,586,000 (2015: approximately HK$1,249,000). Hence, the Group's loss after tax for the year and accumulated losses would increase by the same amount.

The sensitivity analysis indicates the instantaneous change in the Group's loss after tax (and accumulated losses) that would arise assuming that the changes in the Company's share price had occurred at the end of the reporting period and had been applied to re-measure 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 2015.

6. REVENUE

The Group's revenue represents the invoiced value of goods sold to external customers less discounts and return, and net of value-added tax. An analysis of the Group's revenue are as follows:–

	2016 HK$'000	2015 HK$'000
Sales of raw teas, refined teas and other related products	**301,258**	822,524
Sales of ginseng products	**992**	–
	302,250	822,524

7. OTHER INCOME

	2016 HK$'000	2015 HK$'000
Bank interest income	**7,083**	5,885
Government grants	**772**	1,095
Others	**244**	12
	8,099	6,992

8. SEGMENT INFORMATION

The Group has only one reportable segment: raw teas, refined teas and other related products. Accordingly, the Group does not have any identifiable segment or any discrete information for segment reporting purpose.

Geographical information

All of the Group's revenue were generated in the PRC. All of the Group's non-current assets are located in the PRC.

Revenue from major customers

During the years ended 31 December 2015 and 2016, the revenue generated from the following customers accounted for over 10% of the Group's total revenue:–

	2016 **HK$'000**	2015 HK$'000
Customer A	**–**	193,200
Customer B	**–**	151,000
	–	344,200

9. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID EMPLOYEES

Details of emoluments of the directors of the Company disclosed pursuant to the Listing Rules and the Hong Kong Companies Ordinance are as follows:–

For the year ended 31 December 2016

Name of director	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonus HK$'000	Retirement benefits scheme contributions HK$'000	Equity-settled share-based payments HK$'000	Total emoluments HK$'000
Executive directors						
Mr. Cai Zhenrong	–	340	–	–	–	340
Mr. Cai Zhenyao	–	304	–	–	–	304
Mr. Cai Zhenying	–	309	–	–	–	309
Mr. Cai Yangbo	–	875	–	–	–	875
Mr. Choi Wing Toon	–	351	–	–	–	351
Mr. Zhang Lu (appointed on 25 August 2016)	–	–	–	–	–	–
Mr. Zhou Yao Bo (appointed on 25 August 2016)	–	–	–	–	–	–
	–	2,179	–	–	–	2,179
Independent non-executive directors						
Ms. Choy So Yuk, *BBS, JP*	–	120	–	–	–	120
Mr. Lawrence Gonzaga	–	120	–	–	–	120
Mr. Yuen Chun Fai (resigned on 11 May 2016)	–	44	–	–	–	44
Mr. Chin Hon Siang (appointed 12 July 2016)	–	56	–	–	–	56
Mr. Lin Hann Ruey (appointed on 23 November 2016)	–	13	–	–	–	13
	–	353	–	–	–	353
Total	–	2,532	–	–	–	2,532

9. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID EMPLOYEES (continued)

For the year ended 31 December 2015

Name of director	Fees	Salaries, allowances and benefits in kind	Discretionary bonus	Retirement benefits scheme contributions	Equity-settled share-based payments	Total emoluments
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Executive directors						
Mr. Cai Zhenrong	–	330	10	–	114	454
Mr. Cai Zhenyao	–	304	–	–	114	418
Mr. Cai Zhenying	–	304	–	–	114	418
Mr. Cai Yangbo	–	960	–	–	114	1,074
Mr. Choi Wing Toon	–	324	27	1	114	466
	–	2,222	37	1	570	2,830
Non-executive director						
Mr. Lam Kai Yeung (appointed on 19 December 2014 and resigned on 18 May 2015)	–	140	–	5	38	183
	–	140	–	5	38	183
Independent non-executive directors						
Ms. Choy So Yuk, *BBS, JP*	–	120	–	–	114	234
Mr. Lawrence Gonzaga	–	120	–	–	114	234
Mr. Yuen Chun Fai	–	120	–	–	76	196
	–	360	–	–	304	664
Total	–	2,722	37	6	912	3,677

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

9. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID EMPLOYEES (continued)

The five highest paid individuals in the Group during the year included two (2015: nil) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining three (2015: five) individuals are set out below:–

	2016 **HK$'000**	2015 HK$'000
Basic salaries, housing benefits, other allowances and benefits in kind	**1,912**	176
Equity-settled share-based payments	**–**	11,581
Retirement benefits scheme contributions	**48**	7
	1,960	11,764

The emoluments fell within the following bands:–

	Number of individuals	
	2016	2015
HK$1,000,001 to HK$1,500,000	**3**	–
HK$2,000,001 to HK$2,500,000	**–**	4
HK$2,500,001 to HK$3,000,000	**–**	1
	3	5

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

10. FINANCE COSTS

	2016 HK$'000	2015 HK$'000
Actual interest on convertible bonds	**76,067**	14,786
Imputed interest on convertible bonds	**2,847**	15,098
Interest on cash consideration payable for business combination	**1,324**	4,643
Interest on debentures	**60,854**	47,309
Amortisation of issuing costs for debentures	**35,498**	12,065
Interest on financial liabilities at fair value through profit or loss	**–**	1,320
Interest on promissory notes	**17,649**	18,356
Bank loan interest expenses	**2,472**	2,117
	196,711	115,694

11. INCOME TAX (CREDIT)/EXPENSE

	2016 HK$'000	2015 HK$'000
Current tax – the PRC enterprise income tax – provision for the year	**2,970**	5,579
Deferred tax (Note 31)	**(3,663)**	(2,630)
	(693)	2,949

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which subsidiaries of the Group are domiciled and operate.

No Hong Kong profits tax has been provided as there was no assessable profit earned in or derived from Hong Kong for the years ended 31 December 2015 and 2016.

Pursuant to Section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Council that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gain or appreciation shall apply to the Company or its operations.

11. INCOME TAX (CREDIT)/EXPENSE (continued)

Pursuant to the International Business Companies Act, 1984 (the "IBC Act") of the British Virgin Islands (the "BVI"), international business companies incorporated pursuant to the IBC Act enjoy a complete exemption from income tax. This includes an exemption from capital gains tax and all forms of withholding tax. Accordingly, the subsidiaries incorporated in the BVI are not subject to tax.

The National People's Congress approved the Corporate Income Tax Law of the PRC (the "New CIT Law") on 16 March 2007 and the State Council has announced the Detailed Implementation Regulations on 6 December 2007, which has been effective since 1 January 2008. According to the New CIT Law, the income tax rates for both domestic and foreign investment enterprises are unified at 25% effective from 1 January 2008. Pursuant to the relevant PRC tax rules and regulations, the Group's income derived from the tea plantation is subject to preferential income tax rates of 0% – 12.5%.

Pursuant to the New CIT Law and its implementation rules, the gross amount of dividends received by the Company's subsidiaries incorporated in Hong Kong and the BVI from its PRC subsidiaries in respect of their profits generated since 1 January 2008 is subject to withholding tax at a rate of 5% and 10% respectively. Under the Caishui (2008) No. 1, the undistributed profits of the PRC subsidiaries as at 31 December 2007 determined based on the relevant PRC tax rules and regulations are exempted from withholding tax. Since the Group can control the quantum and timing of distribution of profits of the Group's subsidiaries in the PRC, deferred tax liabilities are only provided to the extent that such profits are expected to be distributed in the foreseeable future.

A reconciliation of income tax (credit)/expense applicable to loss before tax using the applicable rate for the regions in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:–

	2016 **HK$'000**	2015 HK$'000
Loss before tax	**(974,297)**	(824,657)
Tax at the PRC enterprise income tax rate of 25%	**(243,574)**	(206,164)
Tax effect of income that is not taxable	**(26,374)**	(793)
Tax effect of expenses that are not deductible	**288,027**	252,771
Tax effect of preferential tax rates for tea plantation in the PRC	**(18,772)**	(42,865)
Income tax (credit)/expense	**(693)**	2,949

12. LOSS FOR THE YEAR

The Group's loss for the year is stated after charging the following:–

	2016 HK$'000	2015 HK$'000
Amortisation of intangible assets	**8,359**	8,072
Auditor's remuneration for:–		
Annual audit	**2,200**	2,000
Interim review	**–**	900
Others	**688**	163
	2,888	3,063
Cost of inventories sold	**167,065**	614,480
Depreciation of property, plant and equipment	**35,223**	37,067
Exchange (gain)/loss, net	**(2)**	19
Impairment loss on:		
– Other receivables	**46**	2,158
– Inventories	**4,754**	–
Property, plant and equipment written off	**–**	148
Operating lease charges on land and buildings	**1,251**	3,159
Staff costs (excluding directors' remuneration (Note 9)):		
Salaries, bonus and allowances	**15,157**	16,534
Retirement benefits scheme contributions	**766**	1,156
Equity-settled share-based payments	**–**	32,046
	15,923	49,736

The cost of inventories sold includes staff costs, depreciation and operating leases charges of approximately HK$20,244,000 (2015: HK$22,284,000) which are included in the amounts disclosed separately above.

Note:–

The Group operates a mandatory provident fund scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for all qualifying employees in Hong Kong. The Group's contributions to the MPF Scheme are calculated at 5% of the salaries and wages subject to a monthly maximum amount of contribution of HK$1,500, per employee and vest fully with employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries established in the PRC are members of a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute certain percentage of the employees' basic salaries and wages to the central pension scheme to fund the retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of these subsidiaries. The only obligation of these subsidiaries with respect to the central pension scheme is to meet the required contributions under the scheme.

13. DIVIDENDS

No dividend has been paid or declared by the Company for the years ended 31 December 2015 and 2016.

14. LOSS PER SHARE

The calculation of basic and diluted loss per share is based on the following:–

	2016 **HK$'000**	2015 HK$'000
Loss		
Loss attributable to equity shareholders of the Company for the purpose of calculating basic loss per share	**(972,735)**	(826,673)
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic loss per share	**20,011,738,634**	17,200,666,458

Weighted average number of ordinary shares

	2016 **HK$'000**	2015 HK$'000
Issued ordinary shares at the beginning of the year	**18,134,323,704**	15,777,549,141
Effect of issue of shares for acquisitions of an associate and available-for-sale financial assets	**1,740,655,738**	–
Effect of exercise of share options	**–**	473,578,083
Effects of conversion of convertibe bonds and financial liabilities at fair value through profit or loss and issue of shares for settlement of interest due under financial liabilities at fair value through profit or loss	**136,759,192**	949,539,234
Weighted average number of ordinary shares of the year	**20,011,738,634**	17,200,666,458

Diluted loss per share has not been disclosed as the effects of all potential ordinary shares are anti-dilutive for the years ended 31 December 2015 and 2016.

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land	Buildings	Plant and machinery	Furniture, fixtures, office equipment and motor vehicles	Construction in progress	Bearer plants	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Cost or valuation							
At 1 January 2015	30,749	36,283	3,052	86,933	66,658	816,250	1,039,925
Additions	–	–	235	14	–	–	249
Additions from business combination (Notes 37(a) & (b))	–	–	6,372	4,695	–	–	11,067
Write-off	–	–	–	(3,361)	–	–	(3,361)
Deficit on revaluation	–	(1,471)	–	–	–	–	(1,471)
Exchange differences	(1,230)	(1,451)	(384)	(3,516)	(2,667)	(32,650)	(41,898)
At 31 December 2015 and 1 January 2016	29,519	33,361	9,275	84,765	63,991	783,600	1,004,511
Additions	–	–	828	1	–	–	829
Disposals of subsidiaries (Note 38)	–	–	(5,709)	(4,208)	–	–	(9,917)
Deficit on revaluation	–	(1,109)	–	–	–	–	(1,109)
Exchange differences	(1,967)	(2,224)	(654)	(5,583)	(4,265)	(52,240)	(66,933)
At 31 December 2016	**27,552**	**30,028**	**3,740**	**74,975**	**59,726**	**731,360**	**927,381**

15. PROPERTY, PLANT AND EQUIPMENT (continued)

	Leasehold land HK$'000	Buildings HK$'000	Plant and machinery HK$'000	Furniture, fixtures, office equipment and motor vehicles HK$'000	Construction in progress HK$'000	Bearer plants HK$'000	Total HK$'000
Accumulated depreciation							
At 1 January 2015	840	–	527	4,442	–	20,832	26,641
Charge for the year	784	2,772	1,134	9,491	–	22,886	37,067
Write-off	–	–	–	(3,213)	–	–	(3,213)
Write-back on revaluation	–	(2,683)	–	–	–	–	(2,683)
Exchange differences	(58)	(89)	(58)	(355)	–	(1,573)	(2,133)
At 31 December 2015 and 1 January 2016	1,566	–	1,603	10,365	–	42,145	55,679
Charge for the year	740	1,537	2,963	8,656	–	21,327	35,223
Disposals of subsidiaries (Note 38)	–	–	(3,147)	(1,342)	–	–	(4,489)
Write-back on revaluation	–	(1,472)	–	–	–	–	(1,472)
Exchange differences	(136)	(65)	(233)	(1,013)	–	(3,721)	(5,168)
At 31 December 2016	**2,170**	**–**	**1,186**	**16,666**	**–**	**59,751**	**79,773**
Net book value							
At 31 December 2016	**25,382**	**30,028**	**2,554**	**58,309**	**59,726**	**671,609**	**847,608**
At 31 December 2015	27,953	33,361	7,672	74,400	63,991	741,455	948,832

15. PROPERTY, PLANT AND EQUIPMENT (continued)

An analysis of cost or valuation of the above assets is as follows:–

	Leasehold land HK$'000	Buildings HK$'000	Plant and machinery HK$'000	Furniture, fixtures, office equipment and motor vehicles HK$'000	Construction in progress HK$'000	Bearer plants HK$'000	Total HK$'000
At cost	29,519	–	9,275	84,765	63,991	783,600	971,150
At valuation	–	33,361	–	–	–	–	33,361
At 31 December 2015	29,519	33,361	9,275	84,765	63,991	783,600	1,004,511
At cost	27,552	–	3,740	74,975	59,726	731,360	897,353
At valuation	–	30,028	–	–	–	–	30,028
At 31 December 2016	**27,552**	**30,028**	**3,740**	**74,975**	**59,726**	**731,360**	**927,381**

At 31 December 2016, the Group's buildings were revalued by BMI, an independent firm of professional valuers, at open market value of approximately HK$30,028,000 (2015: HK$33,361,000). The resulting revaluation surplus (2015: deficit) of approximately HK$71,000 (2015: HK$319,000) has been credited (2015: debited) to the properties revaluation reserve, and the resulting revaluation surplus of approximately HK$292,000 (2015: HK$1,531,000) has been credited to profit or loss.

Had the Group's buildings been stated at cost less accumulated depreciation and impairment losses, their carrying amounts as at 31 December 2016 would have been approximately HK$45,773,000 (2015: HK$50,443,000).

There were certain buildings of approximately HK$24,326,000 (2015: HK$27,060,000) for which the Group are in the process of obtaining the relevant building ownership certificates. The directors do not foresee any major obstacles to issuing the certificates of the above-mentioned buildings to the Group.

The Group's leasehold land represent land use rights outside Hong Kong under medium-term leases.

At 31 December 2016, the Group's leasehold land with net book value of approximately HK$25,382,000 (2015: HK$27,953,000) represent payments for land use rights in the PRC.

15. PROPERTY, PLANT AND EQUIPMENT (continued)

At 31 December 2016, the Group's leasehold land included certain leasehold land of approximately HK$17,861,000 (2015: HK$19,588,000) for which the Group were in the process of obtaining the relevant land use rights certificates. The directors do not foresee any major obstacles to complete the transfer of the legal title of the above-mentioned land use rights to the Group.

At 31 December 2016, the Group's leasehold land with net book value of HK$7,219,000 (2015: HK$8,031,000) was pledged to banks to secure bank loans of HK$34,283,000 (2015: HK$36,732,000) (Note 25).

On 24 March 2017, the Group entered into a non-legally binding memorandum of understanding with an independent third party (the "Purchaser") to dispose the land use right with carrying amount of HK$7,219,000 and the construction in progress on that land use right of HK$59,726,000 at a consideration of RMB72,000,000 (equivalent to HK$80,640,000). Up to the date of the report, the Group is in the process of negotiating further terms and conditions with the Purchaser.

(a) Fair value measurement of buildings

(i) Fair value hierarchy

The following table presents the fair value of the Group's buildings in the PRC measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 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

	Fair value at 31 December 2016 HK$'000	Fair value measurements as at 31 December 2016 categorised into		
		Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000
The Group				
Recurring fair value measurement				
Buildings in the PRC	**30,028**	**–**	**–**	**30,028**

15. PROPERTY, PLANT AND EQUIPMENT (continued)

(a) Fair value measurement of buildings (continued)

(i) Fair value hierarchy (continued)

	Fair value at 31 December 2015 HK$'000	Fair value measurements as at 31 December 2015 categorised into		
		Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000
The Group				
Recurring fair value measurement				
Buildings in the PRC	33,361	–	–	33,361

During the years ended 31 December 2015 and 2016, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

The movements during the year in the balance of these Level 3 fair value measurements are as follows:–

Buildings in the PRC	**2016 HK$'000**	2015 HK$'000
At the beginning of the year	**33,361**	36,283
Depreciation charge for the year	**(1,537)**	(2,772)
Surplus on revaluation	**363**	1,212
Exchange adjustment	**(2,159)**	(1,362)
At the end of the year	**30,028**	33,361

15. PROPERTY, PLANT AND EQUIPMENT (continued)

(a) Fair value measurement of buildings (continued)

(i) Fair value hierarchy (continued)

Surplus on revaluation and exchange adjustment of buildings located in the PRC are recognised in other comprehensive income in "properties revaluation reserve" and "translation reserve", respectively.

(ii) Information about Level 3 fair value measurements

All of the Group's buildings in the PRC were revalued as at 31 December 2015 and 2016. The valuations were carried out by an independent firm of surveyors, BMI, who has among their staff Members of The Hong Kong Institute of Surveyors with relevant experience in the location and category of properties being valued as well as wide experience in valuing different types of properties, including but not limited to, residential, commercial, industrial, retail, agricultural, hotel and developing properties. For all buildings, their current usages are considered as the highest and best use. The Group's management has discussion with the surveyors on the valuation assumptions and valuation results when the valuations are performed at each annual reporting date.

BMI has assessed and declared its independence and competence and has performed its valuation work independently in accordance with the HKIS Valuation Standards (2012 Edition) published by the Hong Kong Institute of Surveyors.

Based on the above qualifications and various experiences of BMI and/or its members, the directors are of the view that BMI is independent and competent to determine the fair value of the Group's buildings in the PRC.

Since there are no active markets for the regions that the Group's buildings in the PRC are located, no market price information is available to adopt the market approach. Accordingly, BMI has adopted depreciated replacement cost approach in valuing the Group's buildings in the PRC.

15. PROPERTY, PLANT AND EQUIPMENT (continued)

(a) Fair value measurement of buildings (continued)

(ii) Information about Level 3 fair value measurements (continued)

The following steps have been taken for the site inspections of the Group's buildings in the PRC conducted by BMI:

– Verified the physical existence of the buildings;

– Obtained the Land Use Right Certificates of which the buildings are located;

– Assessed the quality and useful lives of the buildings;

– Evaluated the operation of the Group's business.

The fair values of the buildings located in the PRC are determined by depreciated replacement cost approach. Details of the key unobservable inputs used in valuing the buildings are as follows:–

	Key unobservable inputs	Range	Inter-relationship between key unobservable inputs and fair value measurements
Buildings	Construction cost per square metre	RMB2,930 to RMB4,102 (2015: RMB3,022 to RMB4,258)	The estimated fair value increases when the construction cost per square metre increases
	Useful lives of buildings	20 years to 50 years (2015: 20 years to 50 years)	The estimated fair value increases when the useful life of the building increases

15. PROPERTY, PLANT AND EQUIPMENT (continued)

(b) Bearer plants

Bearer plants represent tea trees in forests located in the PRC, of which the Forestry Right Certificates have been issued to the Group for the purpose of tea plantation. As at 31 December 2016, the Group owned Tea Forest with total cultivable area of 70,912.7 Mu (2015: 70,912.7 Mu). The Group recognises the Tea Forest as a bearer plant when, and only when:–

– The Group controls the Tea Forest as a result of past event, which is evidenced by issuance of Forestry Right Certificate by the relevant PRC authority for the purpose of tea plantation;

– It is probable that future economic benefits associated with the Tea Forest will flow to the Group; and

– The fair value or cost of the Tea Forest can be measured reliably.

According to the Forestry Right Certificates issued by the relevant PRC authority, the Group is granted a right to perform tea plantation and harvest within the cultivable area of 70,912.7 Mu (2015: 70,912.7 Mu) for 28 to 45 years.

At 31 December 2016, certain Tea Forest of approximately HK$113,516,000 (2015: HK$126,613,000) with total cultivable area of 12,631 Mu (2015: 12,631 Mu) was pledged to secure bank loans of HK$34,283,000 (2015: HK$36,732,000) (Note 25).

15. PROPERTY, PLANT AND EQUIPMENT (continued)

(b) Bearer plants (continued)

The Group is exposed to a number of risks related to tea trees plantation:–

(i) Regulatory and environmental risks

The Group is subject to laws and regulations in the PRC in which it operates. The Group has established environmental policies and procedures aimed at compliance with local environmental and other laws. Management performs regular reviews to identify environmental risks and to ensure that the systems in place are adequate to manage those risks. The directors are not aware of any environmental liabilities as at 31 December 2015 and 2016.

(ii) Supply and demand risks

The Group is exposed to risks arising from fluctuations in the price and sales volume of tea leave. When possible the Group manages this risk by controlling its harvest volume, according to market conditions. Management performs regular industry trend analysis to ensure the Group's pricing policy is comparable to the market and the projected harvesting volumes are consistent with the expected demand.

(iii) Climate and other risks

The Group's tea plantation is exposed to the risk of damage from climatic changes, diseases, forest fires and other natural forces. The Group has procedures in place aimed at monitoring and mitigating those risks, including regular Tea Forest inspections and pesticide preventions.

16. AGRICULTURAL PRODUCE

The estimated quantity and fair value less costs to sell of agricultural produce, representing tea leaves before further processing into raw teas, harvested from tea trees from continuing operations during the reporting period since completion of business combinations on 22 July 2013 and 11 September 2014 were as follows:–

	2016 **HK$'000**	2015 HK$'000
Estimated fair value less costs to sell	**73,222**	117,519
Estimated quantity (kg)	**16,011,950**	25,100,496

The change in fair value of agricultural produce less costs to sell recognised in the consolidated statement of profit or loss represents the difference between the estimated fair value less costs to sell and costs incurred for plantation of tea leaves.

17. INTANGIBLE ASSETS

	Trademark HK$'000	Goodwill HK$'000 (Note)	Total HK$'000
Cost			
At 1 January 2015	41,250	2,106,498	2,147,748
Additions from business combination (Notes 37(a) and (b))	15,875	252,013	267,888
Exchange differences	(2,285)	–	(2,285)
At 31 December 2015 and 1 January 2016	54,840	2,358,511	2,413,351
Disposals of subsidiaries (Note 38)	(14,224)	(252,013)	(266,237)
Exchange differences	(3,656)	–	(3,656)
At 31 December 2016	**36,960**	**2,106,498**	**2,143,458**
Accumulated amortisation			
At 1 January 2015	8,153	–	8,153
Charge for the year	8,072	–	8,072
Exchange differences	(586)	–	(586)
At 31 December 2015 and 1 January 2016	15,639	–	15,639
Charge for the year	8,359	–	8,359
Disposals of subsidiaries (Note 38)	(4,978)	–	(4,978)
Exchange differences	(1,400)	–	(1,400)
At 31 December 2016	**17,620**	–	**17,620**
Accumulated impairment			
At 1 January 2015	–	595,498	595,498
Impairment loss	–	815,013	815,013
At 31 December 2015 and 1 January 2016	–	1,410,511	1,410,511
Disposals of subsidiaries (Note 38)	–	(214,013)	(214,013)
Impairment loss	–	910,000	910,000
As 31 December 2016	**–**	**2,106,498**	**2,106,498**
Carrying amount			
At 31 December 2016	**19,340**	**–**	**19,340**
At 31 December 2015	39,201	948,000	987,201

17. INTANGIBLE ASSETS (continued)

Note:–

Goodwill acquired in a business combination is allocated, at acquisition, to the cash-generating units ("CGUs") that are expected to benefit from that business combination. After recognition of impairment losses, the carrying amount of goodwill had been allocated as follows:–

	2016 **HK$'000**	2015 HK$'000
Raw teas, refined teas and other related products:–		
China Natural Tea Holdings Company Ltd	**–**	910,000
Greenpost Investments Ltd	**–**	13,000
Goodsign International Ltd	**–**	25,000
	–	948,000

Raw teas, refined teas and other related products

The recoverable amounts of the CGUs of the above companies are determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a ten-year (2015: ten-year) period.

Financial budgets covering a ten-year period is used as the Group's tea business is currently in an expansion stage that the growth rate is increasing in early years and then the growth rate is expected to be reduced gradually. A steady state of the growth rate is reached not until ten years' time.

Cash flows beyond the ten-year (2015: ten-year) period are extrapolated using an estimated long term growth rate of 3% (2015: 3%). The growth rates used do not exceed the long-term average growth rates for the business in which the CGU operates. The cash flows are discounted using the following discount rates:

	2016	2015
China Natural Tea Holdings Company Ltd	**17.86%**	17.77%
Greenpost Investments Ltd	**N/A**	22.89%
Goodsign International Ltd	**N/A**	22.49%

The discount rate used is pre-tax and reflects the specific risks relating to the relevant segment.

17. INTANGIBLE ASSETS (continued)

Raw teas, refined teas and other related products (continued)

Details of the impairment loss of each of the CGU recognised during the years ended 31 December 2015 and 2016 and the recoverable amounts of the each of the CGU as at 31 December 2015 and 2016 are as follows:

	Impairment loss recognised		Recoverable amount of the CGU	
	2016	2015	**2016**	2015
	HK$'000	HK$'000	**HK$'000**	HK$'000
China Natural Tea Holdings Company Ltd	**910,000**	601,000	**405,100**	1,382,400
Greenpost Investments Ltd	**–**	112,495	**–**#	68,400
Goodsign International Ltd	**–**	101,518	**–**#	52,800
	910,000	815,013	**405,100**	1,503,600

\# During the year ended 31 December 2016, the Group disposed of its interests in its Greenpost Investments Ltd and Goodsign International Limited (Note 38).

Any adverse change in the assumptions used in the calculations of recoverable amounts would result in further impairment losses.

18. INTERESTS IN AN ASSOCIATE

	2016 HK$'000	2015 HK$'000
Share of net assets of associates:		
Beijing Mao Yong Daping Investment Center (Limited Partnership) ("Mao Yong Daping")	**83,796**	92,578
Plenty Partner Limited ("Plenty Partner") (Note (a))	**192,216**	–
	276,012	92,578

(a) Acquisition of interest in Plenty Partner

On 18 March 2016, the Group's subsidiary, Citiasia International Limited ("Citiasia") entered into the share transfer agreement with Sure Right Development Limited ("Sure Right"), pursuant to which Sure Right agreed to sell and Citiasia agreed to purchase 25% of the total issued share capital of Plenty Partner, and the shareholder's loan due by Plenty Partner to Sure Right in the amount of RMB139,185,000, representing 25% of the total amount of the shareholder's loan due by Plenty Partner to Sure Right, for a total consideration of HK$200 million. The consideration is satisfied by allotment and issue of 2,000,000,000 consideration shares of the Company. The acquisition was completed on 6 April 2016. The consideration shares were measured at fair value based on the closing price of HK$0.052 on 6 April 2016, the date of acquisition.

The acquisition of 25% interest in Plenty Partner Limited is accounted for as the Group's associate using the equity method in the consolidated financial statements of the Group.

Gain on bargain purchase from the acquisition of an Plenty Partner of HK$99,373,000 was primarily attributable to the excess of the consideration transferred by allotment of consideration shares over fair value of consideration shares.

18. INTERESTS IN AN ASSOCIATE (continued)

(b) Summarised financial information

(i) Plenty Partner

Summarised financial information of Plenty Partner from the date of acquisition to the end of the reporting period, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:–

	2016 HK$'000
Gross amounts of the associate	
Current assets	63,422
Non-current assets	756,995
Current liabilities	(631,550)
Non-current liabilities	(43,554)
Net assets	145,313

	For the period from 6 April 2016 to 31 December 2016 HK$'000
Revenue	82,448
Profit for the year	10,007
Other comprehensive loss for the year	(10,097)
Total comprehensive loss for the year	(90)

18. INTERESTS IN AN ASSOCIATE (continued)

(b) Summarised financial information (continued)

(i) Plenty Partner (continued)

	2016 HK$'000
Reconciliation of the summarised financial information presented to the carrying amounts of the Group's interests in an associate	
Gross amounts of net assets of the associate	**145,313**
Add: Loan from Sure Right	**623,551**
	768,864
Group's effective interest	**25%**
Group's share of net assets of the associate	**192,216**

(ii) Mao Yong Daping

Summarised financial information of Mao Yong Daping, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:–

	2016 HK$'000	2015 HK$'000
Gross amounts of the associate		
Current assets	**1,702**	5,183
Non-current assets	**293,331**	320,537
Current liabilities	**(6,919)**	(7,413)
Net assets	**288,114**	318,307

18. INTERESTS IN AN ASSOCIATE (continued)

(b) Summarised financial information (continued)

(ii) Mao Yong Daping (continued)

	2016 HK$'000	2015 HK$'000
Revenue	–	–
Loss for the year	(9,373)	(9,949)
Other comprehensive loss for the year	(20,820)	(13,342)
Total comprehensive loss for the year	(30,193)	(23,291)

	2016 HK$'000	2015 HK$'000
Reconciliation of the summarised financial information presented to the carrying amounts of the Group's interests in an associate		
Gross amounts of net assets of the associate	288,114	318,307
Group's effective interest	29.08%	29.08%
Group's share of net assets of the associate	83,796	92,578

19. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2016 **HK$'000**	2015 HK$'000
Unlisted equity securities, at cost (Note (c)):		
Shenzhen Fenghui International Caibao Co., Limited (Note (a))	**94,640**	–
Perfect Partner International Corporation (Note (b))	**70,000**	–
	164,640	–

Notes:

(a) On 30 September 2016, the Company's subsidiary, Shishi Guochuan Investment and Consultancy Limited ("Shishi Guochuan") entered into the equity transfer agreement with Ms. Zeng Wenying ("Ms. Zeng") pursuant to which Shishi Guochuan agreed to purchase and Ms. Zeng agreed to sell 13% equity interest in Shenzhen Fenghui International Caibao Co., Limited for the consideration of HK$182,000,000. The consideration is satisfied by allotment and issue of 1,820,000,000 consideration shares of the Company. The fair value of the consideration shares on initial recognition is with reference to the Company's closing share price of HK$0.052 on 17 November 2016, the date of completion of the acquisition.

(b) On 29 June 2016, 26 September 2016 and 14 November 2016, the Company's subsidiary, Ping Shan Health Industry Limited ("Ping Shan Health") and Mr. Zhou Chonghai ("Mr. Zhou") entered into the sales and purchase agreement, first supplemental agreement and second supplemental agreement respectively. Pursuant to these agreements, Ping Shan Health agreed to purchase and Mr. Zhou agreed to sell 10% equity interest in Perfect Partner International Corporation for the consideration of HK$125,000,000. The consideration is satisfied by cash of HK$25,000,000 and allotment and issue of 1,000,000,000 consideration shares of the Company. The fair value of the consideration shares on initial recognition is with reference to the Company's closing share price of HK$0.045 on 12 December 2016, the date of completion of the acquisition.

(c) These unlisted equity securities were carried at cost as they do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

20. DEPOSITS PAID

	For potential business combination HK$'000 (Note (a))	Property, plant and equipment HK$'000 (Note (c))	Bearer plants HK$'000 (Note (b))	Total HK$'000
At 1 January 2015	362,500	25,000	67,188	454,688
Additions for the year	550,000	–	–	550,000
Transfer upon completion of business combination (Notes 37(a) and (b))	(362,500)	–	–	(362,500)
Refund	–	–	(67,188)	(67,188)
Exchange differences	(22,000)	(1,000)	–	(23,000)
At 31 December 2015	528,000	24,000	–	552,000
Refund	(96,000)	–	–	(96,000)
Exchange differences	(28,800)	(1,600)	–	(30,400)
At 31 December 2016	**403,200**	**22,400**	**–**	**425,600**

(a) Deposits paid for potential business combination for the year ended 31 December 2015

(i) On 22 May 2015, the Group entered into a non-legally binding memorandum of understanding ("MoU A") with a vendor ("Vendor A"). Pursuant to the MoU A, Vendor A intended to dispose of and the Group intended to acquire 100% of the issued share capital of a company ("Target A"), which after certain reorganisation will own a tea plantation base of approximately 6,500 Mu and certain retail shops in Fujian Province, the PRC. Subject to further negotiation between the Group and Vendor A and the results of the due diligence on Target A and its subsidiaries, the proposed consideration for the potential business combination amounted to RMB350,000,000 (equivalent to approximately HK$420,000,000).

During the year ended 31 December 2015, the Group paid RMB150,000,000 (equivalent to approximately HK$187,500,000) as deposits for such potential business combination.

Owing to the change of the Group's business plans, the Group decided not to proceed the potential business combination. On 20 March 2017, the Group entered into a separate agreement with Vendor A to terminate the MoU A. The Group received full refund of deposits of RMB150,000,000 on 22 March 2017.

20. DEPOSITS PAID (continued)

(a) Deposits paid for potential business combination for the year ended 31 December 2015 (continued)

(ii) On 19 June 2015, the Group entered into a non-legally binding memorandum of understanding ("MoU B") with a vendor ("Vendor B"). Pursuant to the MoU B, Vendor B intended to dispose of and the Group intended to acquire 100% of the issued share capital of a company ("Target B"), which after certain reorganisation will own a sophisticated tea cultural promotion business in Anhui Province, the PRC. Subject to further negotiation between the Group and Vendor B and the results of the due diligence on Target B and its subsidiaries, the proposed consideration for the potential business combination amounted to RMB280,000,000 (equivalent to approximately HK$336,000,000).

During the year ended 31 December 2015, the Group paid RMB90,000,000 (equivalent to approximately HK$112,500,000) as deposits for such potential business combination.

Owing to the change of the Group's business plans, the Group decided not to proceed the potential business combination. On 20 March 2017, the Group entered into a separate agreement with Vendor B to terminate the MoU B. The Group received full refund of deposits of RMB90,000,000 on 24 March 2017.

(iii) On 20 June 2015, the Group entered into a non-legally binding memorandum of understanding ("MoU C") with a vendor ("Vendor C"). Pursuant to the MoU C, Vendor C intended to dispose of and the Group intended to acquire 100% of the issued share capital of a company ("Target C"), which after certain reorganisation will own a sophisticated electronic commerce platform in Fujian Province, the PRC. Subject to further negotiation between the Group and Vendor C and the results of the due diligence on Target C and its subsidiaries, the proposed consideration for the potential business combination amounted to RMB160,000,000 (equivalent to approximately HK$192,000,000).

During the year ended 31 December 2015, the Group paid RMB80,000,000 (equivalent to approximately HK$100,000,000) as deposits for such potential business combination.

Owing to the change of the Group's business plans, the Group decided not to proceed the potential business combination. On 16 March 2016, the Group entered into a separate agreement with Vendor C to terminate the MoU C. The Group received full refund of deposits of RMB80,000,000 on the same date.

20. DEPOSITS PAID (continued)

(a) Deposits paid for potential business combination for the year ended 31 December 2015 (continued)

(iv) On 24 June 2015, the Group entered into a non-legally binding memorandum of understanding ("MoU D") with a vendor ("Vendor D"). Pursuant to the MoU D, Vendor D intended to dispose of and the Group intended to acquire 100% of the issued share capital of a company ("Target D"), which after certain reorganisation will own a sophisticated refined tea business in Hubei Province, the PRC. Subject to further negotiation between the Group and Vendor D and the results of the due diligence on Target D and its subsidiaries, the proposed consideration for the potential business combination amounted to RMB300,000,000 (equivalent to approximately HK$360,000,000).

During the year ended 31 December 2015, the Group paid RMB120,000,000 (equivalent to approximately HK$150,000,000) as deposits for such potential business combination.

Owing to the change of the Group's business plans, the Group decided not to proceed the potential business combination. On 23 March 2017, the Group entered into a separate agreement with Vendor D to terminate the MoU D. The Group received full refund of deposits of RMB120,000,000 on 24 March 2017.

(b) Deposits paid for acquisition of bearer plants

On 28 September 2012, the Group entered into a sales and purchase agreement ("S&P E") with a vendor ("Vendor E"). Pursuant to the S&P G, Vendor E agreed to dispose of and the Group agreed to acquire a tea forest of approximately 25,000 Mu located in Fujian Province, the PRC, at a consideration of RMB107,500,000. As at 31 December 2014, the Group paid RMB53,750,000 (approximately HK$67,188,000) as deposits for such acquisition of bearer plants.

Owing to some administrative difficulties in transferring the Forestry Right Certificate of the bearer plants from Vendor E to the Group, on 27 March 2015, the Group entered into a separate agreement with Vendor E to terminate the S&P E. The Group received full refund of deposits of HK$67,188,000 on the same date.

(c) Deposits paid for acquisition of property, plant and equipment

The deposits paid represented the prepaid construction fees of RMB20,000,000 to a vendor for the construction in progress owned by the Group. On 20 March 2017, the Group entered into a separate agreement to cancel the construction contracts with the vendor. The Group received full refund of deposits of RMB20,000,000 on 27 March 2017.

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2016 HK$'000	2015 HK$'000
Consideration receivable for disposal of subsidiaries (Note 38)	**92,000**	–
Prepayments for subcontracting charges for cultivation	**1,871**	2,014
Deposits and other receivables	**2,179**	3,537
Prepayments	**8,022**	5,780
	104,072	11,331
Analysed as:–		
Non-current assets	**1,871**	2,014
Current assets	**102,201**	9,317
	104,072	11,331

22. INVENTORIES

	2016 HK$'000	2015 HK$'000
Raw materials	**14,763**	42,866
Work in progress	**–**	2,444
Finished goods	**1,161**	6,200
	15,924	51,510
Less: Impairment loss	**(4,550)**	–
	11,374	51,510

Moverments of impairment loss on inventories are as follows:

	2016 HK$'000	2015 HK$'000
At 1 January	**–**	–
Impairment loss for the year	**4,754**	–
Exchange adjustments	**(204)**	–
At 31 December	**4,550**	–

23. TRADE RECEIVABLES

The Group normally allows credit terms to well-established customers ranging from 30 to 120 days. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the directors.

An aging analysis of trade receivables as at the end of reporting period, based on the date of recognition of the service income or goods sold, is as follows:–

	2016	2015
	HK$'000	HK$'000
0 – 30 days	**–**	350,672
31 – 60 days	**–**	4,908
61 – 90 days	**–**	6,140
91 – 120 days	**–**	4,918
Over 120 days	**110**	9,940
	110	376,578

At 31 December 2016, trade receivables of approximately HK$110,000 (2015: HK$11,954,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The aging analysis of these trade receivables is as follows:–

	2016	2015
	HK$'000	HK$'000
Nether past due nor impaired	**–**	364,624
Less than 1 month past due	**–**	1,754
1 to 2 months past due	**–**	2,724
2 to 3 months past due	**–**	407
Over 3 months past due	**110**	7,069
	110	376,578

The carrying amounts of the Group's trade receivables are denominated in RMB.

24. CASH AND BANK BALANCES

At 31 December 2016, the cash and bank balances of the Group denominated in RMB amounted to approximately HK$2,090,210,000 (2015: approximately HK$1,687,897,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

25. BANK LOANS, SECURED

	2016 **HK$'000**	2015 HK$'000
Secured short-term loans	**34,283**	36,732

Notes:–

(i) The applicable interest rate per annum as at 31 December 2016 was 5.44% to 7.40% (2015: 8.37% to 8.67%) per annum.

(ii) As at 31 December 2016, the above secured bank loans were secured by land use rights held by the Group of HK$7,219,000 (2015: HK$8,031,000) (Note 15), certain Tea Forest held by the Group of HK$113,516,000 (2015: HK$126,613,000) (Note 15) with total cultivable area of 12,631 Mu (2015: 12,631 Mu) and guaranteed by the director of the Company, Mr. Cai Zhenyao and the director of a subsidiary, Mr. Cai Rongxu (Note 43).

At 31 December 2016, the Group's secured bank loans of HK$34,283,000 (2015: HK$36,732,000) are subject to the fulfillment of the following financial covenant: to maintain a maximum adjusted debt to assets ratio of a subsidiary of the Tea Group of 70%. If the Group was to breach the above covenant, the secured bank loans would become payable on demand. The Group regularly monitors the compliance with this financial covenant.

In the opinion of the directors, none of the financial covenants had been breached as at 31 December 2015 and 2016.

26. TRADE AND OTHER PAYABLES

	2016 **HK$'000**	2015 HK$'000
Trade payables	**7,844**	12,811
Interest payable	**877**	–
Receipts in advance, other payables and accruals	**126,475**	122,277
	127,352	122,277
Amount due to a related party – Note (i)	**1,591**	1,861
	136,787	136,949

Note:

(i) The amount is due to Mr. Cai Yanghang, senior management of the Group, which is unsecured, interest-free and repayable on demand.

The Group normally obtains credit terms ranging from 30 to 90 days from its suppliers.

Aging of trade payables

An aging analysis of the trade payables as at the end of reporting period, based on the date of receipt of consumables or goods purchased, is as follows:–

	2016 **HK$'000**	2015 HK$'000
0 – 30 days	**–**	2,180
31 – 60 days	**–**	882
61 – 90 days	**–**	4,779
Over 90 days	**7,844**	4,970
	7,844	12,811

27. CONVERTIBLE BONDS

(a) First and Second tranche convertible bonds

On 22 July 2013, the Company issued two tranches of convertible bonds with principal amount of HK$336,820,000 ("First Tranche Bonds") and HK$277,950,000 ("Second Tranche Bonds") respectively, aggregated to HK$614,770,000, for business combination in previous year. The following details the above convertible bonds issued to the bondholders:–

First Tranche Bonds

Name of bondholders	Principal amount HK$'000	Coupon rate (p.a.)	Maturity date	Conversion price per share HK$
Exalt Wealth Limited ("Exalt Wealth")	65,010	0%	21 July 2017	0.1768
Smart Fujian Group Limited ("Smart Fujian")	226,660	0%	21 July 2017	0.1768
Shine Strategy Limited ("Shine Strategy")	45,150	0%	21 July 2017	0.1768
	336,820			

Second Tranche Bonds

Name of bondholders	Principal amount HK$'000	Coupon rate (p.a.)	Maturity date	Conversion price per share HK$
Teya Holdings Limited ("Teya")	131,450	4%	31 December 2015	0.1768
Templeton Strategic Emerging Markets Fund III, LDC ("Templeton")	65,730	4%	31 December 2015	0.1768
Great Vantage International Limited ("Great Vantage")	54,950	4%	31 December 2015	0.1768
Ample Gold International Limited ("Ample Gold")	25,820	4%	31 December 2015	0.1768
	277,950			

27. CONVERTIBLE BONDS (continued)

(a) First and Second tranche convertible bonds (continued)

The First and Second Tranche Bonds can be converted into ordinary shares at any time after the date of issue. The conversion price of HK$0.1768 is subject to the standard adjustment clauses relating to share sub-division, share consolidation, capitalisation issues and rights issues. Details of the convertible bonds are set out in the circular of the Company dated 28 June 2013.

The following table details the exercise of conversion rights attaching to the First Tranche Bonds:–

Date of conversion	Principal amount converted HK$'000	No. of shares allotted and converted
First Tranche Bonds		
28 July 2014	65,010	367,703,620
8 August 2014	47,778	270,237,420
25 September 2014	45,150	255,373,303
1 June 2015	113,330	641,006,787
18 August 2016	65,552	370,769,366
	336,820	1,905,090,496

The Group is currently in the process of negotiating with the bondholders for the extension and/or restructuring of the Second Tranche Bonds.

(b) Liability and equity components of convertible bonds

The principal amounts of the convertible bonds have been split into the liability component and equity component and the movements are as follows:–

Liability component

	First Tranche Bonds HK$'000	Second Tranche Bonds HK$'000	Total Bonds HK$'000
At 1 January 2015	147,492	282,698	430,190
Imputed interest	7,260	7,838	15,098
Actual interest	–	14,786	14,786
Interest paid	–	(2,341)	(2,341)
Conversion of convertible bonds	(96,409)	–	(96,409)
At 31 December 2015 and 1 January 2016	58,343	302,981	361,324
Imputed interest	2,847	–	2,847
Actual interest	–	76,067	76,067
Conversion of convertible bonds	(61,190)	–	(61,190)
At 31 December 2016	**–**	**379,048**	**379,048**

27. CONVERTIBLE BONDS (continued)

(b) Liability and equity components of convertible bonds (continued)

	2016 HK$'000	2015 HK$'000
Analysed as:		
Current liabilities	**379,048**	302,981
Non-current liabilities	**–**	58,343
	379,048	361,324

Equity component

	First Tranche Bonds HK$'000	Second Tranche Bonds HK$'000	Total Bonds HK$'000
At 1 January 2015	82,414	123,721	206,135
Conversion of convertible bonds	(52,213)	–	(52,213)
At 31 December 2015 and 1 January 2016	30,201	123,721	153,922
Conversion of convertible bonds	(30,201)	–	(30,201)
At 31 December 2016	**–**	**123,721**	**123,721**

The interest charged of First Tranche Bonds for the year is calculated by applying an effective interest rate of 7.709% per annum to the liability component.

The interest charged of Second Tranche Bonds for the year is calculated by applying an effective interest rate of 7.058% per annum to the liability component.

28. DEBENTURES

At 31 December 2016, the Company issued unlisted debentures of approximately HK$1,543,186,000 (2015: HK$1,147,534,000) at face value with issuing costs of approximately HK$281,533,000 (2015: HK$57,278,000).

Details of debentures issued and outstanding as at 31 December 2015 and 2016 are as follows:

At 31 December 2016

Tranche	Principal amount HK$'000	Issuing cost HK$'000	Duration (years)	Coupon interest rate per annum	Effective interest rate per annum	Carrying amount HK$'000
2	45,000	2,600	8	5%	5.79-5.95%	43,118
3	50,000	7,775	4	0-6%	5.46-7.77%	43,079
5	10,000	100	8	5%	5.15%	9,927
6	28,000	1,200	8	6%	6.00-6.99%	27,058
7	20,000	5,610	8	0%	5.13%	14,821
9	41,000	–	2-8	5-6%	5.00-6.00%	41,000
10	94,000	8,140	2-8	0-8%	5.16-9.43%	87,168
11	216,600	38,946	2-8	0.8%	4.43-9.81%	177,832
12	182,400	47,918	2-8	0-7%	5.74-7.00%	136,172
13	35,000	5,150	8	5%	7.35-7.53%	30,626
14	294,034	29,172	2	7-8%	12.65-12.96%	283,826
15	1,000	–	2	6%	6.00%	1,000
16	423,652	126,730	2-8	0-8%	5.70-8.00%	301,822
17	12,500	150	0.5-8	3-10%	3.00-22.26%	12,354
18	90,000	8,042	2	0%	4.79%	83,177
	1,543,186	281,533				1,292,980

28. DEBENTURES (continued)

At 31 December 2015

Tranche	Principal amount HK$'000	Issuing cost HK$'000	Duration (years)	Coupon interest rate per annum	Effective interest rate per annum	Carrying amount HK$'000
1	7,000	420	2	6%	9.43%	6,986
2	45,000	2,600	8	5%	5.80-5.96%	42,828
3	50,000	2,900	4	6%	7.49-7.80%	48,049
4	100,000	5,400	2	5.5%	5.50-8.84%	98,148
5	10,000	100	8	5%	5.16%	9,916
6	28,000	1,200	8	6%	6.00-7.01%	26,932
7	20,000	–	8	6%	6.00%	20,000
8	10,000	600	2	6%	9.43%	9,702
9	41,000	–	2-8	5-6%	5.00-6.00%	41,000
10	95,500	1,850	2-8	6-8%	6.00-9.43%	97,536
11	216,600	7,386	2-8	6-8%	6.00-9.81%	210,122
12	192,400	500	2-8	4.5-7%	5.74-7.00%	193,908
13	35,000	5,150	8	5%	7.35-7.53%	30,114
14	294,034	29,172	2	7-8%	12.65-12.96%	269,493
15	3,000	–	2	6-8%	6.00-8.00%	3,000
	1,147,534	57,278				1,107,734

	At 31 December 2016 HK$'000	At 31 December 2015 HK$'000
Analysed as:		
Current liabilities	**448,849**	83,336
Non-current liabilities	**844,131**	1,024,398
	1,292,980	1,107,734

The debentures were initially recognised at their principal amounts less issuing costs and subsequently measured at amortised cost using the effective interest method.

During the year ended 31 December 2016, the Company has negotiated with certain existing debenture holders with aggregate principal amount of HK$306,000,000 to modify the existing terms of debentures. These modifications involve the change of interest payments from payments in arrears with reference to their respective coupon interest rates to payments in advance at discounted amounts agreed between the Company and the debenture holders at the dates of the modification.

The directors of the Company assessed the modifications of the above terms and considered that the terms are not substantially modified and thus the modifications do not constitute extinguishments of the original debentures. Accordingly, the interest payments in advance at the dates of modification represented issuing costs of the modified debentures. These issuing costs are adjusted to the carrying amounts of the original debentures at the dates of modification and are amortised over the remaining terms of the modified debentures using the effective interest method.

29. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

On 28 January 2014, the Company issued 3-year 4% per annum convertible notes ("CN") with principal amount of HK$253,000,000 together with the Warrant to Asia Equity Value LTD (the "Holder").

The CN can be converted into ordinary shares at any time after the date of issue at HK$0.21 per share. The conversion price of HK$0.21 is subject to anti-dilution adjustment for stock dividends, stock splits, dilutive securities issuances and other customary adjustment events from time to time in accordance with the terms and conditions of the CN.

Starting from the six-month from the date of issue of the CN, the Company shall redeem the outstanding principal amount of the CN, per quarterly basis, at an amount of equal to 100% of the principal amount of HK$23,000,000 each time, up to the third anniversary of the date of issue of the CN.

The Warrant can be exercised at any time after six months from the date of issue to subscribe up to a total of 506,000,000 shares at exercise price of HK$0.26 per share, which is subject to anti-dilution adjustment for stock dividends, stock splits, dilutive securities issuances and other customary adjustment events from time to time in accordance with the terms and conditions of the Warrant. The Warrant will expire on 28 July 2019.

On 11 September 2014, the Company issued 2,160,000,000 consideration shares (the "Consideration Shares") at issue price of HK$0.15 per share for business combination (Note 37(c)). As a result of the issue of such Consideration Shares, on 11 September 2014, the following adjustments on CN were made:

– Pursuant to section 7(d)(10) of the terms and conditions of the CN, the conversation price was adjusted from HK$0.21 to HK$0.15 per conversion share; and

– Pursuant to section 4A(9) of the terms and conditions of the Warrant, the exercise price was adjusted from HK$0.26 to HK$0.15 per warrant share.

The CN and Warrant are designated as financial liabilities at fair value through profit or loss upon initial recognition and subsequently measured at fair value at the end of each reporting period with changes in fair value recognised in profit or loss.

At 31 December 2014, the outstanding principal amount of the CN was HK$207,000,000.

During the year, the Company redeemed HK$46,000,000 of CN at face value.

On 28 January 2015, pursuant to paragraph 7(a)(iii) of the terms and conditions of the CN, the conversion price of the CN was adjusted from HK$0.15 to HK$0.08 per conversion share.

On 25 February 2015, the Company has entered into a repurchase agreement with the CN Holder, pursuant to which the Company has agreed to the repurchase of the CN in an aggregate principal amount of HK$137,000,000 for a total consideration of HK$164,400,000, being an amount equal to 120% of the face value of the CN. The consideration was satisfied by issue of promissory notes as disclosed in Note 30.

29. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

On 30 April 2015, pursuant to section 4A(9) of the terms and conditions of the Warrant, the exercise price was adjusted from HK$0.15 to HK$0.099 per warrant share as a result of grant of share options by the Company on the same date.

During the year ended 31 December 2015, the Holder converted the remaining HK$70,000,000 of the CN into shares at conversion price of HK$0.08 per share, resulting the Company to issue 875,000,000 ordinary shares.

During the repurchase of the CN, the Company issued 35,767,776 ordinary shares at a price of HK$0.08 per ordinary share to the Holder for settlement of part of the interest accrued on the CN.

The movements of the CN and Warrant (balance of level 3 fair value measurement) during the year are set out below:–

	CN HK$'000	**Warrant** HK$'000	**Total** HK$'000
At 1 January 2015	231,340	9,051	240,391
Repurchase of CN during the year by issue of promissory notes	(164,266)	–	(164,266)
Conversion during the year	(84,615)	–	(84,615)
Fair value loss/(gain) during the year	17,541	(520)	17,021
At 31 December 2015 and 1 January 2016	–	8,531	8,531
Fair value loss during the year	–	1,183	1,183
At 31 December 2016	–	9,714	9,714

	2016 **HK$'000**	2015 HK$'000
Analysed as:–		
Current liabilities	**9,714**	8,531

30. PROMISSORY NOTES

On 25 February 2015, the Company has entered into a repurchase agreement (the "Repurchase Agreement") with the Holder, pursuant to which the Company has agreed to the repurchase of the CN in an aggregate principal amount of HK$137,000,000 for a total consideration of HK$164,400,000, being an amount equal to 120% of the face value of the CN.

Pursuant to the Repurchase Agreement, the consideration was satisfied by issue of promissory notes as detailed below:

– HK$23,000,000 payable on 27 February 2015;

– HK$35,350,000 payable on 28 April 2015;

– HK$35,350,000 payable on 28 July 2015;

– HK$35,350,000 payable on 28 October 2015; and

– HK$35,350,000 payable on 28 January 2016.

Interest shall accrue on the balance of the consideration outstanding from time to time at a rate of ten per cent (10%) per annum for the period from 27 February 2015 to and including the date of payment of the consideration in full, calculated on a basis of a year of 360 days and actual days elapsed and shall be payable on each date specified above for the payment of each of the instalment.

The promissory notes were initially recognised at its fair value at the date of issue and subsequently measured at amortised cost using the effective interest method plus accrued interest payable.

The movements of the promissory notes during the years ended 31 December 2015 and 2016 are as follows:

	HK$'000
Issue of promissory notes	164,266
Interest on promissory notes	18,356
Principal paid	(38,000)
Interest paid	(58)
At 31 December 2015 and 1 January 2016	144,564
Interest on promissory notes	17,649
Principal paid	(68,400)
At 31 December 2016	**93,813**

30. PROMISSORY NOTES (continued)

The fair value of the promissory notes at initial recognition were independently valued by BMI Appraisals Limited ("BMI"). BMI and its professional valuers in charge of this valuation have appropriate qualifications and relevant experiences in various valuation assignments involving financial instruments. The professional valuers of BMI involved in this valuation include professional members of the Royal Institution of Chartered Surveyors, the American Institute of Certified Public Accountants and the Institute of Public Accountants, as well as charterholders of Chartered Financial Analyst and Financial Risk Manager. They have extensive experiences in valuing different kinds of assets such as property assets, industrial assets, biological assets, mining rights and assets, technological assets and financial assets worldwide and have previously performed valuations of various kinds of bonds and warrants.

Among the professional institutions mentioned above, the Royal Institution of Chartered Surveyors is a member organisation of the International Valuation Standards Council (the "IVSC") which encourages their respective members to adopt and use the International Valuation Standards laid down by the IVSC. BMI has assessed and declared its independence based on the requirements of the International Valuation Standards.

Based on the above qualifications and various experiences of BMI and/or its members, the directors are of the view that BMI is independent and competent to determine the fair value of the promissory notes.

The following table presents the fair value of the promissory notes measured at initial recognition, categorised into the three-level fair value hierarchy as defined in IFRS 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

The fair value of the promissory note on initial recognition falls into Level 3 of the fair value hierarchy, and was measured using the discounted cash flow method, taking into account of the risk-free rate, credit spread and the illiquidity spread. The key unobservable input used for the valuation is the discount rate of 10.284%. The estimated fair value of the promissory notes decreases when the illiquidity spread increases.

The Group is currently in the process of negotiating with the Holder for the extension and/or restructuring of the promissory notes.

31. DEFERRED TAX LIABILITIES

(a) An analysis of deferred tax in the consolidated statement of financial position is as follows:–

	2016 HK$'000	2015 HK$'000
Deferred tax assets	**4,087**	4,616
Deferred tax liabilities	**(10,991)**	(16,286)
	(6,904)	(11,670)

(b) The following are the major deferred tax liabilities/(assets) recognised by the Group:

	Fair value change of bearer plants HK$'000	Decelerated/ (accelerated) tax allowance HK$'000	Revaluating of buildings HK$'000	Others HK$'000	Total HK$'000
At 1 January 2015	13,163	5,264	(4,853)	146	13,720
Additions from business combination (Note 37(a) & (b))	–	3,090	–	(1,932)	1,158
Credit to other comprehensive loss for the year	–	–	(80)	–	(80)
(Credit)/charge to profit or loss for the year (Note 11)	–	(3,798)	383	785	(2,630)
Exchange differences	(527)	(212)	195	46	(498)
At 31 December 2015 and 1 January 2016	12,636	4,344	(4,355)	(955)	11,670
Debit to other comprehensive loss for the year	–	–	18	–	18
(Credit)/charge to profit or loss for the year (Note 11)	–	(3,736)	73	–	(3,663)
Disposals of subsidiaries (Note 38)	–	(1,524)	–	1,022	(502)
Exchange differences	(842)	(130)	291	62	(619)
At 31 December 2016	**11,794**	**(1,046)**	**(3,973)**	**129**	**(6,904)**

(c) At the end of reporting period, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised is HK$1,390,845,000 (2015: HK$1,458,524,000). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

32. SHARE CAPITAL AND CAPITAL MANAGEMENT

	2016 No. of shares	2016 HK$'000	2015 No. of shares	2015 HK$'000
Authorised:				
Ordinary shares of HK$0.01 each	**80,000,000,000**	**800,000**	80,000,000,000	800,000

	2016 No. of shares	2016 HK$'000	2015 No. of shares	2015 HK$'000
Ordinary shares, issued and fully paid:				
At the beginning of year	**18,134,323,704**	**181,343**	15,777,549,141	157,775
Issue of shares for acquisition of interest in an associate (Note 18)	**2,000,000,000**	**20,000**	–	–
Issue of shares for acquisitions of available-for-sale financial assets	**2,820,000,000**	**28,200**	–	–
Conversion of convertible bonds (Note 27)	**370,769,366**	**3,708**	641,006,787	6,410
Conversion of financial liabilities at fair value through profit or loss (Note 29)	**–**	**–**	875,000,000	8,750
Issue of shares for settlement of interest due under financial liabilities at fair value through profit or loss	**–**	**–**	35,767,776	358
Shares issued on exercise of share options granted during the year	**–**	**–**	805,000,000	8,050
At the end of year	**23,325,093,070**	**233,251**	18,134,323,704	181,343

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maximise the return to the shareholders through the optimisation of the debt and equity balance.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets.

The Group monitors capital on the basis of the debt-to-adjusted capital ratio. This ratio is calculated as net debt divided by adjusted capital. Net debt is calculated as total debts less cash and cash equivalents. Adjusted capital comprises all components of equity (i.e. share capital, share premium, retained profits and other reserves).

It is the Group's strategy to keep the net debt-to-adjusted capital ratio as low as feasible. In order to maintain or adjust the capital structure, the Group may adjust the payment of dividends, issue new shares, buy-back shares, raise new debts, redeem existing debts or sell assets to reduce debts.

The only externally imposed capital requirement is that for the Company to maintain its listing on the Stock Exchange it has to have a public float of at least 25% of the shares.

33. SHARE-BASED PAYMENTS

Equity-settled share option schemes

On 24 February 2012, the Company has passed the resolutions in a shareholders' meeting for the termination of the share option scheme adopted on 30 August 2002 and the adoption of an new share option scheme (the "Scheme"). Outstanding share options granted under the Terminated Scheme prior to such termination shall continue to be valid and, subject to the vesting schedule, exercisable in accordance with the Terminated Scheme.

The Company operates the Scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants include the Company's directors (including independent non-executive directors), employees of the Group, suppliers of goods or services, customers, persons or entities providing research, development or other technological support to the Group, and any non-controlling shareholders in the Company's subsidiaries. The Scheme, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

33. SHARE-BASED PAYMENTS (continued)

Equity-settled share option schemes (continued)

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of the grant of the share options or the expiry date of the Scheme, if earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet on the date of the offer of grant, which must be a trading day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of the offer of the grant; and (iii) the nominal value of the Company's shares on the date of the offer of the grant.

Details of the options granted are as follows:–

Options granted to directors

			Number of options		
Date of grant	Vesting date	Exercise period	2016	2015	Exercise price HK$
1 March 2010	1 March 2010	1 March 2010 to 28 February 2015	**–**	–	0.520
4 April 2011	4 April 2011	4 April 2011 to 3 April 2016	**–**	–	0.400
24 October 2013	24 October 2013	24 October 2013 to 23 October 2018	**15,000,000**	15,000,000	0.2538
20 May 2014	20 May 2014	20 May 2014 to 19 May 2019	**8,000,000**	8,000,000	0.1036
30 April 2015	30 April 2015	30 April 2015 to 29 April 2020	**18,000,000**	21,000,000	0.099
			41,000,000	44,000,000	

If the options remain unexercised after an exercise period from the date of grant, the options expire.

33. SHARE-BASED PAYMENTS (continued)

Options granted to employees and other participants

Date of grant	Vesting date	Exercise period	Number of options 2016	Number of options 2015	Exercise price HK$
1 March 2010	1 March 2010	1 March 2010 to 28 February 2015	**–**	–	0.520
4 April 2011	4 April 2011	4 April 2011 to 3 April 2016	**–**	143,400,000	0.400
24 October 2013	24 October 2013	24 October 2013 to 23 October 2018	**1,159,000,000**	1,159,000,000	0.2538
20 May 2014	20 May 2014	20 May 2014 to 19 May 2019	**12,316,000**	12,316,000	0.1036
30 April 2015	30 April 2015	30 April 2015 to 29 April 2020	**42,000,000**	42,000,000	0.099
			1,213,316,000	1,356,716,000	

33. SHARE-BASED PAYMENTS (continued)

Equity-settled share option schemes (continued)

Details of the share options outstanding during the year are as follows:–

	Year ended 31 December 2016 Number of share options	Year ended 31 December 2016 Weighted Average Exercise price HK$	Year ended 31 December 2015 Number of share options	Year ended 31 December 2015 Weighted Average Exercise price HK$
Outstanding at the beginning of the year	**1,400,716,000**	**0.2581**	1,431,456,000	0.2837
Granted during the year	**–**	**–**	868,000,000	0.099
Exercised during the year	**–**	**–**	(805,000,000)	0.099
Lapsed during the year	**(146,400,000)**	**0.3938**	(93,740,000)	0.52
Outstanding at the end of the year	**1,254,316,000**	**0.244**	1,400,716,000	0.2581
Exercisable at the end of the year	**1,254,316,000**	**0.244**	1,400,716,000	0.2581

During the year ended 31 December 2015, the weighted average share price of 805,000,000 share options exercised at the date of exercise was HK$0.1082 per share.

At 31 December 2016, the options outstanding have a weighted average remaining contractual life of 1.89 years (2015: 2.63 years) and the exercise prices range from HK$0.099 to HK$0.2538 (2015: HK$0.099 to HK$0.40). The estimated fair value of the options granted on 30 April 2015 was approximately HK$32,958,000 ("Option 2015").

For Option 2015, the fair value was calculated by BMI using the Binomial Model. The inputs into the model were as follows:–

	Option 2015
Fair value at measurement date	HK$32,958,000
Weighted average share price	0.099
Weighted average exercise price	0.099
Expected volatility	46.18%
Expected life	5 years
Risk fee rate	1.05%
Expected dividend yield	Nil

Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous 5 years for Option 2015. Change in inputs and assumptions would materially affect the fair value estimate.

34. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	At 31 December 2016 HK$'000	At 31 December 2015 HK$'000
Investments in subsidiaries	**133,905**	382,035
Due from subsidiaries (note)	**3,459,608**	3,883,345
Other current assets	**4,834**	2,535
Convertible bonds	**(379,048)**	(361,324)
Financial liabilities of fair value through profit or loss	**(9,714)**	(8,531)
Promissory notes	**(93,813)**	(144,564)
Debentures	**(1,296,506)**	(1,107,734)
Other current liabilities	**(25,886)**	(38,140)
NET ASSETS	**1,793,380**	2,607,622
Capital and reserves		
Share capital	**233,251**	181,343
Reserves	**1,560,129**	2,426,279
TOTAL EQUITY	**1,793,380**	2,607,622

Note:–

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

35. RESERVES

(a) Group

The amounts of the Group's reserves and movements therein are presented in the consolidated statement of changes in equity.

35. RESERVES (continued)

(b) Company

	Share premium HK$'000 (Note 35(b)(i))	Share-based payment reserve HK$'000 (Note 35(b)(iii))	Convertible bonds reserve HK$'000 (Note 27)	Accumulated losses HK$'000	Total HK$'000
At 1 January 2015	3,602,640	127,564	206,135	(961,174)	2,975,165
Total comprehensive loss for the year	–	–	–	(821,857)	(821,857)
Conversion of convertible bonds (Note 27(b))	142,212	–	(52,213)	–	89,999
Lapsed of share options granted in prior years	–	(15,331)	–	15,331	–
Equity-settled share-based transactions	–	32,958	–	–	32,958
Exercise of share options granted during the year	102,628	(30,983)	–	–	71,645
Conversion of financial liabilities at fair value through profit or loss	75,865	–	–	–	75,865
Issue of shares for settlement of interest due under financial liabilities at fair value through profit or loss	2,504	–	–	–	2,504
At 31 December 2015 and 1 January 2016	3,925,849	114,208	153,922	(1,767,700)	2,426,279
Total comprehensive loss for the year	–	–	–	(1,119,072)	(1,119,072)
Conversion of convertible bonds (Note 27(b))	87,683	–	(30,201)	–	57,482
Lapsed of share options granted in prior years	–	(22,046)	–	22,046	–
Issue of shares for acquisition of available-for-sale financial assets by subsidiaries	111,440	–	–	–	111,440
Issue of shares for acquisition of an associate by a subsidiary	84,000	–	–	–	84,000
At 31 December 2016	**4,208,972**	**92,162**	**123,721**	**(2,864,726)**	**1,560,129**

35. RESERVES (continued)

(c) Nature and purpose of reserves

(i) Share premium

The share premium account of the Company includes: (i) the premium arising from the new issue of shares; and (ii) the difference between the then combined net asset value of the subsidiaries acquired pursuant to the Group Reorganisation, over the nominal value of the share capital of the Company issued in exchange therefor.

In accordance with the Companies Law of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

(ii) Properties revaluation reserve

The properties revaluation reserve has been set up and are dealt with in accordance with the accounting policies adopted for buildings in note 3(e) to the consolidated financial statements.

(iii) Share-based payment reserve

The share-based payment reserve of the Company and the Group arise on the grant of share options to the directors, employees and other business associates under the Schemes. Further information about share-based payments to the directors, employees and other business associates was set out in note 33 to the consolidated financial statements. The fair value of the actual or estimated number of unexercised share options granted to the directors and employees of the Company recognised in accordance with the accounting policy adopted for share-based payments in note 3(r) to the consolidated financial statements.

(iv) Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the consolidated financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 3(d) to the consolidated financial statements.

36. PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries as at 31 December 2016 are as follows:–

Name	Place of incorporation/ registration and operation	Issued and paid-up capital	Percentage of ownership interest/ voting power/ profit sharing	Principal activities
Directly held				
Treasure Wealth Assets Limited	BVI	600 ordinary shares of US$1 each	100%	Investment holding
Wide Lucky Asia Pacific Limited	BVI	600 ordinary shares of US$1 each	100%	Investment holding
Ping Shan Health	BVI	1 ordinary share of US$1 each	100%	Investment holding
Indirectly held				
Powerful China Development Limited	Hong Kong	100 ordinary shares	100%	Provision of administrative services to group companies
Fujian Daping	PRC	Registered capital and paid-up capital of RMB1,200,000	100%	Sales of raw teas in the PRC
Fujian Nature Tea Science and Technology Co., Ltd	PRC	Registered capital and paid-up capital of HK$193,663,000	100%	Sales of refined teas and/or other related products in the PRC
Quanzhou Pingshan Tea Co., Ltd	PRC	Registered capital and paid-up capital of RMB1,000,000	100%	Sales of refined teas and/or other related products in the PRC
Xiamen Pingshan Tea Co., Ltd	PRC	Registered capital and paid-up capital of RMB1,000,000	100%	Sales of refined teas and/or other related products in the PRC
Fujian Huidian Packing Co., Ltd	PRC	Registered capital and paid-up capital of RMB5,000,000	100%	Sales of refined teas and/or other related products in the PRC
Liaoning Pingshan Tea Co., Ltd	PRC	Registered capital and paid-up capital of RMB5,000,000	100%	Sales of refined teas and/or other related products in the PRC
Shaanxi Pingshan Tea Co., Ltd	PRC	Registered capital and paid-up capital of RMB5,000,000	100%	Sales of refined teas and/or other related products in the PRC

36. PRINCIPAL SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operation	Issued and paid-up capital	Percentage of ownership interest/ voting power/ profit sharing	Principal activities
Chongqing Shengfang Tea Co., Ltd	PRC	Registered capital and paid-up capital of RMB5,000,000	100%	Sales of refined teas and/or other related products in the PRC
Anhui Ji Gong Tea Limited	PRC	Registered capital and paid-up capital of RMB3,000,000	90%	Sales of raw teas, refined teas and/or other related products in the PRC
Xiamen Huidian	PRC	Registered capital and paid-up capital of RMB5,000,000	100%	Sales of refined teas and/or other related products in the PRC
Anxi Jinxiang	PRC	Registered capital and paid-up capital of RMB5,700,000	100%	Sales of refined teas and/or other related products in the PRC
Shishi Guochuan	PRC	Registered capital and paid-up capital of RMB1,000,000	90%	Investment holding

The above list contains the particulars of subsidiaries, in the opinion of the directors, principally affected the results, assets or liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

37. BUSINESS COMBINATION

(a) Acquisition of Huidian Design Group

On 1 April 2015, the Group completed the acquisition of 100% equity interest in Greenpost Investments Limited and its subsidiaries (collectively referred to as the "Huidian Design Group") from Mr. Wang Hui Dong ("Mr. Wang") and 100% of the HK$25,925,000 outstanding unsecured and interest-free loan to be owed by the Huidian Design Group (the "HD Loan") to Mr. Wang, at a cash consideration of HK$175,000,000.

Huidian Design Group is engaged in the packaging of tea and production of tea sets.

The directors believe that through the acquisition of the Huidian Design Group, it offers business opportunities of the Group in enhancing brands and developing market channels that would further enhance the Group's income and strengthen the Group's market position.

37. BUSINESS COMBINATION (continued)

(a) Acquisition of Huidian Design Group (continued)

The fair value of net identifiable assets acquired and liabilities assumed in the above acquisition were as follows:

	Notes	HK$'000
Net identifiable assets acquired and liabilities assumed:–		
Property, plant and equipment	15	4,525
Intangible assets	17	8,750
Deferred tax assets	31	534
Inventories		21,629
Trade and other receivables		13,244
Cash and bank balances		4,049
Trade and other payables		(3,226)
HD Loan		(25,925)
Total net identifiable assets acquired and liabilities assumed		23,580
Goodwill on acquisition of interest in subsidiaries	17	125,495
		149,075
Consideration for acquisition of subsidiaries satisfied by:–		
Cash consideration		
– paid before 2015		168,750
– paid in 2015		6,250
		175,000
Less: HD Loan		(25,925)
Consideration for acquisition of subsidiaries		149,075
Net cash outflow arising from business combination:–		
Cash consideration paid in current period		(6,250)
Cash and bank balances acquired		4,049
		(2,201)

37. BUSINESS COMBINATION (continued)

(a) Acquisition of Huidian Design Group (continued)

The goodwill of HK$125,495,000 arises from a number of factors. Most significant amongst these is the premium attributable to a pre-existing, well positioned business operating in a competitive market. Other important elements included expected synergies through combining a highly skilled workforce and obtaining economies of scale. None of the goodwill is deductible for income tax purpose. Acquisition related cost is immaterial.

The Huidian Design Group contributed net profit of approximately HK$3,618,000 and revenue of HK$17,917,000 to the Group's loss and revenue for the year ended 31 December 2015 respectively for the period between the date of acquisition and the end of the reporting period.

Had the acquisition been completed on 1 January 2015, the Group's loss and revenue for the year ended 31 December 2015 would be approximately HK$828,343,000 and HK$822,524,000 respectively. This proforma information was for illustrative purposes only and was not necessarily an indication of the revenue and results of the Group that would actually have been impacted had the acquisition been completed on 1 January 2015, nor was it intended to be a projection of future results.

(b) Acquisition of Jinxiang Tea Group

On 1 April 2015, the Group completed the acquisition of 100% equity interest in Goodsign International Limited and its subsidiaries (collectively referred to as the "Jinxiang Tea Group") from Mr. Ng Chun Piu ("Mr. Ng") and 100% of the HK$34,363,000 outstanding unsecured and interest-free loan to be owed by the Jinxiang Tea Group (the "JX Loan") to Mr. Ng, at a cash consideration of HK$200,000,000.

Jinxiang Tea Group is principally engaged in the cultivation of tea plants, production and sale of tea products.

The directors believe that through the acquisition of the Jinxiang Tea Group, it offers business opportunities of the Group in enhancing brands and developing market channels that would further enhance the Group's income and strengthen the Group's market position.

37. BUSINESS COMBINATION (continued)

(b) Acquisition of Jinxiang Tea Group (continued)

The fair value of net identifiable assets acquired and liabilities assumed in the above acquisition were as follows:

	Notes	HK$'000
Net identifiable assets acquired and liabilities assumed:–		
Property, plant and equipment	15	6,542
Intangible assets	17	7,125
Inventories		3,201
Trade and other receivables		68,536
Cash and bank balances		808
Trade and other payables		(11,038)
JX Loan		(34,363)
Deferred tax liabilities	31	(1,692)
Total net identifiable assets acquired and liabilities assumed		39,119
Goodwill on acquisition of interest in subsidiaries	17	126,518
		165,637
Consideration for acquisition of subsidiaries satisfied by:–		
Cash consideration		
– paid before 2015		193,750
– paid in 2015		6,250
		200,000
Less: JX Loan		(34,363)
Consideration for acquisition of subsidiaries		165,637
Net cash outflow arising from business combination:–		
Cash consideration paid in current period		(6,250)
Cash and bank balances acquired		808
		(5,442)

37. BUSINESS COMBINATION (continued)

(b) Acquisition of Jinxiang Tea Group (continued)

The goodwill of HK$126,518,000 arises from a number of factors. Most significant amongst these is the premium attributable to a pre-existing, well positioned business operating in a competitive market. Other important elements included expected synergies through combining a highly skilled workforce and obtaining economies of scale. None of the goodwill is the deductible for income tax purpose. Acquisition related cost is immaterial.

The Jinxiang Tea Group contributed net profit of approximately HK$2,561,000 and revenue of HK$16,193,000 to the Group's loss and revenue for the year ended 31 December 2015 respectively for the period between the date of acquisition and the end of the reporting period.

Had the acquisition been completed on 1 January 2015, the Group's loss and revenue for the year ended 31 December 2015 would be approximately HK$827,924,000 and HK$822,524,000 respectively. This proforma information was for illustrative purposes only and was not necessarily an indication of the revenue and results of the Group that would actually have been impacted had the acquisition been completed on 1 January 2015, nor was it intended to be a projection of future results.

38. DISPOSALS OF SUBSIDIARIES

On 16 December 2016, the Group disposed of the entire interest in Huidian Design Group at a consideration of HK$60,000,000, satisfied by cash.

On 15 December 2016, the Group disposed of the entire interest in Jinxiang Tea Group at a consideration of HK$55,000,000, satisfied by cash.

The net assets of the above subsidiaries being disposed of were as follows:

	Note	Huidian Design Group	Jinxiang Tea Group	Total
		HK$'000	HK$'000	HK$'000
Property, plant and equipment	15	1,208	4,220	5,428
Intangible assets	17	18,096	29,150	47,246
Deferred tax assets		540	–	540
Inventories		28,756	1,825	30,581
Trade receivables		18,404	17,576	35,980
Prepayments, deposits and other receivables		–	1,042	1,042
Amounts due from Group companies		–	42,094	42,094
Cash and bank balances		835	857	1,692
Trade payables		(3,257)	(244)	(3,501)
Other payables and accruals		(1,583)	(310)	(1,893)
Amounts due to Group companies		(2)	(2)	(4)
Deferred tax liabilities		–	(1,042)	(1,042)
Net assets disposed of		62,997	95,166	158,163
Release of foreign currency translation reserve		5,649	7,943	13,592
Waive of payables to the disposal group		–	(42,094)	(42,094)
Waive of receivables from the disposal group		2	2	4
Loss on disposals of subsidiaries		(8,648)	(6,017)	(14,665)
Total consideration		60,000	55,000	115,000
Total consideration, satisfied by:				
– Cash		12,000	11,000	23,000
– Consideration receivable (Note 21)		48,000	44,000	92,000
		60,000	55,000	115,000
Net cash inflow arising on disposal:				
– Cash consideration received		12,000	11,000	23,000
– Cash and cash equivalents disposed of		(835)	(857)	(1,692)
		11,165	10,143	21,308

39. NON-CONTROLLING INTERESTS

The summarised financial information of Ever Reliance Asia Limited that has non-controlling interests that are material to the Group are set out below. The summarised financial information presented below represents the amounts before any inter-company elimination.

Summarised statements of financial position

	2016 HK$'000	2015 HK$'000
Non-current assets	**500,296**	444,818
Current assets	**–**	2,790
Current liabilities	**(483,172)**	(419,074)
Non-current liabilities	**(2,115)**	(3,539)
Net assets	**15,009**	24,995

Summarised statements of profit or loss and other comprehensive income

	2016 HK$'000	2015 HK$'000
Revenue	**–**	–
Loss for the year	**(8,692)**	(9,334)
Other comprehensive loss for the year	**(1,294)**	(1,101)
Total comprehensive loss for the year	**(9,986)**	(10,435)
Loss allocated to the non-controlling interests	**(869)**	(933)
Other comprehensive loss allocated to the non-controlling interests	**(83)**	(112)
Total comprehensive loss allocated to the non-cortrolling interests	**(952)**	(1,045)

39. NON-CONTROLLING INTERESTS (continued)

Summarised statements of cash flows

During the years ended 31 December 2015 and 2016, Ever Reliance did not have any cash flows from operating, investing and financing activities. At 31 December 2015 and 2016, Ever Reliance did not have any cash and cash equivalents.

40. MAJOR NON-CASH TRANSACTIONS

(a) As disclosed in Note 33, on 30 April 2015, the Group granted 868,000,000 share options with fair value of approximately HK$32,958,000 to certain directors and employees. The share options were vested on the grant date.

(b) As disclosed in Note 27(a), during the years ended 31 December 2015 and 2016, the First Tranche Bonds with principal amounts of HK$113,330,000 and HK$65,552,000 were converted into 641,006,787 ordinary shares and 370,769,366 ordinary shares of the Company respectively.

(c) As disclosed in Note 18, the Group acquired interest in Plenty Partner by allotment and issue of 2,000,000,000 consideration shares of the Company.

(d) As disclosed in Note 19, the Group acquired two available-for-sale financial assets by allotment and issue of in aggregate of 2,820,000,000 consideration shares of the Company.

41. CONTINGENT LIABILITIES

At 31 December 2015 and 2016, neither the Group nor the Company had any significant contingent liabilities.

42. COMMITMENTS

(a) Operating lease arrangements

As lessee

At the end of reporting period, the Group had total future minimum lease payments under non-cancellable operating leases for leasehold land and buildings payable as follows:

	2016 **HK$'000**	2015 HK$'000
Within one year	**802**	1,846
In the second to fifth years, inclusive	**–**	3,433
Over five years	**–**	281
	802	5,560

Operating lease payments represent rentals payable by the Group for certain of its offices, factory and warehouse. Leases are negotiated for terms ranging from 2 to 3 years (2015: 2 to 3 years) and rentals are fixed over the lease terms and do not include contingent rentals.

(b) Capital commitments

At the end of reporting period, the Group had the following capital commitments:–

	2016 **HK$'000**	2015 HK$'000
Authorised but not contracted for:–		
Potential business combination	**–**	684,000
Contracted but not provided for:–		
Construction of buildings	**24,884**	26,661
Investment in Sino-Korean Health Industry Merger & Acquisition Fund as detailed in the Company's announcement dated 23 December 2014	**–**	232,500
	24,884	259,161
	24,884	943,161

43. RELATED PARTY TRANSACTIONS

The Group had the following transactions with related parties during the year ended 31 December 2016:

(a) At 31 December 2016, the Group's secured bank loans of HK$34,283,000 (2015: HK$36,732,000) were guaranteed by Mr. Cai Zhenyao, director of the Company and Mr. Cai Rongxu, the director of a subsidiary.

(b) During the year ended 31 December 2016, Mr. Cai Rongxu acquired the Company's debentures with aggregate principal amount of HK$10,000,000, with terms of eight years.

(c) As disclosed in note 26, at 31 December 2016, the Group had amount due to Mr. Cai Yanghang, of HK$1,591,000 (2015: 1,861,000) which is unsecured, interest free and repayable on demand.

Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the directors as disclosed in note 9 is as follows:–

	2016 **HK$'000**	2015 HK$'000
Salaries, allowances and other benefits in kind	**3,892**	4,128
Discretionary bonus	**–**	37
Contributions to defined contribution plan	**30**	42
Equity-settled share-based payments	**–**	1,481
	3,922	5,688

44. SUBSEQUENT EVENTS AFTER THE REPORTING PERIOD

Apart from the events as disclosed in Notes 15, 20(a), 20(c), 27(a) and 30, the Group did not have other material subsequent events after the reporting period up to the date of this report.

45. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 30 March 2017.

46. IMMEDIATE AND ULTIMATE HOLDING COMPANY

At 31 December 2016, the directors consider the immediate and ultimate holding company of the Group to be Smart Fujian Group Limited, a company incorporated in the BVI.