Leading the Way Towards *a Bright Future*

Annual Report 2016

Kiu Hung International Holdings Limited
僑 雄 國 際 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code : 00381)

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Hui Kee Fung *(Chairman)*
Mr. Yu Won Kong, Dennis *(Chief Executive Officer)*
Mr. Zhang Yun *(Deputy Chief Executive Officer)*
Dr. Lau Siu Wa
Mr. Yip Kong Nam
Mr. Li Wenjun
Mr. Zhang Qijun

NON-EXECUTIVE DIRECTOR

Mr. Li Zhaosheng

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. So Chun Pong, Ricky
Mr. Suen Chun Hung, Benjamin
Mr. Wang Xiao Ning
Mr. Cheung Man Loon, Michael
Mr. Chan Wai Keung

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AUDITOR

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COMPANY'S WEBSITE

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Hong Kong

OCBC Wing Hang Bank Limited
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FINANCIAL HIGHLIGHTS

FINANCIAL PERFORMANCE

For the year ended 31 December	2016 HK$'000	2015 HK$'000	Change Increase/ (Decrease)
REVENUE	**235,384**	223,313	5.4%
Gross profit	**83,906**	79,668	5.3%
Loss for the year	**(147,976)**	(87,252)	69.6%
Loss attributable to shareholders	**(149,652)**	(89,665)	66.9%
Basic loss per share (in HK cents)	**(3.43)**	(2.95)	16.3%
TOTAL ASSETS	**785,933**	807,433	(2.7%)
Total equity	**455,090**	401,028	13.5%

On behalf of the board (the "**Board**") of the directors (the "**Director(s)**") of Kiu Hung International Holdings Limited (the "**Company**", together with its subsidiaries, the "**Group**"), I am pleased to present the annual report of the Group for the financial year ended 31 December 2016 (the "**Year**").

RESULTS AND DIVIDENDS

During the Year, the Group recorded a revenue of approximately HK$235,400,000 (2015: approximately HK$223,300,000), representing an increase of approximately 5.4% as compared to the previous year. The Group's loss attributable to shareholders for the Year was approximately HK$149,700,000 (2015: approximately HK$89,700,000). Basic loss per share for the Year was approximately 3.43 HK cents (2015: approximately 2.95 HK cents).

The increase in the Group's loss attributable to shareholders and the basic loss per share for the Year was mainly due to the impact of the impairment of investment in tourism business of approximately HK$117,800,000. Such impairment was provided during the Year and had no cash flow impact to the Group. As compared to the previous year and excluding such impairment, the Group's loss attributable to shareholders for the Year decreased by 64.4% to approximately HK$31,900,000.

The Board does not recommend the payment of any dividend for the Year (2015: Nil).

BUSINESS REVIEW

The manufacturing and trading of toys and gifts items remained the revenue engine of the Group. The gross profit ratio of the toys and gifts business was approximately 35.6% for the Year which was comparable to the previous year (2015: approximately 35.7%)

For further details of the Group's business and operational review, please refer to the "Management Discussion and Analysis" section of this annual report.

BUSINESS PROSPECTS AND FUTURE PLANS FOR MATERIAL INVESTMENTS

The Group has been reviewing its operations and exploring other investment opportunities that have earning potentials in order to expand its existing operations and diversify its businesses and income base to maximize the interests of the Group and the shareholders as a whole. This is evidenced by (a) the acquisition of tea related business (completed on 4 January 2016); (b) the further acquisition of the fruit plantation business (completed on 27 January 2016); and (c) the entering into of a memorandum of understanding in relation to the possible acquisition of intelligent technology related business in the People's Republic of China (the "**PRC**").

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express our most sincere thanks and gratitude for the continuing supports of our shareholders, business partners and parties from various fields, and also for the contribution and dedication of our management and dedicated staff in previous year.

Hui Kee Fung
Chairman

Hong Kong, 30 May 2017

FINANCIAL HIGHLIGHTS

During the financial year ended 31 December 2016 (the "**Year**"), the Group recorded a revenue of approximately HK$235.4 million (2015: approximately HK$223.3 million), representing an increase of approximately 5.4% as compared to the previous year. The Group's loss attributable to shareholders for the Year was approximately HK$149.7 million (2015: approximately HK$89.7 million). Basic loss per share for the Year was approximately 3.43 HK cents (2015: approximately 2.95 HK cents).

The increase in the Group's loss attributable to shareholders and the basic loss per share for the Year, of approximately HK$60.0 million and approximately 0.48 HK cents, respectively, was mainly attributable to the impact of the impairment of investment in an associate of approximately HK$117.8 million that was provided in the Year. Details of such provision for impairment of investment in an associate are set out in note 20 to the consolidated financial statements.

Excluding the above-mentioned impairment of investment in an associate of approximately HK$117.8 million, the Group's loss attributable to shareholders for the Year decreased by approximately 64.4% to approximately HK$31.9 million, as compared to the previous year.

DIVIDEND

The Board does not recommend the payment of any dividend for the Year (2015: Nil).

BUSINESS AND OPERATIONAL REVIEW

Segmental Information Analysis

During the Year, the Group has five reportable segments, namely, "Manufacturing and trading of toys and gifts items", "Exploration of natural resources", "Fruit plantation", "Leisure" and "Culture". The Group's reportable segments are strategic business units that offer different products and services. They are managed separately because each business has different economic characteristics.

Manufacturing and trading of toys and gifts items

Revenue from toys and gifts business for the Year was approximately HK$235.4 million (2015: approximately HK$223.3 million), representing an increase of approximately 5.4% as compared to the previous year. The gross profit ratio of the toys and gifts business was approximately 35.6% for the Year which was comparable to the previous year (2015: approximately 35.7%).

Exploration of natural resources

The Group owns the exploration rights of Bayanhushuo Coal Field and Guerbanhada Coal Mine, all located in Inner Mongolia Autonomous Region (the "**Inner Mongolia**"), the PRC with total estimated coal resources of approximately 500.05 million tonnes under the JORC Code as follows:

	Inferred Resources *(Million tonnes)*
Bayanhushuo Coal Field ("**BCF**")	394.05
Guerbanhada Coal Mine ("**GCM**")	106.00
Total	500.05

In order to fulfill the requirement of the PRC Government before submitting the master planning (總體規劃) of BCF, the Group submitted a resources report of BCF to the Ministry of Land and Resources of the PRC (中華人民共和國國土資源部) during 2011. The resources report was prepared by Inner Mongolia Long Wang Geographic Exploration Co. Ltd.* (內蒙古龍旺地質勘探有限責任公司), which indicates BCF has an estimated coal resources of approximately 384.69 million tonnes under the Chinese resources standard promulgated by the Ministry of Land and Resources of the PRC. BCF is located in Xilinguolemeng of Inner Mongolia, the PRC. Pursuant to an independent technical assessment report issued by SRK Consulting (China) Ltd on 31 January 2008, BCF has estimated coal resources of approximately 394.05 million tonnes of high quality thermal coal. The current licence period of the exploration right of BCF is from 4 July 2016 to 4 July 2018. The master planning was approved in December 2015.

GCM is located in Xilinguolemeng of Inner Mongolia, the PRC. Pursuant to an independent technical assessment report issued by Steffen Robertson and Kirsten (Australasia) Pty Ltd. on 30 March 2007, GCM has estimated coal resources of approximately 106 million tonnes of high quality thermal coal. The current licence period of the exploration right of GCM is from 21 August 2015 to 20 August 2017.

Pursuant to the relevant requirements of the Government of Inner Mongolia, the Government of Inner Mongolia is promoting the development of converting coal into high value added products. If such objective is not fulfilled in respect of a coal mine, the holder of the exploration right of such coal mine may voluntarily hand over the right to the Government of Inner Mongolia for a compensation of an amount equivalent to two times of the actual expenses incurred by the holder on geological prospecting.

The mining licence application process of GCM was much slower than expected. As at the date of this announcement, the Group is still waiting for the approval of the master planning of GCM from the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會) and the National Energy Commission of the PRC (中華人民共和國國家能源局), which is one of the preconditions for the application of the mining licence of GCM.

Fruit plantation

a) Multijoy Group

Multijoy Developments Limited, 28% equity interest of which was acquired by the Group on 17 September 2014, together with its subsidiaries (the "**Multijoy Group**") is principally engaged in the business of holding of forestry concession rights in relation to a parcel of forest land situated in Nanfeng County, Fuzhou City, Jiangxi Province, the PRC with an aggregate site area of approximately 1,765.53 Chinese mu (the "**Forest Land**"). The Multijoy Group has appointed an independent third party under a cooperation agreement for a term of five years from 1 April 2013 to 31 March 2018 in relation to the operations of tangerine plantation business on the Forest Land for a fixed royalty income. The Group subsequently acquired additional 12% equity interest of Multijoy Group and the completion of this further acquisition took place on 27 January 2016.

b) USO Management & Holding Co. Ltd

On 5 October 2015, Trinity Force Investments Limited, an indirect wholly-owned subsidiary of the Company, entered into the sale and purchase agreement with Green Luxuriant Group Investment Limited, regarding the Group's acquisition of 19% equity interests of USO Management & Holding Co Ltd. ("**USO**"). USO entered into the tenancy agreement with The Alii and Faipule of the Village of Sasina, Savaii ("**AFS**"), owners of a parcel of approximately 500 acres of prime agricultural property located at Sasina, Savaii in Samoa (the "**Leased Properties**") pursuant to which AFS granted to USO the legal right to use its Leased Properties for a term of 90 plus 30 years (120 years in total) at an annual lease payment of US$120,000 (equivalent to approximately HK$936,000) for the development of USO's noni fruit plantation business. The total consideration of this acquisition amounted to approximately HK$120 million and this acquisition was completed on 7 December 2015. During the Year, in view of the actual performance achieved by USO, the Directors based on the valuation report as at 31 December 2016 prepared by an independent valuer appointed by the Company, made an impairment of approximately HK$19,156,000 on the carrying amount of the Group's investment in USO.

Leisure

a) ***Fujian Yuguo***

On 4 January 2016, the Group acquired 33% equity interest of tea related business in a total consideration of approximately HK$67.5 million. This acquisition is an attractive opportunity for the Group to enhance the business portfolio in the tea related business. Please refer to the announcements of the Company dated 18 December 2015 and 5 January 2016 for more details.

b) ***Eagle Praise Group***

Regarding the Group's 20% equity interest in the Eagle Praise Group, which is principally engaged in outbound tourism related business in PRC, the business development of the Eagle Praise Group was slower than expected. Based on the information available to the Board, the Eagle Praise Group has not yet arranged any outbound travel tours in accordance with the business plan as scheduled in the supplemental shareholders' agreement dated 16 December 2015, entered into between the Group and the vendor of the Eagle Praise Group. Furthermore, during the Year, despite the Company's repeated demands and requests, the vendor has failed and/or refused to provide an update on the business status. The Group has reasonable grounds to believe that the vendor has failed to implement the business plan as presented to the Group by the vendor at the time of entering into the related formal sales and purchase agreement and shareholders' agreement. In light of the above, the Group gave notice to the vendor on 30 December 2016, to rescind the various agreements entered into with the vendor (the "**Rescission of Agreements**") on the ground of fraudulent misrepresentations made by the vendor and its representative. As a result, the Board considered that full provision for impairment in the investment of approximately HK$117.8 million was required to be made during the Year.

The Group has discussed with its legal adviser and is considering to take further legal action regarding the Rescission of Agreements. The Group will make further announcement(s) to update the development of the Rescission of Agreements as and when appropriate.

Culture

On 27 March 2015, the Group acquired certain pieces of Jingdezhen contemporary ceramics including ceramic vases and plates, at a total consideration of HK$38.0 million. These ceramic items had carrying amounts of approximately HK$35.3 million as at 31 December 2016.

GEOGRAPHICAL INFORMATION

During the Year, the Group recorded revenues in North America (includes the USA and Canada) of approximately HK$224.5 million compared to approximately HK$209.6 million last year and represented approximately 95.4% (2015: approximately 93.9%) of the Group's total revenue. Revenue in the European Union (includes Spain, Italy, France and the United Kingdom) amounted to approximately HK$5.1 million for the Year compared to approximately HK$8.7 million last year and represented approximately 2.1% (2015: approximately 3.9%) of the Group's total revenue.

SELLING AND DISTRIBUTION COSTS

The amount of the selling and distribution costs for the Year was approximately HK$34.5 million (2015: approximately HK$36.6 million). The decrease was mainly attributable to the decrease of the staff costs of toys and gifts products segment.

ADMINISTRATIVE EXPENSES

Administrative expenses for the Year decreased by approximately 18.2% to approximately HK$97.5 million as compared to approximately HK$119.2 million in the previous year. The decrease in administrative expenses was mainly due to a decrease in share-based payments of approximately HK$29.7 million during the Year.

FINANCE COSTS

Finance costs for the Year increased by approximately HK$17.5 million to approximately HK$32.2 million as compared to approximately HK$14.7 million in the previous year. The increase in finance costs was mainly due to imputed interest and overdue interest on promissory notes and convertible bonds during the Year.

INCOME TAX EXPENSE

The Group recorded an income tax expense of approximately HK$5.6 million during the Year (2015: approximately income tax expense of HK$1.9 million). The increase in income tax expense was mainly due to the increase in deferred income tax expense of approximately HK$4.0 million.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated cash flows and facilities provided by its principal bankers in Hong Kong and in the PRC. The Group had cash and bank balances of approximately HK$36.9 million at 31 December 2016 (2015: approximately HK$13.8 million). The Group's cash and bank balances were mostly held in Hong Kong dollars and Renminbi.

At 31 December 2016, the Group's borrowings amounted to approximately HK$30.8 million (2015: approximately HK$74.1 million). The Group's borrowings were mainly denominated in Hong Kong dollars and Renminbi.

As at 31 December 2016, the Group's promissory notes amounted to approximately HK$192.2 million (2015: approximately HK$223.2 million) in aggregate. The Group's promissory notes were denominated in Hong Kong dollars.

The Group monitors capital using a gearing ratio, which is the Group's net debt (comprising trade payables, accruals and other payables, income tax payable, promissory notes, obligation under finance lease and borrowings less bank and cash balances) over its total equity. The Group's policy is to keep the gearing ratio at a reasonable level. The Group's gearing ratio as at 31 December 2016 was 57.8% (2015: 88.2%).

Net current assets of the Group at 31 December 2016 was approximately HK$43.2 million (2015: net current liabilities of approximately HK$63.6 million) and the current ratio of the Group calculated as the Group's current assets over its current liabilities was approximately 1.20 (2015: approximately 0.79).

As the majority of the Group's transactions and borrowings were denominated in Hong Kong dollars, United States dollars and Renminbi, the Group's exposure to exchange rate fluctuation was relatively insignificant and the Group had not used any financial instruments for hedging during the Year.

At 31 December 2016, certain property, plant and equipment, prepaid land lease payments and investment properties held by the Group with aggregate carrying value of approximately HK$52.5 million (2015: approximately HK$49.8 million), were pledged to secure general banking facilities granted to the Group.

The Group had no significant capital commitments as at 31 December 2016 (2015: Nil).

The Group had no significant contingent liabilities as at 31 December 2016 (2015: Nil).

BUSINESS PROSPECTS AND FUTURE PLANS FOR MATERIAL INVESTMENTS

The Group has been reviewing its operations and exploring other investment opportunities that have earning potentials in order to expand its existing operations and diversify its businesses and income base to maximize the interests of the Group and the shareholders as a whole.

On 13 March 2017, the Group entered into a non-legally binding memorandum of understanding in respect of a possible acquisition of certain equity interest in a target company, Shanghai Liming Intelligent Technology Limited* (上海立名智能科技有限公司). The target company is principally engaged in hotel intelligent technology, robotic hotel operation and intelligent security and the research and development and operation of building data interactive platform.

Going forward, the Group will review its current operations from time to time and will continue to explore other investment opportunities in different fields including but not limited to financial services or any other businesses that have earning potentials, in order to expand its existing operations and to diversify its business to maximize the interests of the Group and our shareholders as a whole.

CAPITAL STRUCTURE

As at 31 December 2016, the capital structure of the Company was constituted of 6,092,715,976 ordinary shares of HK$0.10 each. Apart from the ordinary shares in issue, the capital instruments in issue of the Company include the share options to subscribe for the Company's shares.

On 28 October 2016, the Company and its placing agent entered into a conditional placing agreement in respect of the placement of 840,000,000 ordinary shares of HK$0.10 each of the Company to not less than six independent placees at the placing price of HK$0.11 per share under general mandate. The placement of 840,000,000 ordinary shares of HK$0.10 each of the Company was completed on 18 November 2016. The placing price of HK$0.11 per share represented a discount of approximately 13.39% to the closing price of HK$0.127 per share as quoted on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 28 October 2016, being the date of the placing agreement. The Board considered that the net proceeds would strengthen the Group's financial position for future development of the Group. The net proceeds (after deducting the placing agent commission and other expenses incurred) was approximately the net proceeds of HK$91.0 million. The net price per placing share was approximately HK$0.108. The Company has applied the net proceeds of approximately HK$91.0 million to settle the Company's existing payables and loans and its general working capital requirement (which consists of, among others, staff costs, rental expenses, legal and professional fees, loans' repayment and purchase of wine base in its business operation) as intended. For details, please refer to the Company's announcements dated 28 October 2016 and 18 November 2016.

On 3 November 2016, in relation to advisory fees and disbursements incurred by Chanceton Capital Partners Limited during the course of its provision of financial advisory services to the Company, the Company entered into a subscription agreement with Chanceton Capital Partners Limited for a subscription of 18,906,000 ordinary shares of the Company at 0.10 per share (the "**Remuneration Shares**"). The Remuneration Shares were issued on 9 December 2016. For details, please refer to the circular and announcement of the Company dated 9 November 2016 and 9 December 2016, respectively.

As at 31 December 2016, 324,800,000 share options remained outstanding (2015: 380,346,000). The share option scheme of the Company with a scheme life of ten years approved by the shareholders of the Company on 31 May 2013 (the "**Share Option Scheme**") will expire on 30 May 2023.

On 30 November 2016 and 6 December 2016, the Company issued convertible bonds with an aggregate principal amount of HK$98,990,280 to set off its promissory notes with the equivalent aggregate principal amount issued for the Group's acquisition of ceramic assets and tea related business. Subsequently, the conversion rights of these convertible bonds were exercised to convert into 989,902,800 ordinary shares of the Company at HK$0.10 per share in December 2016. At 31 December 2016, no conversion shares remained outstanding. For details of the issuance of Company's convertible bonds, please refer to the circulars of the Company dated 9 November 2016 and 16 November 2016 and the announcements of the Company dated 1 December 2016 and 9 December 2016.

EMPLOYMENT, TRAINING AND DEVELOPMENT

As at 31 December 2016, the Group had a total of 483 employees (2015: 500 employees). The Group maintains good working relations with its employees and has committed itself to staff training and development. Remuneration packages are maintained at a competitive level and are being reviewed on a periodical basis. Bonus and share options are awarded to employees according to the assessment of individual performance and industrial practice.

ADDRESSING OF AUDITOR'S QUALIFIED OPINIONS

Investment in associates and available-for-sale financial assets (collectively the "Investments")

As disclosed in the independent auditor's report on the consolidated financial statements of the Company for the year ended 31 December 2015, the then auditor was unable to satisfy themselves as to the carrying value of the Investments stated in the consolidated statement of financial position of the Company as at 31 December 2015. There were no alternative audit procedures that the then auditor could perform to satisfy themselves as to the carrying amounts of the Investments as at 31 December 2015 or to determine whether any provision for impairment loss is necessary for the year ended 31 December 2015. Any adjustments that might have been found to be necessary in respect of the above would have a consequential effect on the net assets of the Group as at 31 December 2015 and of its net loss for the year then ended and the related disclosures in the consolidated financial statements.

Zhonghui Anda CPA Limited ("**Zhonghui Anda**") considered that the audit evidences made available to them were not sufficient enough and no other proper audit procedures could be performed by Zhonghui Anda to satisfy themselves as to the recoverable amounts of the Investments in the consolidated statements of financial position as at 31 December 2015. Accordingly, Zhonghui

Anda has not been provided with sufficient audit evidence as to whether the impairment loss made on the Investments should be recognised in the current year or prior year.

Zhonghui Anda satisfied that the carrying amounts of the Investments were fairly stated as at 31 December 2016. As a result, there will not be any carrying effects on the opening balances of the Investments for the coming financial year ending 31 December 2017.

Inventories

Since the Group could not provide sufficient evidence regarding the net realizable value of the identical ceramic items to Zhonghui Anda, Zhonghui Anda qualified the carrying amounts of such inventories of approximately HK$35,303,000 in the consolidated statement of financial position as at 31 December 2015 and 31 December 2016. It is the Group's intention that the Group will look for potential buyers for the ceramic items as well as participating in the related auctions so as to realise certain ceramic items in the coming future.

Prepayment, deposits and other receivables

As for the deposits (the "**Deposits**") paid in accordance to a property agency agreement with a property developer (the "**Developer**") regarding a property development project in Nanjing, due to the pending litigations against the Developer, the application by the Developer for the pre-sale permit of the Property has been delayed. According to the information made available to the Company, the total claim amounts of the litigation against the Developer amounted to approximately RMB51.2 million. The Group has been following up with the Developer on the status of obtaining the pre-sale permit of the Property. The Company did see progress, e.g. the interim property developing quality certificate obtained by the Developer in August 2016. As the market property prices in Nanjing increased rapidly in 2016 and such price growth has been continuing in 2017, the Group has not yet requested refund of the Deposits. Otherwise, by doing so, the Group would lose the business opportunity in the booming Nanjing property market. Taking into account of the above mentioned factors, the Directors considered that no impairment was necessarily to be made to the Deposits for the year ended 31 December 2016. Depending on the situations in the near future, the Group may consider to (i) transfer its rights on the Deposits to potential buyers; or (ii) identify another developer who has strong financial background and interest in the property development project in Nanjing and recommend it to the Developer so that the pending litigations of the Developer can be resolved and thereafter, the progress of the application for the pre-sale permit can be expedited; or (iii) in the last resort, take legal actions to recover the amounts of the Deposits.

The decrease of the Deposits amount from approximately HK$101.9 million as at 31 December 2015 to approximately HK$95.4 million as at 31 December 2016 was due to the exchange loss arising from translation of foreign operation.

REASON FOR THE REVISED ANNUAL RESULTS

Due to the later-than-expected appointment of the Company's auditor, Zhonghui Anda on 17 March 2017 to fill the casual vacancy following the resignation of Cheng & Cheng Limited, the Company could only provide certain supporting schedules and breakdowns requested by Zhonghui Anda few days prior to the publication of the 2016 annual results announcement dated 31 March 2017. Therefore, there was insufficient time and information for Zhonghui Anda to carry out necessary audit procedures to form an audit opinion on the consolidated financial statements of the Company for the year ended 31 December 2016. Subsequent to the publication of the 2016 annual results announcement and accompanying further information provided by the Company, Zhonghui Anda has performed necessary audit procedures on the consolidated financial statements. A revised 2016 annual results announcement dated 30 May 2017 published by the Company has included Zhonghui Anda's qualified opinion report on the revised consolidated financial statements of the Company for the year ended 31 December 2016. It is the opinion of the Directors that based on the modified qualified opinion report, the Company is able to provide a reasonable audit assurance for its shareholders to assess the financial performance and position of the Group for the year ended 31 December 2016.

DIRECTORS

Executive Directors

Mr. Hui Kee Fung, aged 56, has been appointed as an executive director and chairman of the Company since November 2000. He has over 20 years of experience in various industries. He is a China overseas Friendship Association Director, a Standing Committee Member of the Tenth Chinese People's Political Consultative Conference of Fujian Province, the PRC, a Fellow of the Asian Knowledge Management College, an Adjunct Professor in Faculty of Business of City University of Hong Kong, a Member of the Economic Cooperative Committee between Hong Kong and the Fujian Province, the People's Republic of China (the "**PRC**"), the Honorary Life Chairman of the Hong Kong Federation of Fujian Association, a Standing Committee Member of the Economic Cooperative and Promotion Committee between Hong Kong and the Heilongjiang Province, the Honorable Chairman of the Hong Kong Fujian Charitable Education Fund, the Permanent Honorable Chairman of the Fujian Putian university in the PRC, the Chairman of Xu A Qiong Foundation of Putian and an Honorary Citizen of Putian, Fujian, the PRC. Mr. Hui has awarded the Young Industrialist Awards of Hong Kong in 2001.

Mr. Yu Won Kong, Dennis, aged 68, has been appointed as executive director of the Company since October 2009. He is also the chief executive officer of the Company and has over 20 years of experience in financial investment field. From 2003 to 2006, Mr. Yu was a director of Fortuna International Holdings Limited, a company listed on the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). During the period from 1995 to 2003, he acted as an executive director respectively in several listed companies in Australia, Frankfurt and NASDAQ and was responsible for identifying acquisition targets, raising fund, and monitoring those companies' direct investment activities in the PRC. Mr. Yu was also the chairman and executive director of Ruifeng Petroleum Chemical Holdings Limited, a company listed on the Growth Enterprise Market of the Stock Exchange ("**GEM**"), from 11 August 2008 to 28 September 2012.

Mr. Zhang Yun, aged 38, was appointed as an executive director of the Company since April 2016. His is also the deputy chief executive officer of the Company. Mr. Zhang is currently the Deputy General Manager of Qiao Yi (Fujian) Real Estate Development Co., Ltd., a company principally engaged in the construction, sale and rental of complex buildings in the PRC. Mr. Zhang has accumulated approximately 13 years of experience in the real estate development and construction project supervision.

Dr. Lau Siu Wa, aged 36, was appointed as an executive director of the Company since December 2016. He holds a Honorary Doctor of Business Administration from SABI University. Dr. Lau is currently the Director of Car Kingdom Investment Holdings Limited, Kai Tak Cars Limited, Kingdom Club Limited, Kingdom Fund Investment Holdings Limited, and Yacht Kingdom Investment Holdings Limited, companies principally engaged in car and car parking business, cross boarding passenger transport services, cross boarding vehicle license business, land development and yacht services in Hong Kong and the PRC. Dr. Lau has more than 10 years of experience in the general business development and management.

Mr. Yip Kong Nam, aged 42, has been appointed as an executive director of the Company since June 2015. Mr. Yip holds a bachelor with double major in general psychology and business administration degree from The University of Arkansas, the United States of America (the "**USA**") and graduated with scholarship from the Hawaii Pacific University of USA in 2002 with a master degree in business administration (focusing on marketing and organizational behavior). Mr. Yip has over 17 years of experience in the sales management and had worked in various companies in Hong Kong and overseas to manage the sales teams and promote the image of the relevant companies and their products.

Mr. Zhang Qijun, aged 40, has been appointed as an executive director of the Company since March 2016. Mr. Zhang is currently the Legal Person of Fuzhou Taijiang He Xuan Trading Co. Ltd., a company principally engaged in trading in the PRC. Mr. Zhang has approximately 17 years of experience in arts and design, and trading.

Mr. Li Wenjun, aged 59, has been appointed as an executive director of the Company since March 2017. Mr. Li graduated with a Bachelor's Degree in Chemical Engineering from the Department of Chemical Machinery at South China University of Technology, the PRC in July 1982. Prior to joining the Company, Mr. Li had been (i) the executive director of Nine Express Limited (formerly known as Cheung Wo International Holdings Limited) (Stock code: 0009) during October 2015 to December 2016; and (ii) the executive director and deputy general manager of China Water Industry Group Limited (stock code: 1129) during June 2009 to August 2011, shares of the above companies are listed on Main Board of the Stock Exchange; (iii) the executive director of Chinese Energy Holdings Limited (formerly known as iMerchants Limited) (stock code: 8009) during March 2008 to September 2011, shares of which are listed on the GEM. Mr. Li has accumulated over 30 years working experience in chemical engineering, corporate and project management and mergers and acquisitions.

Non-executive Director

Mr. Li Zhaosheng, aged 58, has been appointed as a non-executive director since December 2016. Mr. Li is currently the general manager of a subsidiary (which is based in Beijing, the PRC) of Mingfa Group (International) Company Limited (stock code: 0846), which principally engages in property development and investment and hotel operation in the PRC. Mr. Li has more than 18 years of experience in property development and investment.

Independent Non-executive Directors

Mr. So Chun Pong, Ricky, aged 44, has been appointed as independent non-executive director of the Company since 31 May 2013. He graduated from the University of Toronto in 2002 with a bachelor degree in Landscape Architecture. He has over 11 years of experience in the field of landscape architecture and worked in various leading landscape architecture companies in Hong Kong and overseas. Mr. So is specialized in residential and recreational developments in his practice. He has extensive experience in various aspects in the landscape architects industry including master- planning and site construction.

Mr. Suen Chun Hung, Benjamin, aged 32, has been appointed as an independent non-executive director since November 2016. He holds a Master Degree of Business Administration from the Chinese University of Hong Kong and a Bachelor Degree of Economics from the University of Illinois at Urbana-Champaign. Mr. Suen is currently the Deputy Vice President (Hong Kong & Macau) of the Business Development Department of Chung Kiu Investment Holdings Ltd. and the Partner of Xin Bai Co., Ltd.. He has more than eight years of experience in banking, business development and management.

Mr. Wang Xiao Ning, aged 57, has been appointed as an independent non-executive director of the Company since June 2015. Mr. Wang joined the field of import and export trading in 1990. He is currently the general manager of 福建省鄉鎮企業進出口公司 (Fujian Township Enterprises Import and Export Corporation*). Mr. Wang has over 25 years of experience in the import and export trading management.

Mr. Cheung Man Loon, Michael, aged 40, has been appointed as an independent non-executive director of the Company since December 2016. Mr. Cheung obtained a Bachelor of Arts in Accounting and Finance Degree and a Master Degree of Science in Corporate Governance from the London South Bank University. He is a practising member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Certified Chartered Accountants. Mr. Cheung is the sole proprietor of a certified public accountant firm. Prior to operating his own practise, he worked as a senior manager for different accounting firms including an international firm and he has more than 13 years of experience in the field of accounting and finance.

* *for English translation purpose only*

Mr. Chan Wai Keung, aged 63, has been appointed as independent non-executive director of the Company since March 2017. He had been the committee member of the People's Political Consultation Committee of Lungguang, Shenzhen, the PRC during the years from 1998 to 2008, and a member of Hong Kong New Territory Lions Club International during the years from 1986 to 2001. Mr. Chan took senior managerial positions in a number of companies in the past, including (i) the chief executive officer and chairman of board of directors of China Energy Development Holdings Limited (stock code: 0228) during the period from April 2006 to September 2009; (ii) a non-executive director of Birmingham International Holdings Limited (stock code: 2309) during the period from December 2007 to October 2012, and shares of these two companies are listed on Main Board of the Stock Exchange; (iii) the chief executive officer and an executive director of UURG Corporation Limited (now known as Global Energy Resources International Group Limited) (stock code: 8192) during the period from March 2010 to May 2010; and (iv) an executive director of iMerchants Limited (now known as Chinese Energy Holdings Limited) (stock code: 8009) during the period from October 2010 to August 2011, and shares of these two companies are listed on the GEM. Mr. Chan has over 35 years of experience in the operation of business development, China trade, international trade, venture capital and etc.

SENIOR MANAGEMENT

Mr. Cheung Kai Fung, aged 43, has been appointed as the chief financial officer of the Company since March 2010. He had been the executive director of the Company from August 2013 to June 2015 and the company secretary of the Company from March 2010 to December 2015. He holds a Bachelor in Business Administration Degree in Information and Systems Management from the Hong Kong University of Science and Technology and graduated from the MBA Program in Finance jointly offered by the Chinese University of Hong Kong in collaboration with the Tsinghua University. He is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Mr. Cheung was the group financial controller, qualified accountant and joint company secretary of China Sunshine Paper Holdings Company Limited, a company listed on the Main Board of the Stock Exchange, prior to joining the Company. Mr. Cheung has over 15 years of finance, investor relations and audit experience.

Mr. Yang Runzhi, aged 62, is the managing director of Inner Mongolia Mingrunfeng Energy Co., Ltd. and Inner Mongolia Run Heng Mining Company Limited, the indirect wholly-owned subsidiaries of the Company. He has 25 years of experience in military and government and over 10 years of experience in the coal industry in Inner Mongolia. He is a Senior Economist for coal industry and has worked as the general manager of Beijing Zhongmei Hengrun Co., Ltd., a subsidiary of the China Coal Group. He has in-depth knowledge in the sales and marketing of coals, processing of coal products and purchasing of coal mine machinery and equipment.

Mr. Hui Ki Yau, aged 55, is the president of the Group's toys and gifts business. He is responsible for the operations and the sales and marketing functions of the toy and gift business of the Group. Mr. Hui has over 25 years of experience in the sales and marketing field. He is currently a Standing Committee Member of the Chinese People's Political Consultative Conference of Putian City, Fujian Province, the PRC, an Executive Member of Fujian Putian Commerce Association, a member of the Hong Kong Trade Development Council Toys Advisory Committee, a Director of The Fujian Putian University and an honorary citizen of Putian, Fujian, the PRC. Mr. Hui is the brother of Mr. Hui Kee Fung and Madam Hui Hung Tan, Teresa.

Madam Hui Hung Tan, Teresa, aged 48, is the Director of operations and sales of the Group's toys and gifts business. Madam Hui has over 20 years of experience in the toy and decorative gift industries. Madam Hui is a Director of The Fujian Putian University and an honorary citizen of Putian, Fujian, the PRC. She is the sister of Mr. Hui Kee Fung and Mr. Hui Ki Yau.

The directors of the Company herein present their report and the audited consolidated financial statements of the Company for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

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

SEGMENT INFORMATION

An analysis of the Group's turnover and results by principal activities and geographical area of operations for the year ended 31 December 2016 is set out in note 7 to the consolidated financial statements.

RESULTS AND DIVIDENDS

The Group's result for the year ended 31 December 2016 and the state of affairs of the Group at that date are set out in the consolidated financial statements on pages 44 to 47 of this annual report. The directors of the Company do not recommend the payment of any final dividend for the year ended 31 December 2016.

PROPERTY, PLANT AND EQUIPMENT

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

INVESTMENT PROPERTIES

Details of the Group's investment properties are set out in note 17 to the consolidated financial statements.

BORROWINGS

Details of the borrowings of the Group as at 31 December 2016 are set out in note 31 to the consolidated financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year are set out in notes 32 and 33 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 35 to the consolidated financial statements and the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2016, the Company had distributable reserves of approximately HK$Nil million (2015: HK$42.4million). Under the Company's memorandum and articles of association and the Companies Law (Revised) of the Cayman Islands, the contributed surplus and share premium of the Company of approximately HK$125.2 million (2015: HK$125.2 million) and approximately HK$1,554.8 million (2015: HK$1,574.6 million), respectively, at 31 December 2016 are 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 they fall due in the ordinary course of business.

FIVE YEARS FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 112 of this annual report.

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 is incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totaling approximately HK$400,000 (2015: HK$517,000).

RETIREMENT BENEFITS SCHEMES

The Group operates a Pension Scheme and a MPF Scheme for all qualifying employees. The assets of the schemes are held separately from those of the Group in funds under the control of the trustees. The employees of the subsidiaries in the PRC participate in the state-managed retirement benefits schemes operated by the relevant local government authority in the PRC. The subsidiaries are required to make contributions to the schemes at a certain percentage of the basic salaries of their employees. The only obligation of the Group with respect to the retirement benefits schemes is to make the specified contributions.

The total cost charged to the consolidated statement of profit or loss of approximately HK$1,857,000 (2015: approximately HK$1,745,000) represents contributions payable to the schemes by the Group at the rates specified in the rules of the schemes.

No employer's contribution was forfeited during the year. No unutilised forfeited contribution (2015: Nil) was available at 31 December 2015 to reduce the Group's future contributions.

The Group does not have any other pension scheme for its employees. In the opinion of the directors of the Company, the Group did not have any significant contingent liabilities as at 31 December 2016 in respect of the retirement of its employees.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 71.4% of the total revenue for the year and sales to the largest customer included therein accounted for approximately 52.9%. Purchases from the Group's five largest suppliers accounted for approximately 34.1% of the total purchases for the year and purchases from the largest supplier included therein accounted for approximately 11.6%.

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

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Mr. Hui Kee Fung *(Chairman)*
Mr. Sao Cheung Yung, Aaron *(Vice Chairman)* *(resigned on 1 December 2016)*
Mr. Yu Won Kong, Dennis *(Chief Executive Officer)*
Mr. Long Tien Ian *(resigned on 23 March 2016)*
Mr. Mtafi Rachid Rene *(resigned on 26 February 2016)*
Mr. Nojiri Makoto *(resigned on 29 March 2017)*
Mr. Yip Kong Nam
Mr. Zhang Qijun *(appointed on 4 March 2016)*
Ms. Wu Qin *(appointed on 13 April 2016 and resigned on 20 July 2016)*
Mr. Zhang Yun *(Deputy Chief Executive Officer)* *(appointed on 25 April 2016)*
Mr. Hui Lap Keung *(appointed on 9 November 2016 and resigned on 3 March 2017)*
Dr. Lau Siu Wa *(appointed on 5 December 2016)*
Mr. Li Wenjun *(appointed on 3 March 2017)*

Non-executive directors:

Mr. Lam Kit Sun *(resigned on 21 April 2016)*
Mr. Li Zhaosheng *(appointed on 5 December 2016)*

Independent non-executive directors:

Mr. Lam Siu Lun, Simon *(resigned on 20 February 2016)*
Mr. So Chun Pong, Ricky
Mr. Wang Xiao Ning
Mr. Xia Liming *(appointed on 5 February 2016 and resigned on 29 December 2016)*
Mr. Au Yeung Po Fung *(appointed on 20 May 2016 and resigned on 27 September 2016)*
Mr. Suen Chun Hung, Benjamin *(appointed on 11 November 2016)*
Mr. Cheung Man Loon, Michael *(appointed on 29 December 2016)*
Mr. Chan Wai Keung *(appointed on 29 March 2017)*

The directors of the Company, including the non-executive directors and the independent non-executive directors, are subject to retirement by rotation and re-election in accordance with the provisions of the Company's articles of association.

According to articles 87(1) and 87(2) of the Company's articles of association (the "**Articles**"), at each annual general meeting of the Company, one-third of the directors of the Company for the time being (or, if such number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every director of the Company shall be subject to retirement by rotation at least once every three years. A retiring director of the Company shall be eligible for re-election.

In accordance with Article 86(3), the Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the Board or as an addition to the existing Board. Any Director so appointed by the Board shall hold office only until the next following general meeting of the Company (in the case of filling a casual vacancy) or until the next following annual general meeting of the Company (in the case of an addition to their number) and shall then be eligible for re-election at that meeting.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the directors of the Company and of the senior management of the Group are set out on pages 11 to 13 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Mr. Hui Kee Fung renewed his service contract with the Company and continued to serve as an executive director and the chairman of the Company for a term of two years from 1 July 2015 to 30 June 2017, which may be terminated by either party thereto by giving to the other three months' prior notice in writing.

Mr. Yu Won Kong, Dennis entered into his service contract with the Company to serve as an executive director and the chief executive officer of the Company for a term of two years from 22 October 2015 to 21 October 2017, which may be terminated by either party thereto by giving to the other three months' prior notice in writing.

Mr. Zhang Qijun entered into a service contract with the Company to serve as an executive director of the Company for a term of two years from 4 March 2016 to 3 March 2018, which may be terminated by either party thereto by giving to the other three months' prior notice in writing.

Dr. Lau Siu Wa entered into a service contract with the Company to serve as an executive director of the Company for a term of two years from 5 December 2016 to 4 December 2018, which may be terminated by either party thereto by giving to the other three months' prior notice in writing.

Mr. Yip Kong Nam entered into a service contract with the Company to serve as an executive director of the Company for a term of two years from 1 June 2015 to 31 May 2017, which may be terminated by either party thereto by giving to the other three months' prior notice in writing.

Mr. Zhang Yun entered into a service contract with the Company to serve as an executive director of the Company for a term of two years from 25 April 2016 to 24 April 2018, which may be terminated by either party thereto by giving to the other three months' prior notice in writing.

Mr. Li Wenjun entered into a service contract with the Company to serve as an executive director of the Company for a term of two years from 3 March 2017 to 2 March 2019, which may be terminated by either party thereto by giving to the other three months' prior notice in writing.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

TERM OF NON-EXECUTIVE DIRECTORS

Mr. Li Zhaosheng entered into an appointment letter with the Company to serve as a non-executive director of the Company for a term of two years from 5 December 2016 to 4 December 2018, which may be terminated by either party thereto by giving to the other one months' prior notice in writing.

Each of the independent non-executive directors is appointed for a fixed term of two years as follows:

Name of directors	Term period
Mr. So Chun Pong, Ricky	31 May 2015 to 30 May 2017
Mr. Suen Chun Hung Benjamin	11 November 2016 to 10 November 2018
Mr. Wang Xiao Ning	1 June 2015 to 31 May 2017
Mr. Cheung Man Loon, Michael	29 December 2016 to 28 December 2018
Mr. Chan Wai Keung	29 March 2017 to 28 March 2019

DIRECTORS' INTERESTS IN CONTRACTS

Save for transactions as disclosed in note 39 to the consolidated financial statements, no director had a significant beneficial interest, either direct or indirect, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2016, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures ordinance (the "**SFO**")) which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are deemed or taken to have under such provisions of the SFO) or which were required pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required pursuant to the Model Code for Securities transactions by Directors of Listed Companies (the "**Model Code**") contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") to be notified to the Company and the Stock Exchange were as follows:

Long position in the shares of the Company

Name of director	Number or attributable number of shares held or short positions	Capacity			Approximate percentage or attributable percentage of shareholdings
		Interest of controlled corporation	Interest of child under 18 or spouse	Beneficial owner	
Hui Kee Fung *(Note)*	178,500,000	153,500,000	—	25,000,000	2.93%
Yu Won Kong, Dennis	128,107,364	—	2,900,000	125,207,364	2.10%
Yip Kong Nam	2,000,000	—	—	2,000,000	0.03%
Zhang Qijun *(appointed on 4 March 2016)*	670,000	—	—	670,000	0.01%
Lau Siu Wa *(appointed on 5 December 2016)*	113,110,000	—	—	113,110,000	1.86%
Li Zhaosheng *(appointed on 5 December 2016)*	40,830,000	—	40,830,000	—	0.67%

Note: Legend Win Profits Limited is a company incorporated in the British Virgin Islands. The issued share capital of Legend Win Profits Limited is beneficially owned by Hui Kee Fung, and Hui's K. K. Foundation Limited as to 38.95% and 5.26%, respectively. Hui's K. K. Foundation Limited is a company incorporated in Hong Kong, limited by guarantee and does not have a share capital. Hui Kee Fung is the registered member and director of Hui's K. K. Foundation Limited.

Save as disclosed above and under the heading "Substantial Shareholders" below, none of the directors of the Company nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 December 2016.

Save as disclosed above, as at 31 December 2016, none of the directors and the chief executives of the Company and their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which had been notified to the Company and the Stock Exchange pursuant to the Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are deemed or taken to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required pursuant to the Model Code contained in the Listing Rules to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the headings "Directors' Interests in Shares" above and "Share Option Scheme" below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

The Company adopted the Share Option Scheme which became effective on 31 May 2013.

Eligible participants, including executive directors, non-executive directors, shareholders, suppliers and customers of the Group and any other parties having contributed or may contribute to the development of the Group are invited to take up options to subscribe for the shares. The subscription price shall be a price determined by the directors, but shall not be less than the highest of (i) the closing price of the shares on the date of the offer; (ii) the average closing price of the shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the share on the date of offer.

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company must not, in aggregate, exceed 30% of the total issued share capital of the Company from time to time. The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme shall not, in aggregate, exceed 10% of the total number of shares in issue as at the date of approval of the Share Option Scheme. For the avoidance of doubt, options previously granted under the Share Option Scheme (including those outstanding, cancelled, lapsed or exercised) would not be counted for the purpose of calculating such 10% limit. The Company may seek approval of the Company's shareholders in general meeting for refreshing the 10% limit under the Share Option Scheme save that the total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme under the limit as refreshed shall not exceed 10% of the total number of shares in issue as at the date of approval of the limit.

The total number of shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of shares in issue. Where any further grant of options to a participant would result in the total number of shares issued and to be issued upon exercise of all the options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the total number of shares in issue, such further grant must be separately approved by the shareholders of the Company in general meeting with such participant and his associates abstaining from voting.

The following table discloses movements in the outstanding share options granted under the Share Option Schemes during the year:

		Number of share options						
Grantee	Date of grant	Outstanding at 1 January 2016	Granted during the year	Cancelled during the year	Lapsed during the year	Outstanding at 31 December 2016	Exercise price HK$	Exercise Period
(Executive directors)								
Yu Won Kong, Dennis	1 September 2014	2,200,000	–	–	–	2,200,000	0.4000	1 September 2014 to 31 August 2019
	14 July 2015	20,000,000	–	–	–	20,000,000	0.2320	14 July 2015 to 13 July 2018
Hui Kee Fung	1 September 2014	5,000,000	–	–	–	5,000,000	0.4000	1 September 2014 to 31 August 2019
	14 July 2015	20,000,000	–	–	–	20,000,000	0.2320	14 July 2015 to 13 July 2018
Long Tien Ian	1 September 2014	4,700,000	–	(4,700,000)	–	–	0.4000	1 September 2015 to 31 August 2019
(resigned on 23 March 2016)	1 September 2014	4,700,000	–	(4,700,000)	–	–	0.4000	1 September 2016 to 31 August 2019
	1 September 2014	4,600,000	–	(4,600,000)	–	–	0.4000	1 September 2017 to 31 August 2019
	14 July 2015	5,000,000	–	(5,000,000)	–	–	0.2320	14 July 2015 to 13 July 2018
Mtafi Rachid Rene (resigned on 26 February 2016)	14 July 2015	3,000,000	–	(3,000,000)	–	–	0.2320	14 July 2015 to 13 July 2018
Yip Kong Nam	14 July 2015	2,000,000	–	–	–	2,000,000	0.2320	14 July 2015 to 13 July 2018
(Independent non-executive directors)								
Employees	19 June 2006	8,886,000	–	–	(8,886,000)	–	0.5080	1 January 2007 to 18 June 2016
	5 July 2007	660,000	–	–	(660,000)	–	3.7000	1 July 2008 to 18 June 2016
	1 September 2014	97,800,000	–	(5,000,000)	–	92,800,000	0.4000	1 September 2014 to 31 August 2019
	14 July 2015	193,000,000	–	(19,000,000)	–	174,000,000	0.2320	14 July 2015 to 13 July 2018
	20 July 2015	4,000,000	–	–	–	4,000,000	0.2250	20 July 2015 to 19 July 2018
Non-employees	1 September 2015	4,800,000	–	–	–	4,800,000	0.1308	1 September 2015 to 31 August 2018
Total		380,346,000	–	(46,000,000)	(9,546,000)	324,800,000		

SUBSTANTIAL SHAREHOLDERS

So far as is known to any director or chief executive of the Company, as at 31 December 2016, the persons or companies (other than a director or chief executive of the Company) who had interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO were as follows:

Long position in the shares of the Company

		Capacity		
Name of shareholder	Number of shares or underlying approximate shareholding	Beneficial owner	Interest of child under 18 or spouse	Interest of controlled corporation
Lin Qunzhu	674,902,800 11.08%	674,902,800	–	–
Delight Grace Limited *(Note)*	315,000,000 5.17%	315,000,000	–	–
Shu Zhong Wen	315,000,000 5.17%	315,000,000	–	–

Note: Delight Grace Limited is a company incorporated in the British Virgin Islands with limited liability, the entire issued share capital of which is wholly-owned by Mr. Buer Gude. The number of shares held by Delight Grace Limited was agreed to that as shown in the list of shareholders of the Company as at 31 December 2016.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year and up to date of this report, no directors are considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, pursuant to the Listing Rules, other than those businesses of which the directors of the Company were appointed as directors to represent the interest of the Company and/or the Group.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is available to the Company and within the knowledge of the directors, there is sufficient public float of more than 25% of the Company's issued shares as at the date of this report.

CORPORATE GOVERNANCE

Information on the Company's corporate governance practices is set out in the Corporate Governance Report on pages 22 to 28 of this annual report.

INDEPENDENT CONFIRMATION

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

ENVIRONMENTAL POLICY AND PERFORMANCE

The Group respects the environment and is committed to minimising its carbon footprints as a socially responsible enterprise in Hong Kong. Carbon footprint is defined as the total amount of direct and indirect emissions of Green House Gases (GHGs) expressed in terms of the equivalent amount of Carbon Dioxide of ($CO2$) emission. Non-hazardous wastes produced from the Group mainly consist of used paper such as office papers and marketing materials. To minimise the impact of carbon footprints on the environment, the Group implements the following practices to use paper efficiently:

- duplex printing is set as the default mode for most network printers;
- employees are reminded to practice photocopying wisely;
- employees are encouraged to use both sides of paper;
- paper waste is recycled instead of being directly disposed of in landfills;
- paper is separated from other waste for easier recycling; and
- boxes and trays are placed beside photocopiers as containers to collect single-sided paper for reuse purpose.

Electricity consumption is identified as having an adverse impact on the environment and natural resources. A typical commercial building uses more energy for lighting than for other electric equipment. The Group is determined to reduce energy consumption and implement conservation practices to reduce the effect of carbon footprint. Air conditioning and light zone arrangements reduce unnecessary electricity usage; employees enforce good practices in maintenance of lighting and electric equipment to ensure they are kept in good and proper condition to maximise efficiency.

The Group will review its environmental practices periodically and will consider implementing further eco-friendly measures and practices in the operation of the Group's businesses.

Further details of the Group's environmental policy and performance are disclosed in the Environmental, Social and Governance Report as set out on pages 29 to 38 of this Annual Report.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the year ended 31 December 2016, there was no evidence of non-compliance with the relevant laws and regulations that have significant impacts on the Group as far as the Board is aware.

Relationship with Employees, Customers and Suppliers

The Group recognises 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 during the year under review.

The Group encompasses working relationships with suppliers to meet our customers' needs effectively and efficiently. 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 conduct regular analysis on customer feedback. The Group also conducts comprehensive tests and checks to ensure that only quality products and services are offered to the customers.

During the year ended 31 December 2016, there was no circumstances of any event between the Group and its employees, customers and suppliers which would have a significant impact on the Group's business and on which the Group's success depends.

PERMITTED INDEMNITY

The Company's Articles of Associations provides that every Director shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them, by reason of any act done in or about the execution of his duty, or supposed duty; and none of them shall be answerable for the acts, receipts, neglects or for any other loss, misfortune or damage which may happen in the execution of his duty, or in relation thereto; PROVIDED THAT this indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of said persons.

EVENTS AFTER THE REPORTING PERIOD

Details of the events after the reporting period are set out in note 42 to the consolidated financial statements.

AUDITOR

On 1 March 2017, Cheng & Cheng Limited resigned as auditor of the Company and the Board proposed to appoint Zhonghui Anda CPA Limited as the auditor of the Company to fill the vacancy following the resignation of Cheng & Cheng Limited. Pursuant to the Company's articles of association, such proposed appointment was approved by shareholders of the Company at an extraordinary general meeting of the Company held on 17 March 2017.

Zhonghui Anda CPA Limited will retire and a resolution for its reappointment as auditor of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Hui Kee Fung
Chairman

Hong Kong, 30 May 2017

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is committed to ensuring high standards of corporate governance. During the Year, the Company has complied with all the applicable code provisions set out in the Corporate Governance Code contained in Appendix 14 "Corporate Governance Code and Corporate Governance Report" to the Listing Rules, except for the deviation from code provisions A.6.7 of the Corporate Governance Code as described below.

Code Provision A.6.7

Under code provision A.6.7 of the Corporate Governance Code, the independent non-executive Directors should attend the general meetings. However, the independent non-executive Directors, Mr. So Chun Pong, Ricky, Mr. Wang Xiao Ning and Mr. Xia Liming had other important engagements at the same time and did not attend the annual general meeting of the Company held on 1 June 2016.

DIRECTORS' SECURITIES TRANSACTIONS

The Group has adopted the Model Code contained in Appendix 10 of the Listing Rules. Having made specific enquiry, all directors have fully complied with the required standard set out in the Model Code throughout the year ended 31 December 2016.

BOARD OF DIRECTORS

As at 31 December 2016, the Board currently comprises seven executive directors, one non-executive director and five independent non-executive directors. For a director to be considered independent, the Board follows the requirements set out in the Listing Rules and must determine that the director does not have any direct or indirect material relationship with the Group. under the Company's Articles of Association, every director is subject to retirement by rotation at least once every three years and their re-election is subject to a vote by the shareholders. All independent non-executive directors are appointed for a specific terms.

The Board determines the overall strategies, monitors and controls operating and financial performance and sets appropriate policies to manage risks in pursuit of the Group's strategic objectives. Day-to-day management of the Group's business is delegated to the executive directors. The functions and power that are so delegated are reviewed periodically to ensure that they remain appropriate. Matters reserved for the Board are those affecting the Group's overall strategic and financial policies including dividend policy, material contracts and major investments. All Board members have separate and independent access to the Group's senior management to fulfill their duties. They also have full and timely access to relevant information about the Group and are kept abreast of the conduct, business activities and development of the Group. Independent professional advice can be sought at the Group's expense upon their request.

As at the date of this report, the Company appointed five independent non-executive directors, namely, Mr. So Chun Pong, Ricky ("**Mr. So**"), Mr. Suen Chun Hung Benjamin ("**Mr. Suen**"), Mr. Wang Xiao Ning ("**Mr. Wang**"), Mr. Cheung Man Loon, Michael ("**Mr. Cheung**") and Mr. Chan Wai Keung ("**Mr. Chan**") who have appropriate and sufficient experience and qualification to carry out their duties so as to protect the interests of shareholders. Mr. So was appointed for a term of two years commencing from 31 May 2015, Mr. Suen was appointed for a term of two years commencing from 11 November 2016, Mr. Wang was appointed for a term of two years commencing from 1 June 2015, Mr. Cheung was appointed for a term of two years commencing from 29 December 2016 and Mr. Chan was appointed for a term of two years commencing from 29 March 2017.

The Company arranged for appropriate insurance cover in respect of legal actions against directors.

Board meets regularly to review the financial and operating performance of the Group, to make important decisions and to approve future strategies. 31 Board meetings were held in 2016. Individual attendance of each director at the Board meetings, the Audit Committee meetings, the Nomination Committee meeting, the Remuneration Committee meetings and the general meetings of the Company during 2016 is set out below:

	Attendance/number of meetings				
Director	**Board**	**Audit committee**	**Nomination committee**	**Remuneration committee**	**General meeting**
Executive directors					
Mr. Hui Kee Fung *(Chairman)*	30/31	N/A	15/15	8/8	4/4
Mr. Sao Cheung Yung *(Vice Chairman)* *(resigned on 1 December 2016)*	26/29	N/A	N/A	N/A	3/3
Mr. Yu Won Kong, Dennis *(Chief Executive Officer)*	30/31	N/A	N/A	N/A	4/4
Mr. Long Tien Ian *(resigned on 23 March 2016)*	10/10	N/A	N/A	N/A	N/A
Mr. Mtafi Rachid Rene *(appointed on 1 June 2015 and resigned on 26 February 2016)*	7/7	N/A	N/A	N/A	N/A
Mr. Nojiri Makoto *(resigned on 29 March 2017)*	24/31	N/A	N/A	N/A	1/4
Mr. Yip Kong Nam	30/31	N/A	N/A	N/A	4/4
Mr. Zhang Qijun *(appointed on 4 March 2016)*	23/24	N/A	N/A	N/A	1/4
Ms. Wu Qin *(appointed on 13 April 2016 and resigned on 20 July 2016)*	5/6	N/A	N/A	N/A	1/1
Mr. Zhang Yun *(Deputy Chief Executive Officer)* *(appointed on 25 April 2016)*	18/18	N/A	N/A	N/A	2/4
Mr. Hui Lap Keung *(appointed on 9 November 2016 and resigned on 3 March 2017)*	6/6	N/A	N/A	N/A	2/2
Dr. Lau Siu Wa *(appointed on 5 December 2016)*	2/2	N/A	N/A	N/A	N/A
Mr. Li Wenjun *(appointed on 3 March 2017)*	N/A	N/A	N/A	N/A	N/A
Non-executive directors					
Mr. Lam Kit Sun *(resigned on 21 April 2016)*	3/15	N/A	N/A	N/A	N/A
Mr. Li Zhaosheng *(appointed on 5 December 2016)*	2/2	N/A	N/A	N/A	N/A
Independent non-executive directors					
Mr. Lam Siu Lun, Simon *(resigned on 20 February 2016)*	7/7	N/A	1/1	1/1	N/A
Mr. So Chun Pong, Ricky	29/31	6/6	15/15	8/8	0/4
Mr. Wang Xiao Ning	29/31	6/6	15/15	8/8	0/4
Mr. Xia Liming *(appointed on 5 February 2016 and resigned on 29 December 2016)*	0/24	N/A	N/A	N/A	0/4
Mr. Au Yeung Po Fung *(appointed on 20 May 2016 and resigned on 27 September 2016)*	5/6	2/2	N/A	1/1	1/1
Mr. Suen Chun Hung, Benjamin *(appointed on 11 November2016)*	3/4	N/A	N/A	1/1	1/2
Mr. Cheung Man Loon, Michael *(appointed on 29 December 2016)*	1/1	1/1	N/A	N/A	N/A
Mr. Chan Wai Keung *(appointed on 29 March 2017)*	N/A	N/A	N/A	N/A	N/A

To implement the strategies and plans adopted by the Board effectively, directors and senior management meet regularly to review the performance of the businesses of the Group and make financial and operational decisions.

Biographical details of the directors, together with information about the relationship among them, can be found under the Profile of Directors and Senior Management section on pages 11 to 13 of this annual report.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Group has appointed Mr. Hui Kee Fung as the Chairman and Mr. Yu Won Kong, Dennis as the Chief Executive Officer. The roles of the Chairman and the Chief Executive Officer are segregated. The primary role of the Chairman is to provide leadership for the Board and to ensure that it works effectively in discharging its responsibilities. The Chief Executive Officer is responsible for the day-to-day management of the Group's business.

REMUNERATION COMMITTEE

The Remuneration Committee has clear terms of reference and is accountable to the Board. The principle role of the committee is to exercise the powers of the Board to determine and review the remuneration packages of individual executive directors and senior management, considering factors such as salaries paid by comparable companies, time commitment and responsibilities of individuals. The terms of reference of the Remuneration Committee can be obtained from the Company's website.

During the year, the Remuneration Committee reviewed the remuneration policies and approved the salary of directors and senior management. The remuneration of each director is determined by the committee with reference to his/her duties and responsibilities with the Company. No executive director has taken part in any discussion about his own remuneration. Eight meetings were held by the Remuneration Committee in 2016. Three out of four of the committee members are independent non-executive directors of the Company. Its members as at 31 December 2016 include:

Mr. Cheung Man Loon, Michael — *Chairman*
Mr. Wang Xiao Ning
Mr. Hui Kee Fung
Mr. So Chun Pong, Ricky

Directors' remunerations for the year are disclosed in note 12 to the consolidated financial statements.

NOMINATION COMMITTEE

The Nomination Committee has clear terms of reference and is accountable to the Board. The principle role of the committee is to exercise the powers of the Board to review the structure, size and composition (including the skills, knowledge and experiences) of the Board on a regular basis and make recommendations to the Board regarding any proposed change. The terms of reference of the Nomination Committee can be obtained from the Company's website. Fifteen meetings were held by the Nomination Committee in 2016.

The Board adopted a Board Diversity Policy in August 2013 setting out the approach to achieve diversity on the Board. The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance. It endeavours to ensure that the Board has a balance of, amongst other factors, skills, experience and diversity of perspectives appropriate to the requirements of the Company's business. All Board appointments will be made on a merit basis, and candidates will be considered against a range of selection criteria, having regard for the benefits of diversity on the Board.

The Nomination Committee will review the Board Diversity Policy, as appropriate, to ensure its continued effectiveness from time to time. Two out of Three of the committee members are independent non-executive directors of the Company. Its members as at 31 December 2016 include:

Mr. Wang Xiao Ning — *Chairman*
Mr. Hui Kee Fung
Mr. So Chun Pong, Ricky

AUDIT COMMITTEE

The Audit Committee has clear terms of reference and is accountable to the Board. The committee assists the Board in meeting its responsibilities for ensuring an effective system of internal control and compliance, and in meeting its external financial reporting objectives. The terms of reference of the Audit Committee can be obtained from the Company's website. Six meetings were held by the Audit Committee in 2016. All committee members are independent non-executive directors. Its members as at 31 December 2016 include:

Mr. Cheung Man Loon, Michael — *Chairman*
Mr. Wang Xiao Ning
Mr. So Chun Pong, Ricky

The committee members possess diversified industry experience and the Chairman of the committee has appropriate professional qualifications and experience in accounting matters. During the year, the committee considered the external auditors' re-appointment and their projected audit fees, reviewed the interim and annual financial statements and reviewed the Group's risk management and internal control systems.

AUDITOR'S REMUNERATION

During the year, the Group has incurred auditor's remuneration of HK$1,600,000 (2015: HK $1,500,000) which was paid/payable to the Company's existing auditor, ZHONGHUI ANDA CPA Limited. In addition, professional fee of approximately HK$Nil (2015: HK$48,000) was payable by the Group for the taxation and other services rendered by ZHONGHUI ANDA CPA Limited.

COMPANY SECRETARY

Mr. Luk Chi Sing ("**Mr. Luk**"), aged 48, was appointed as the company secretary of the Company on 1 March 2017. Mr. Luk holds a Bachelor Degree of Arts in Accountancy from City University of Hong Kong. Mr. Luk is an associate member of Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Mr. Luk has been working for a number of public listed companies in Hong Kong during the past 15 years, taking the positions of company secretary and senior management. Mr. Luk has accumulated extensive working experience in the fields of auditing, financial accounting and management.

SHAREHOLDERS' RIGHTS

The Board may whenever it thinks fit call extraordinary general meetings. Any 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 carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) because of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

PROCEDURE BY WHICH ENQUIRIES PUT TO THE BOARD

Shareholders should direct their questions about their shareholdings to the Company's Hong Kong Branch Share Registrar. Shareholders may also make enquiries to the Board by writing to the Company Secretary at the Company's principal place of business in Hong Kong or via email to info@kh381.com.

INVESTOR RELATIONS

The Company highly values its relationship with its shareholders and other stakeholders. It has put in place an effective corporate communication system which provides transparent, regular and timely public disclosures to its shareholders and other stakeholders. The main features of the system are as follows:

- The Company maintains a corporate website www.kh381.com on which comprehensive information about the Group, including core business, financial reports, public announcements, circulars and news of the Group, is disclosed. Shareholders can obtain corporate communication electronically via the Company's website.

- The Company establishes and maintains different communication channels with its shareholders and other stakeholders through annual reports, interim reports and other publication.

- AGM provides a useful forum for shareholders to exchange views with the Board. The respective chairmen of the Board and Audit, Remuneration and Nomination Committees (or in the absence of the chairmen of such Committees, another member of each Committee or failing this his duly appointed delegate) will endeavor to be available to answer questions raised by shareholders.

- Separate resolutions are proposed at general meetings for each substantially separate issue, including the election of individual Directors.

- Details of the proposed resolutions to be put forward at a general meeting are, where necessary or appropriate, included in a circular to the shareholders dispatched prior to the date of the relevant general meeting.

- All resolutions put to the vote of a general meeting are taken by poll. The poll results are published on the Stock Exchange's website www.hkexnews.hk and on the Company's website.

In addition, the Company has established the investor relations department with designated senior management for maintaining regular dialogue with institutional investors and analysts to keep them abreast of the Company's developments. Enquiries from shareholders and other stakeholders are dealt with in an informative and timely manner.

Shareholders and other stakeholders may write directly to the Company at its principal place of business in Hong Kong or via email to info@kh381.com for any enquiries. The shareholders' communication policy is available on the Company's website www.kh381.com under the "Investor Relations/Corporate Governance" section.

FINANCIAL REPORTING

The directors of the Company acknowledge their responsibility for preparing the Group's and the Company's financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. Appropriate accounting policies are being selected and applied consistently.

The responsibilities of the external auditors with respect to financial reporting are set out in the Independent Auditor's Report on pages 39 to 43 of this annual report.

GOING CONCERN

The Company incurred a loss of approximately HK$147,976,000 for the year ended 31 December 2016 and net operating cash outflow of approximately HK$46,458,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern. Therefore, the Company may be unable to realise its assets and discharge its liabilities in the normal course of business.

In order to improve the Group's financial position, the directors of the Company have been implementing various measures as follows:

(1) The Group is in negotiation with financial institutions to obtain sufficient new borrowings and to extend existing borrowings upon their maturities;

(2) The Group is in negotiation with its creditors to extend payment due dates; and

(3) The Group is actively considering to raise new capital by carrying out fund raising activities including but not limited to rights issue, open offer, placing of new shares and issuance of convertible bonds.

Delight Grace Limited, a shareholder of the Company, has agreed to provide adequate funds for the Group to meet its liabilities as they fall due.

These consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the successful implementation and outcome of the above measures to be undertaken by the Group and the financial support from Delight Grace Limited. The directors of the Company are of the opinion that, taking into account the above measures, the Group will have sufficient working capital to meet its financial obligations as and when they fall due in the next twelve months from 31 December 2016. The directors are therefore of the opinion that it is appropriate to prepare the consolidated financial statements on a going concern basis. Should the Group be unable to continue as a going concern, adjustments would have to be made to the consolidated financial statements to adjust the value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board has overall responsibility for the establishment, maintenance and review of the Group's internal control system to safeguard the assets of the Group and shareholder investments. The internal control system of the Group aims to facilitate effective and efficient operation which in turn minimises the risks to which the Group is exposed. The system can only provide reasonable but not absolute assurance against misstatement or losses.

During the year under review, the Board has engaged Mega Well Transactions Limited as independent consultant to undertake a review of the internal control system of the Group on material issues covering financial, operational and legal compliance controls and risk management function.

The Directors considered that the Group has implemented appropriate procedures for safeguarding the Group's assets against unauthorised use or misappropriation, maintaining proper accounting records, segregation of duties and putting plans and routines into execution with appropriate authority and in compliance with the relevant laws and regulations.

The Company does not have an internal audit function for the year ended 31 December 2016. Taking into account the size and complexity of the operations of the Group and the potential costs of setting up an internal audit function, the Company considers that the existing organisation structure and the close supervision of the management could provide sufficient risk management and internal control for the Group. However, the Board will regularly review the need to set up an internal audit function or engage an independent professional service provider to review the Group's internal control and risk management system.

The Group adopts a risk management framework which comprises the following processes:

— Identify significant risk in the Group's operation environment and evaluate the impacts of those risks on the Group's business;

— Develop necessary measures to manage those risks; and

— Monitor and review the effectiveness of such measures.

The Group formulated the policies and procedures of risk management and internal control as follows:

— The Group established an organisational structure with clear operating and reporting procedures, lines of responsibility and delegated authority;

— Each operating subsidiary maintains internal controls and procedures appropriate to its structure whilst complying with the Group's policies, standards and guidelines;

— Relevant executive Directors and senior management have been delegated with specific accountability for monitoring the performance of designated business operating units;

— A systematic review of the financial and business processes in order to provide management on the adequacy and effectiveness of internal controls. Where weaknesses are identified in the system of internal controls, management will evaluate and take necessary measures to ensure that improvements are implemented; and

— Code of ethics are established and adhered to by all employees to ensure high standards of conduct and ethical values in all business practices.

The Board reviewed that the risk management and internal control system adopted by the Group for the year ended 31 December 2016 and considered that it was effective.

DISSEMINATION OF INSIDE INFORMATION

The Company is committed to a consistent practice of timely, accurate and sufficiently detailed disclosure of material information about the Group. The Company has adopted a Policy on Disclosure of Inside Information which sets out the obligations, guidelines and procedures for handling and dissemination of inside information. With those guidelines and procedures, the Group has management controls in place to ensure that potential inside information can be promptly identified, assessed and escalated for the attention of the Board to decide about the need for disclosure.

The Group is committed to promoting sustainable development, which is extremely important to create long-term value for the Group's shareholders, clients, employees, other stakeholders, as well as general public. The Company cares about the impact of its daily operation on environment and society, strives to set a good example for the public, while conducting business operation, it makes effort to meet the interests of all stakeholders, economy, environment, society and corporate governance and does its best to achieve a fine balance.

ENVIRONMENT

A1. Policy on emission of exhaust gas and greenhouse gas, discharging pollution through water and land, producing hazardous and non-hazardous wastes

Protecting environment is one of our key concerns; we are committed to protecting environment and focusing on environmental protection in our operation, hoping that through rigorous supervision and control to reduce our long-term negative impact on environment.

1. *Energy Management*

The indirect greenhouse gas emission, which generated from our daily electricity power consumption, is the main source of the Group's carbon footprint, we will keep monitoring and disclosing the Company's carbon footprint to find out and control the impact of our daily operation on environment. At the same time, we will implement the following energy-saving and energy efficiency measures at various office locations to reduce greenhouse gas emission:

a. Install high-performance electrical equipments

b. Purchasing department is required to purchase energy-efficient products

c. Employ automatic lighting control system

d. Deploy LED lighting on office floors

e. The employees must turn off light and unnecessary energy device to reduce energy consumption and avoid unnecessary waste of energy

f. Deploy natural light as much as possible on office floors

g. Install auxiliary electricity meter to monitor electricity consumption

h. Other energy-saving and energy efficiency measures

Our finance department should collect information about usage of electricity annually for the management to disclose in their ESG report in the financial year starts from January 1, 2017 or later.

2. *Waste Management*

In order to lighten the load of landfills, we adopt a responsible waste management policy, including waste avoidance, reducing waste from its source and reuse, recycling and responsible disposal of waste. Our offices should post memos and notices everywhere, encouraging the employees to reduce the production of waste. We have introduced waste separation measures from the start:

a. Waste paper (excluding paper cup, paper plate, etc.)

b. Metal (aluminum can and other metal cans)

c. Plastics (plastic bottle, container and packaging materials)

d. Other recyclables (such as old cloth, electrical appliance, computer, magazine, etc.)

A2. Policy on effective use of resources (including energy, water and other raw materials)

1. Reducing electricity consumption

Comply with the Group's policy on emission of exhaust gas and greenhouse gas, discharging pollution through water and land, producing hazardous and non-hazardous wastes to reduce electricity consumption.

2. Paper reduction

In order to reduce waste paper, we have developed the following measures:

a. Deploy recycling bins to collect used paper products such as waste paper, poster, letter and envelope

b. Place waste paper recycling bin next to printer and set aside the papers that already printed once so that you can choose whether reuse it or put it into the bin

c. Saving paper by double-sided printing

d. Writing on both sides of papers

e. Bring your own cup and avoid using paper cup

f. Reuse stationeries such as file folder and envelope

g. Reuse packaging box

h. Other than the waste paper that contains confidential information, waste paper should be shipped to paper mill or scrap paper company so as to be recycled into new paper

Each year, our finance department shall collect information about the paper products the Company purchased and the waste paper that shipped to scrap paper company or paper mill for the management to disclose in their ESG report in the financial year starts from January 1, 2017 or later.

3. Water conservation

In Hong Kong, fresh water is a precious resource, we should economize water, try to protect water resource, and for which we have developed the following measures:

a. Repair dripping faucet or hose in a timely manner

b. Adopt effective water-saving production methods and instruments

c. Check water consumption regularly

d. Minimize water pressure

4. Green procurement

Green procurement is based on reducing environmental load. Quality, cost, delivery time are the main focuses when the Company procures goods or chooses supplier, but other than that, we give priority to environmentally friendly and energy-saving products.

a. Give priority to energy-efficient products at the highest level

b. Give priority to effective water-saving products

c. We require the suppliers to reduce packaging material

d. Send the message to suppliers that we value environmental protection, energy saving

A3. Policy on mitigating the Group's significant impact on environment and natural resources

The Group manages and minimizes the impact it may cause environment, directly or indirectly, through the following methods:

1. Make sure its business operation comply with the environmental law in Hong Kong and its operating locations

2. Establish and improve environmental protection mechanism to ensure its operation does not pollute water and land

3. Monitor gas emission and use of resource, establish emission reduction target

4. Make sure that in our daily business operation, with all efforts, we conserve energy, water and other raw materials to reduce direct impact on environment

5. Whenever the Company holds banquet, shark fin is out of question and sustainable seafood should be served. Order reasonable quantity and reduce waste

6. Urge the employees to reduce paper usage and adopt other energy-saving measures

7. Cooperate with government agencies and support environmental organizations' activities

SOCIETY

Employment and Labor convention

Employee is an important asset of the Company, we care about their well-being, respect their personal traits, make sure that all employees are subject to legislative protection and have equal opportunity in their career path, also, we strive to increase their sense of belonging.

B1. Policy on salary, dismissal, recruitment, promotion, working hours, day off, equal opportunity, diversity, anti-discrimination and other benefits

1. Salary

We offer competitive pay and benefits to the employees according to their job requirement and individual performance. We will annually review the overall salary and benefits to ensure the Company's competitiveness in local market, we even refer to the relevant industries and similar organizations. Each year, KPIs will provide direction and guidance to the employees' individual work plan. We also assess the achievements and contributions of the employees to appraise and reward them.

2. Dismissal

We ensure that all employees under the employment protection laws of Hong Kong, including:

a. Whenever an employee offers to resign or being laid off, human resource should interview him or her before quitting to find out the reason of quitting;

b. It is required to issue employment verification document to the dismissed employee;

c. When the employer terminates employment contract, the dismissed employer shall be given due notice or wages in lieu of notice, and the notice should not be given during his or her annual leave and maternity leave;

d. An employee cannot be dismissed when she has been confirmed pregnant or given notice of pregnancy;

e. An employee cannot be dismissed when he or she takes a paid sick leave;

f. An employee cannot be dismissed due to he or she gives evidence or information in any legal proceeding relating to enforcement of labor laws, industrial accident or breach of work safety regulation;

g. An employee cannot be dismissed due to he or she joins in labor union or participates in labor union activities; and

h. If an employee is injured on duty, if a compensation agreement has not yet been reached or the relevant evaluation certificate has not yet been issued, the employee cannot be dismissed.

3. *Recruitment and promotion*

   In the Company, recruitment and promotion should be fair and open for all employees, and cannot be affected by age, sex, physical or mental health status, marital status, family status, race, skin colour, nationality, religion, political affiliation and sexual orientation and other factors, the employees will be recognized and rewarded by their contribution, work performance and skills, the Company will do its best to provide them with good working environment and development opportunity.

4. *Working hours and day-off*

   The employees shall enjoy deserved days-off under the laws of Hong Kong or the location they work at.

   Hong Kong employees are entitled to enjoy the following days-off:

   a. Each employee can take a day off in every 7 days;

   b. If the day-off falls on a statutory holiday, compensatory time off shall be offered on the following day;

   c. Manager can ask employee to work on the day off, but employee can choose not to. If the employee agrees, a day off can be arranged in other time, but the said day off shall be planned before the scheduled day off in the same month, or within 30 days after it;

   d. Statutory holidays;

   e. Paid annual leave prescribed by employment contract;

   f. Sick leave;

   g. Female employee can take maternity leave so long as she comply with the continuous contract to serve the employer and give notice of pregnancy before the leave; and

   h. Maternity leave cannot be substituted by wage.

5. *Policy on equal opportunity, diversity, anti-discrimination and other benefits*

   Sex Discrimination Ordinance, Disability Discrimination Ordinance, Family Status Discrimination Ordinance must be complied with, equal opportunity must be provided on recruitment, training, promotion, transfer, remuneration, benefits and termination of contract. Such opportunities shall not be affected by factors such as age, gender, physical or mental health status, marital status, family status, race, skin colour, nationality, religion, political affiliation and sexual orientation.

B2. Policy on safe working environment and safeguarding the employees from occupational hazards

We are committed to protecting the health and safety of the employees and the community, we require all employees to comply with all relevant occupational health and safety regulations, and do our utmost to provide them with safe and healthy working environment, as a result, we have implemented the following methods:

1. Develop internal guidelines to ensure that office and work environment is in line with or higher than the requirements of relevant laws;

2. Establish safety procedures for the recognized dangerous work;

3. Provide necessary protective equipment and medical insurance to the employees;

4. Ensure that office and working environment is healthy and safe, regularly check machinery and equipment;

5. Establish emergency measures such as fire or explosion emergency plan;

6. Regularly arrange rescue, fire and evacuation drills;

7. Establish mechanism to record industrial injury and analyze the cause;

8. Provide and maintain an environmental, healthy and safe working condition;

9. Unless prior approval, purchasing alcoholic beverage and illegal drugs is prohibited in the workplace;

10. Actively promote environmental protection, health and safety awareness of the employees, and support development of environmental protection, health and safety in the industry; and

11. Provide all employees with needed job information, guidance, training and supervision.

B3. Policy on improving the employees' knowledge and skills to perform their responsibilities

Talent development is an important part of our human resource strategy. We understand that the employees' knowledge and skills are essential to the Company's operation and business growth, good development plan lays a good foundation for the employees to face business challenge in the future, it also helps them to grasp promotion opportunities, fulfill their career aspirations. We provide the employees with effective training and develop a clear promotion ladder, ensuring that the employees have the required skills; we also nurture outstanding successors for the Group's and breed academic atmosphere. The Group conducts performance evaluation annually, and based on the assessment result to provide the staff with appropriate training, and offer job, development and promotion opportunities for outstanding employees. Under the Group's Human Resource Management System requirements, HR manager is responsible for carrying out related assessment and training.

B4. Policy on preventing child labor or forced labor

The Group firmly adopts a zero-tolerance policy on child labor and forced labor, such conduct is prohibited by international standard and relevant domestic legislation and shall never be tolerated in here. In any part of the business process (including our subcontractors or suppliers), child labor or forced labor is not allowed, we see child labor or forced labor as a serious crime. The following is the policy on preventing child labor or forced labor:

1. Child labor refers to employment of people under 16 years of age, if any country or region in which the Company or its subsidiary operates has a more stringent definition of child labor, the definition shall prevail;

2. Forced labor refers to people provide labor or service against their will and under the threat of punishment;

3. The hired employees must be at least 16 years of age, the Group shall never recruit child labor and forced labor, and if it knows child labor or forced labor exists in its suppliers or subcontractors, the Group will not conduct business with them anymore;

4. The employees under 18 may not engage in any possible hazardous work and prohibited to work at night, because it might affect their education;

5. Before hiring any job applicant, HR should take effective procedures to verify their age. HR should check documents that prove the age of the applicant, including government-issued photo identification and birth certificate, driver's license, household register, academic certificates or any other credentials that prove the date of birth. And HR must ensure that the applicant's looks is consistent with the photograph on the ID card;

6. HR department should carry out prevention training about child labor and forced labor, especially those responsible for recruitment;

7. If employment of child labor under the legal minimum age is found in the Group, we will see to the best interests of the child, and take the following measures in line with relevant legislations:

    a. Take the child away from workplace immediately, ensure the safety of the child;

    b. Immediately notify the person in charge of HR to verify all relevant information, confirm whether the child under 16 years of age, sever labor relations with the child, notify the local social welfare institution, and take remedial measures to protect the child's best interest;

    c. Send the child to a special occupational health labor inspection institution to do medical check-up, it is required to confirm the child's physical and mental health, and conduct investigation to fully understand the child's situation;

    d. When the child reaches legal minimum age for employment, we will provide the child with re-employment opportunity; and

    e. Immediately find out the problems exist in the hiring process of the operating location and take improvement measures within 90 working days.

8. If forced labor is found in the Group, we will take the following measures in accordance with the requirements of the relevant legislation:

    a. Take the labor away from workplace immediately, ensure the safety of the labor;

    b. Immediately notify the person in charge of HR to verify all relevant information, confirm whether the person is subject to compulsory labor;

    c. Send the labor to a special occupational health labor inspection institution to do medical check-up, it is required to confirm the labor's physical and mental health, and conduct investigation to fully understand the labor's situation; and

    d. Immediately find out the problems exist in the hiring process of the operating location and take improvement measures within 90 working days.

Operating Practice

B5. Policy on controlling environmental and social risk in supply chain

We attach importance to developing and maintaining long-term relationships with our suppliers, looking forward to forming long-term partnerships with them. We will take a fair and open principle on procurement of materials and services. We will only cooperate with the suppliers that share common moral values and standards with us, the Company also supports and encourages the suppliers to promote efficient use of resources and environmental protection and fulfill corporate social responsibility:

1. We advocate the principle of fair and open competition, and based on mutual trust, we develop and maintain long-term relationships with the suppliers and contractors;

2. We have strict ethical standards in procurement of materials and services to ensure the quality of the finished products and maintain the continued confidence of the clients, suppliers and general public;

3. We review our suppliers, assess them based on price, quality, suitability and demands, only those being rated as qualified are our approved suppliers, we only purchase from the approved suppliers;

4. We conduct follow-up assessment on the suppliers, and, if necessary, review them through a third party organization. When a supplier is found to be inconsistent with the Company's policy or contractual requirements, the Company will terminate future cooperation until the situation has been improved;

5. In an unprejudiced way, we choose appropriate, responsible and capable suppliers;

6. Support and encourage the suppliers to improve their environmental products and services, and their employees' benefits and protection;

7. The suppliers must comply with the relevant laws, regulations and contractual obligations; and

8. We shall adopt effective monitoring and management system to detect and prevent bribery, fraud or other misconducts in procurement and bidding processes.

B6. Policy on health, safety, advertising, labeling, privacy and remedies of the products and services

Health and safety of products and services

We are committed to providing the customers with high-quality products and services and settling customer complaints effectively, continuously improving service level and ensuring customer satisfaction.

1. Make sure that the products and services comply with related laws and guidelines;

2. Provide the customers with accurate product information and high-quality products, and develop recovery policy and after-sale service for related products;

3. If there is a problem with a product, we will take the initiative to explain the problem and find a mutually satisfactory solution for the customers; and

4. After handling a customer complaint, a document should be archived properly, and the relevant department shall review the complaint and develop measures to prevent the recurrence of similar complaints, so that the Company's service quality keeps improving.

Advertising, labeling and protection of customer information

Customer information will only be used for business purpose, not for other unrelated purposes. All employees should handle and use customer information with extreme caution, protect customer information, and comply with statutory requirements in privacy law.

B7. Policy on preventing bribery, extortion, fraud and money laundering

Ethics and integrity is the cornerstone of the Company's success, we adopts a Zero Tolerance approach to bribery, extortion, fraud and money laundering, in their daily work, the directors, management and staff must comply with related national and local government laws and regulations on prevention of bribery, extortion, fraud and money laundering. All employees not only have responsibility to understand and comply with the above regulations, but also have obligation to report violation to the fit and appropriate person. Any person, who contravenes the regulations, will be subject to disciplinary sanction. We will make every effort to protect the informer and received information. However, if an informer's intention is to harm others, they may be subject to disciplinary punishment.

1. *Soliciting or accepting benefit*

   Any employee (including the directors, management and all full-time, part-time, hourly, temporary workers) cannot directly, indirectly, or in any form, solicit or accept any form of benefits or do anything that might be seen as bribe from a third party, including, but not limited to, money, gift, excessive entertainment and hospitality, subsidized travel and accommodation, loan, pledging as guarantor, extending preferential credit terms, fee, reward, position, employment, contract, service, privilege, exemption of all or part of the responsibilities that ought to be fulfilled. The employees should reject any direct or indirect interests and benefits relating to the Group's business, should such benefits being accepted, their objective attitude would hamper, or the interests of the Company would be harmed or invaded, or causing bias or misconduct.

   In social events such as festivals, activities, entertainments and other daily routine, refusing to accept a modest gift may be considered impolite or lack of social grace, with that in mind, under the following principles, the employees may consider accepting benefits on a voluntary basis:

   a. Receiving related benefits will not affect performance and decision of the employee;

   b. The employee will not feel the need to reciprocate;

   c. The employee can openly discuss the benefits;

   d. Holiday or banquet gift, prize or souvenir, its value shall not more than HKD500.

   For gift, prize or souvenir worth more than HKD500, the employee shall file a declaration form, if the employee has questions about admissibility of the related benefits, he or she could consult HR manager or general manager.

   If the Company finds out any employee's inappropriate behavior of soliciting or accepting benefits, it will call the police and terminate labor relations with the employee.

2. *Providing benefits*

   In any case, any employee shall not provide bribe or improper benefits to any person or organization in order to seek personal gain or group interests. If the Company finds out any employee has conducted bribery, it will call the police and terminate labor relations with the employee.

3. *Extortion*

   Any person who seeks for benefit for his own or another person, or with intent to cause loss to another person, and makes any unwarranted demand by extortion, such conduct shall be considered as extortion. All employees shall not participate in, assist, cover up any kind of extortion, if the Company finds out any employee has conducted extortion, it will call the police and terminate labor relations with the employee.

4. *Fraud*

   Any person, who uses any means of deception to benefit himself or another person, or with intent to cause loss to another person, such conduct shall be considered fraud, the common employee fraud includes embezzlement, wage fraud and stealing company assets. All employees shall not participate in, assist, cover up any fraud, if the Company finds out any employee has conducted fraud, it will call the police and terminate labor relations with the employee.

5. *Money Laundering*

Money laundering refers to an individual or institution attempts to conceal the source of illicit money, or makes such money look legitimate in any way. The Company will not tolerate any employee conduct, support, and assist any form of money laundering.

The Company should establish an anti money laundering team, general manager should be the team leader and responsible for organizing the anti money laundering team. The team's main responsibilities include organizing, implementing anti money laundering task, investigating reported money laundering, arranging anti money laundering training, working with regulatory and judiciary authorities to investigate suspicious transactions of funds, as well as paying attention to requirements and updates in anti money laundering laws and regulations.

Anti money laundering procedures include identifying clients, keeping transaction record, reporting and follow-up investigating of suspicious transaction, and anti money laundering training.

a. Identifying clients

In the development of clients, sales people must establish a high degree of awareness of anti money laundering, through communication with prospective clients to comprehensively grasp the clients' information, running the first check on the clients. After successful client acquisition, regular contact is required to grasp the clients' updates. If an abnormal situation occurs, the sales person needs to timely communicate with the relevant departments.

b. Keeping transaction record

Sales people and accounting personnel should keep customer identification information, including registering customer identification and related information, all sorts of records and information reflecting payment authority's customer identification process, and keep transaction records such as each transaction's information, business voucher, ledger and documents reflecting real situation of each transaction and other relevant information to ensure that each transaction is traceable.

c. Reporting and follow-up investigating of suspicious transaction

Sales people and accounting staff, should they find out a suspicious transaction, need to report it immediately to the corporate headquarters' anti money laundering team. The team analyzes and investigates all suspicious transaction reported, if there are reasonable grounds to believe that the transaction or the customer has ties with money-laundering, terrorism and other criminal activities, the HKSAR Government JFIU should be notified.

d. Anti money laundering training

All employees should join in anti money laundering training at least once a year, the training includes learning the danger of money laundering, anti money laundering regulations, the role of the employees in anti-money laundering, how to identify suspicious transactions, ways to report suspicious transaction, the consequences if one fails to comply with anti money laundering regulations.

Community

B8. Policy on finding out the needs of the community, at which the Company operates, by means of community involvement, and ensuring that its business activities will take into account the interests of the community

For the Company's long-term development, community participation is important, we are committed to promoting development and construction activities of the community, at which we operate. We benefit the community through a variety of actions, such as investment, contributing money, time, products, services, influence, management knowledge and other resources.

We participate in community building through three main ways:

1. Organize, facilitate and support the staff to take part in volunteer services, such as regularly visiting people who need help, arranging outdoor activities for disadvantaged groups, holding Blood Donation Day.

2. By means of donation, we donate money, goods or services, directly supporting or funding projects of various social service agencies. In addition to donation itself, we also appeal to the Company's stakeholders (including the employees and customers) to donate.

3. We endeavor to provide employment opportunities for the disadvantaged and create a win-win situation. The Company is willing to hire the disabled people who have completed retraining courses, and give priority to purchasing from the suppliers who hired the said disabled people, or participate in a variety of mentorship programs.

中汇
ZHONGHUI

TO THE SHAREHOLDERS OF KIU HUNG INTERNATIONAL HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

QUALIFIED OPINION

We have audited the consolidated financial statements of Kiu Hung International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 44 to 111, which comprise the consolidated statement of financial position as at 31 December 2016, and consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR QUALIFIED OPINION

1. Investment in associates

Eagle Praise Limited ("Eagle Praise")

Included in the investment in associates was an investment in Eagle Praise of approximately HK$117,761,000 as at 31 December 2015. No sufficient evidence has been provided to satisfy ourselves as to the recoverable amount of the investment in Eagle Praise with carrying value of approximately HK$117,761,000 as at 31 December 2015 and whether the derivative financial asset in respect of the profit guarantee provided by the vendor of Eagle Praise should be recognised as at 31 December 2015. An impairment of approximately HK$117,761,000 on investment in Eagle Praise was recognised for the year ended 31 December 2016. We have not been provided with sufficient audit evidence as to whether the impairment loss of approximately HK$ 117,761,000 on investment in Eagle Praise should be recorded in the current year or prior year and whether any change in the fair value of the derivative financial asset should be recognised. However, we are satisfied that the investment in Eagle Praise and the derivative financial asset are fairly stated as at 31 December 2016.

2. Available-for-sale financial assets

No sufficient evidence has been provided to satisfy ourselves as to the recoverable amount of the available-for-sale financial assets with carrying amount of approximately HK$93,338,000 in the consolidated statement of financial position as at 31 December 2015. An impairment loss of approximately HK$19,156,000 on the available-for-sale financial assets was recognised for the year ended 31 December 2016. We have not been provided with sufficient audit evidence as to whether the impairment loss of approximately HK$19,156,000 on the available-for-sale financial assets should be recorded in the current year or prior year. However, we are satisfied that the available-for-sale financial assets is fairly stated as at 31 December 2016.

3. Inventories

No sufficient evidence has been provided to satisfy ourselves as to the net realisable value of ceramic items with carrying amount of approximately HK$35,303,000 in the consolidated statement of financial position as at 31 December 2015 and 31 December 2016.

4. Prepayment, deposits and other receivables

Included in the prepayment, deposits and other receivables in the consolidated statement of financial position as at 31 December 2015 and 31 December 2016 are deposits paid of approximately HK$101,868,000 and HK$95,411,000 respectively. The Group entered into a property agency agreement with a property developer regarding a property development project in Nanjing, the People's Republic of China. The deposits were paid in accordance with the terms of the agreement. The agreement confers to the Group the exclusive right to market the property after the Pre-sale Permits are obtained from the relevant authority. Subsequently, the developer was found to be involved in a number of litigations. Up to the date of this report, the Group is still assessing the progress of the property development. In the absence of sufficient appropriate audit evidence to verify the financial ability of the developer, we were unable to ascertain the recoverability of such deposits. There were no alternative audit procedures that we could perform to satisfy ourselves as to carrying amount of the deposits or to determine whether any provision for impairment loss is necessary.

Any adjustments to the figures as described from points 1 to 4 above might have consequential effects on the consolidated financial performance and consolidated cash flows for the two years ended 31 December 2015 and 31 December 2016 and the consolidated financial positions of the Group as at 31 December 2015 and 2016, and the related disclosures thereof in the consolidated financial statements.

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

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to note 2 to the consolidated financial statements which mentions that the Group incurred a loss of approximately HK$147,976,000 and net operating cash outflow of approximately HK$46,458,000 for the year ended 31 December 2016. These conditions indicate a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matters described in the Basis for Qualified Opinion section and the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

1. Exploration and evaluation assets

Refer to Note 18 to the consolidated financial statements

The Group tested the amount of exploration and evaluation assets for impairment. This impairment test is significant to our audit because the balance of exploration and evaluation assets of approximately HK$140,883,000 as at 31 December 2016 is material to the consolidated financial statements. In addition, the Group's impairment test involves application of judgement and is based on assumptions and estimates.

Our audit procedures included, among others:

— Assessing the competence, independence and integrity of the external valuer engaged by client;

— Obtaining the external valuation reports and meeting with the external valuer to discuss and challenge the valuation process, methodologies used and market evidence to support significant judgments and assumptions applied in the valuation model;

— Checking key assumptions and input data in the valuation model to supporting evidence;

— Assessing the arithmetical accuracy of fair value less costs of disposal calculations;

— Assessing the reasonableness of the key assumptions (including amount of reserve of mine, quality of coal and amount of government reimbursement on invested exploration expenses); and

— Checking input data to supporting evidence.

We consider that the Group's impairment test for exploration and evaluation assets are supported by the available evidence.

2. Investment in associates

Refer to Note 20 to the consolidated financial statements

The Group tested the amount of investment in associates for impairment. This impairment test is significant to our audit because the balance of investment in associates of approximately HK$248,036,000 as at 31 December 2016 is material to the consolidated financial statements. In addition, the Group's impairment test involves application of judgement and is based on assumptions and estimates.

Our audit procedures included, among others:

— Assessing the competence, independence and integrity of the external valuers engaged by client;

— Obtaining the external valuation reports and meeting with the external valuers to discuss and challenge the valuation process, methodologies used and market evidence to support significant judgments and assumptions applied in the valuation model;

— Assessing the arithmetical accuracy of value-in-use and fair value less costs of disposal calculations;

— Assessing the reasonableness of the key assumptions (including revenue growth, profit margins, terminal growth rates and discount rates);

— Engaging our own valuer to assist us in assessing the reasonableness of the discount rate and appropriateness of methodology of valuations; and

— Checking input data to supporting evidence.

We consider that the Group's impairment test for investment in associates are supported by the available evidence.

OTHER INFORMATION

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

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

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

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of 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.

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, 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.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the HKICPA's website at:

http://www.hkicpa.org.hk/en/standards-and-regulations/standards/auditing-assurance/auditre/

This description forms part of our auditor's report.

ZHONGHUI ANDA CPA Limited
Certified Public Accountants

Ng Ka Lok
Audit Engagement Director
Practising Certificate Number P06084

Hong Kong, 30 May 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
Revenue	7	**235,384**	223,313
Cost of sales		**(151,478)**	(143,645)
Gross profit		**83,906**	79,668
Other income	8	**1,550**	7,645
Selling and distribution costs		**(34,480)**	(36,575)
Administrative expenses		**(97,545)**	(119,195)
Other gains, net		**6,298**	1,515
Operating loss		**(40,271)**	(66,942)
Finance costs	9	**(32,169)**	(14,683)
		(72,440)	(81,625)
Gain on disposal of subsidiaries	34	**18,810**	—
Impairment of investment in an associate	20(b)	**(117,761)**	—
Impairment of investment in available-for-sale financial asset	21	**(19,156)**	—
Reversal of impairment of exploration and evaluation assets		**11,016**	—
Share of result of associates		**37,158**	(3,769)
Loss before income tax		**(142,373)**	(85,394)
Income tax expenses	10	**(5,603)**	(1,858)
Loss for the year	11	**(147,976)**	(87,252)
(Loss)/profit attributable to:			
— equity holders of the Company		**(149,652)**	(89,665)
— non-controlling interests		**1,676**	2,413
		(147,976)	(87,252)
Loss per share attributable to the equity holders of the Company		**HK cents**	HK cents
Basic and diluted loss per share	14	**(3.43)**	(2.95)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
Loss for the year		**(147,976)**	(87,252)
Other comprehensive (loss)/income:			
Items that will not be reclassified subsequently to profit or loss:			
Surplus on revaluation of properties		**5,600**	3,047
Deferred income tax expense arising on revaluation of properties		**(693)**	(562)
Items that may be reclassified to profit or loss:			
Exchange difference arising from translation of foreign operations		**(14,360)**	(12,751)
Share of exchange translation difference of associates		**(21,067)**	—
Foreign currency translation reserve reclassified to profit or loss upon disposal of subsidiaries		**(2,560)**	—
Other comprehensive loss for the year, net of tax		**(33,080)**	(10,266)
Total comprehensive loss for the year		**(181,056)**	(97,518)
Total comprehensive (loss)/income attributable to:			
— equity holders of the Company		**(182,732)**	(99,931)
— non-controlling interests		**1,676**	2,413
		(181,056)	(97,518)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
Non-current assets			
Property, plant and equipment	*15*	**53,122**	63,991
Prepaid land lease payments	*16*	**—**	4,149
Investment properties	*17*	**10,954**	10,950
Exploration and evaluation assets	*18*	**140,883**	139,178
Other intangible asset	*19*	**1,035**	1,047
Investment in associates	*20*	**248,036**	257,499
Available-for-sale financial asset	*21*	**74,182**	93,338
Deferred income tax assets	*22*	**188**	308
Rental deposits		**—**	2,222
		528,400	572,682
Current assets			
Inventories	*23*	**75,869**	51,487
Trade and bills receivables	*24*	**29,985**	42,686
Prepayments, deposits and other receivables	*25*	**114,322**	126,785
Income tax recoverable		**437**	38
Bank and cash balances	*26*	**36,920**	13,755
		257,533	234,751
Total assets		**785,933**	807,433
Current liabilities			
Trade payables	*27*	**14,021**	17,330
Accruals and other payables		**62,210**	51,899
Income tax payable		**242**	579
Promissory notes	*28*	**106,901**	144,930
Derivative financial liabilities	*29*	**—**	9,403
Obligation under finance leases	*30*	**167**	155
Borrowings	*31*	**30,793**	74,062
		214,334	298,358
Net current assets/(liabilities)		**43,199**	(63,607)
Total assets less current liabilities		**571,599**	509,075

	Notes	2016 HK$'000	2015 HK$'000
Non-current liabilities			
Promissory notes	*28*	**85,313**	78,270
Deferred income tax liabilities	*22*	**30,741**	29,100
Obligation under finance leases	*30*	**455**	677
		116,509	108,047
Net assets		**455,090**	401,028
Equity			
Share capital	*32*	**609,272**	354,391
Reserves		**(167,288)**	35,207
Equity attributable to equity holders of the Company		**441,984**	389,598
Non-controlling interests		**13,106**	11,430
Total equity		**455,090**	401,028

The consolidated financial statements on pages 44 to 111 were approved and authorised for issue by the board of directors on 30 May 2017 and are signed on its behalf by:

Approved by:

Hui Kee Fung
Director

Yu Won Kong, Dennis
Director

		Attributable to equity holders of the Company											
		Share capital	Share premium	Statutory surplus	Contributed surplus	Foreign currency translation reserve	Share-based payment reserve	Property revaluation reserve	Convertible bonds equity reserve	Accumulated losses	Total	Non-controlling interests	Total equity
			Note (a)	*Note (b)*	*Note (c)*	*Note (d)*	*Note (e)*	*Note (f)*	*Note (g)*				
	Notes	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2015		257,838	1,422,969	4,394	303	103,774	21,363	38,919	72,581	(1,637,967)	284,174	9,017	293,191
Total comprehensive (loss)/income for the year		–	–	–	–	(12,751)	–	2,485	–	(89,665)	(99,931)	2,413	(97,518)
Issue of shares on placement	32	6,720	4,668	–	–	–	–	–	–	–	11,388	–	11,388
Issue of convertible bonds		–	–	–	–	–	–	–	24,087	–	24,087	–	24,087
Issue of shares upon conversion of convertible bonds	32	69,933	127,216	–	–	–	–	–	(96,668)	–	100,481	–	100,481
Issue of consideration shares	32	19,900	19,750	–	–	–	–	–	–	–	39,650	–	39,650
Recognition of share-based payment		–	–	–	–	–	29,749	–	–	–	29,749	–	29,749
Release on equity/forfeiture of share option	33	–	–	–	–	–	(2,736)	–	–	2,736	–	–	–
Transfer to reserve		–	–	104	–	–	–	–	–	(104)	–	–	–
At 31 December 2015 and 1 January 2016		354,391	1,574,603	4,498	303	91,023	48,376	41,404	–	(1,725,000)	389,598	11,430	401,028
Total comprehensive (loss)/income for the year		**–**	**–**	**–**	**–**	**(37,987)**	**–**	**4,907**	**–**	**(149,652)**	**(182,732)**	**1,676**	**(181,056)**
Issue of shares on placement	32	**84,000**	**8,400**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**92,400**	**–**	**92,400**
Issue of convertible bonds		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**58,622**	**–**	**58,622**	**–**	**58,622**
Issue of shares upon conversion of convertible bonds	32	**98,990**	**537**	**–**	**–**	**–**	**–**	**–**	**(58,622)**	**–**	**40,905**	**–**	**40,905**
Issue of consideration shares	32	**70,000**	**(28,700)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**41,300**	**–**	**41,300**
Issue of remuneration shares	32	**1,891**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,891**	**–**	**1,891**
Release on equity/forfeiture of share option	33	**–**	**–**	**–**	**–**	**–**	**(9,472)**	**–**	**–**	**9,472**	**–**	**–**	**–**
Transfer to reserve		**–**	**–**	**18**	**–**	**–**	**–**	**–**	**–**	**(18)**	**–**	**–**	**–**
Disposal of subsidiaries		**–**	**–**	**(141)**	**–**	**–**	**–**	**(4,400)**	**–**	**4,541**	**–**	**–**	**–**
At 31 December 2016		**609,272**	**1,554,840**	**4,375**	**303**	**53,036**	**38,904**	**41,911**	**–**	**(1,860,657)**	**441,984**	**13,106**	**455,090**

Notes

(a) Under the Companies Law of the Cayman Islands, the funds in the share premium account of the Company are 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 they fall due in the ordinary course of business.

(b) In accordance with the relevant regulations of the People's Republic of China (the "PRC"), the subsidiaries of the Group registered in the PRC are required to transfer a certain percentage of the profit after tax, if any, to a statutory reserve. Subject to certain restrictions as set out in the relevant regulations and the articles of association of these PRC subsidiaries, the statutory reserve may be used to offset the accumulated losses, or for capitalisation as paid-up capital of the subsidiaries.

(c) The contributed surplus of the Group represents the excess of the nominal value of the aggregate share capital of the subsidiaries acquired pursuant to the group reorganisation prior to the listing of the Company's shares on The Stock Exchange of Hong Kong Limited over the nominal value of Company's shares issued in exchange thereof.

(d) The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 4 to the consolidated financial statements.

(e) Share-based payment reserve represents the fair value of the actual or estimated number of unexercised share options granted to certain directors, employees and consultants of the Group recognised in accordance with the accounting policy adopted for share-based payment reserve in note 4 to the consolidated financial statements.

(f) The property revaluation reserve has been set up and is dealt with in accordance with the accounting policies adopted for land and buildings in note 4 to the consolidated financial statements.

(g) The convertible bonds equity reserve has been set up and is dealt with in accordance with the accounting policies adopted for convertible bonds in note 4 to the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Note	2016 HK$'000	2015 HK$'000
Cash flows from operating activities			
Loss before income tax		**(142,373)**	(85,394)
Adjustments for:			
Amortisation of other intangible assets		**12**	12
Amortisation of prepaid land lease payments		**56**	118
Change in fair value of derivative financial assets		**537**	—
Change in fair value of derivative financial liabilities		**(9,403)**	—
Depreciation of property, plant and equipment		**4,659**	5,309
Provision for impairment of trade receivables		**—**	64
Provision for impairment of other receivables		**976**	2,589
Reversal of impairment of trade receivables		**(42)**	—
Reversal of impairment of exploration and evaluation assets		**(11,016)**	—
Impairment of investment in an associate		**117,761**	—
Impairment of investment in available-for-sale financial asset		**19,156**	—
Gain on bargain purchase		**—**	(4,200)
Fair value gain on investment properties		**(600)**	(698)
Interest expenses		**32,169**	14,683
Interest income		**(6)**	(5)
Write-off and loss on disposals of property, plant and equipment		**516**	905
Write-back of provision for inventory obsolescence		**(1,300)**	(419)
Share of result of associates		**(37,158)**	3,769
Share-based payment expenses		**—**	29,749
Loss on settlement of promissory notes using convertible notes		**3,794**	—
Gain on disposal of subsidiaries	34	**(18,810)**	—
Operating loss before working capital changes		**(41,072)**	(33,518)
Changes in inventories		**(23,082)**	(604)
Changes in trade receivables		**2,370**	1,312
Changes in bills receivables		**10,373**	(10,774)
Changes in prepayments, deposits and other receivables		**14,572**	(12,051)
Changes in trade payables		**(3,309)**	1,007
Changes in trust receipt loans		**—**	9,239
Changes in accruals and other payables		**11,686**	15,771
Cash used in operations		**(28,462)**	(29,618)
Interest paid		**(15,799)**	(5,060)
Income taxes paid, net		**(2,197)**	(968)
Net cash used in operating activities		**(46,458)**	(35,646)

	Note	2016 HK$'000	2015 HK$'000
Cash flows from investing activities			
Interest received		**6**	5
Purchase of property, plant and equipment		**(2,629)**	(1,692)
Proceed from disposal of property, plant and equipment		**160**	—
Proceed from disposal of subsidiaries	*34*	**11**	—
Net cash used in investing activities		**(2,452)**	(1,687)
Cash flows from financing activities			
Bank and other loans raised		**27,300**	136,898
Repayment of bank and other loans		**(33,761)**	(110,468)
Proceeds from share placements		**92,400**	11,693
Proceeds from issue of promissory notes		**11,501**	—
Costs for issuing shares on placements		**—**	(305)
Repayment of promissory notes		**(18,392)**	(6,500)
Repayment of obligation under finance leases		**(210)**	(39)
Net cash generated from financing activities		**78,838**	31,279
Net increase/(decrease) in cash and cash equivalents		**29,928**	(6,054)
Cash and cash equivalents at the beginning of the year		**13,755**	20,127
Effect of foreign exchange rate changes		**(6,763)**	(318)
Cash and cash equivalents at end of the year		**36,920**	13,755

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 changed from 20/F., Hong Kong Diamond Exchange Building, 8–10 Duddell Street, Central, Hong Kong to 19th Floor, Everbright Centre, 108 Gloucester Road, Wan Chai, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Group is principally engaged in the manufacturing and trading of toys and gifts items, exploration of natural resources and the investment in various potential businesses including fruit plantation, leisure and culture. The principal activities of its subsidiaries are set out in note 41 to the consolidated financial statements.

2. BASIS OF PREPARATION

2.1 Going concern basis

The Company incurred a loss of HK$147,976,000 for the year ended 31 December 2016 and net operating cash outflow of approximately HK$46,458,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern. Therefore, the Company may be unable to realise its assets and discharge its liabilities in the normal course of business.

In order to improve the Group's financial position, the directors of the Company have been implementing various measures as follows:

(1) The Group is in negotiation with financial institutions to obtain sufficient new borrowings and to extend existing borrowings upon their maturities;

(2) The Group is in negotiation with its creditors to extend payment due dates; and

(3) The Group is actively considering to raise new capital by carrying out fund raising activities including but not limited to rights issue, open offer, placing of new shares and issuance of convertible bonds.

Delight Grace Limited, a shareholder of the Company, has agreed to provide adequate funds for the Group to meet its liabilities as they fall due.

These consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the successful implementation and outcome of the above measures to be undertaken by the Group and the financial support from Delight Grace Limited. The directors of the Company are of the opinion that, taking into account the above measures, the Group will have sufficient working capital to meet its financial obligations as and when they fall due in the next twelve months from 31 December 2016. The directors are therefore of the opinion that it is appropriate to prepare the consolidated financial statements on a going concern basis. Should the Group be unable to continue as a going concern, adjustments would have to be made to the consolidated financial statements to adjust the value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

2.2 The Group issued consolidated financial statements for the year ended 31 December 2016 dated 31 March 2017 and issued these revised consolidated financial statements for the year ended 31 December 2016 on 30 May 2017.

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are relevant to its operations and effective for its accounting year beginning on 1 January 2016. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards; and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current year and prior years.

The Group has not applied the new and revised HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new and revised HKFRSs but is not yet in a position to state whether these new and revised HKFRSs would have a material impact on its results of operations and financial position.

4. SIGNIFICANT ACCOUNTING POLICIES

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

HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards ("HKAS"); and Interpretations.

These consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of leasehold land and buildings, investment properties and derivatives which are carried at their fair values.

The preparation of the consolidated financial statements in conformity with HKFRSs 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 5 to the consolidated financial statements.

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

Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. 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. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties, to determine whether it has control. A potential voting right is considered only if the holder has the practical ability to exercise that right.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Consolidation *(continued)*

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill relating to that subsidiary and any related accumulated foreign currency translation reserve.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated statement of profit or loss and consolidated statement of profit or loss and other comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of the Company.

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

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

Associates

Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of an entity but is not control or joint control over those policies. The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other entities, are considered when assessing whether the Group has significant influence. In assessing whether a potential voting right contributes to significant influence, the holder's intention and financial ability to exercise or convert that right is not considered.

Investment in an associate is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the associate in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of acquisition over the Group's share of the net fair value of the associate's identifiable assets and liabilities is recorded as goodwill. The goodwill is included in the carrying amount of the investment and is tested for impairment together with the investment at the end of each reporting period when there is objective evidence that the investment is impaired. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Associates *(continued)*

The Group's share of an associate's post-acquisition profits or losses is recognised in consolidated profit or loss, and its share of the post-acquisition movements in reserves is recognised in the consolidated reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

The gain or loss on the disposal of an associate that results in a loss of significant influence represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that associate and (ii) the Group's share of the net assets of that associate plus any remaining goodwill relating to that associate and any related accumulated foreign currency translation reserve. If an investment in an associate becomes an investment in a joint venture, the Group continues to apply the equity method and does not remeasure the retained interest.

Unrealised profits on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currency translation *(continued)*

(c) Translation on consolidation

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

(i) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(ii) Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and

(iii) All resulting exchange differences are recognised in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are recognised in consolidated profit or loss as part of the gain or loss on disposal.

Property, plant and equipment

Land and buildings comprise mainly factories and offices. Land and buildings are carried at fair values, based on periodic valuations by external independent 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 land and 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 property revaluation reserve as other comprehensive income. Revaluation decreases that offset previous revaluation increases of the same asset remaining in the property revaluation reserve are charged against the property revaluation reserve as other comprehensive income. All other decreases are recognised in profit or loss. On the subsequent sale or retirement of a revalued land and building, the attributable revaluation increases remaining in the property revaluation reserve is transferred directly to retained profits.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment *(continued)*

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Leasehold land and buildings	Over the lease terms
Leasehold improvements	Shorter of 10 years or over the lease terms
Plant and machinery	5 to 10 years
Moulds	2 to 10 years
Furniture, fixtures and equipment	5 to 10 years
Motor vehicles	4 to 5 years

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

The 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.

Prepaid land lease payments

The lump-sum upfront lease payments made on entering into or acquiring leasehold land are accounted for as prepaid land lease payments and are amortised over the lease term on a straight line basis.

Investment properties

Investment properties are land and/or buildings held to earn rentals or for capital appreciation. An investment property is measured initially at its cost including all direct costs attributable to the property.

After initial recognition, the investment property is stated at its fair value based on valuation by an external independent valuer. Gains or losses arising from changes in fair value of the investment property are recognised in profit or loss for the period in which they arise.

The gain or loss on disposal of an investment property is the difference between the net sales proceeds and the carrying amount of the property, and is recognised in profit or loss.

Exploration and evaluation assets

Exploration and evaluation assets are stated at cost less impairment losses. Exploration and evaluation assets include cost of acquiring exploration right, topographical and geological surveys, exploratory drilling, sampling and trenching and activities in relation to commercial and technical feasibility studies.

Exploration and evaluation assets are classified as such and carried forward as long as:

(i) the exploration right is current;

(ii) the Group plans and has sufficient fund to continue the explorations; and

(iii) the technical feasibility and commercial viability of extracting a mineral resource are not yet demonstrable.

When it can be reasonably ascertained that a mining property is capable of commercial production, exploration and evaluation costs are transferred to mining right and are amortised.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Exploration and evaluation assets *(continued)*

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of exploration and evaluation assets may exceed its recoverable amount.

Trademark

Trademark is measured initially at purchase cost and is amortised on a straight-line basis over its estimated useful lives of 99 years.

Leases

The Group as lessee

(i) Operating leases

Leases that do not substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

(ii) Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. At the commencement of the lease term, a finance lease is capitalised at the lower of the fair value of the leased asset and the present value of the minimum lease payments, each determined at the inception of the lease.

The corresponding liability to the lessor is included in the statement of financial position as finance lease payable. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Assets under finance leases are depreciated the same as owned assets.

The Group as lessor

Operating leases

Leases that do not substantially transfer to the lessees all the risks and rewards of ownership of assets are accounted for as operating leases. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Recognition and derecognition of financial instruments *(continued)*

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.

Investments

Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs except in the case of financial assets at fair value through profit or loss.

(i) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest method, less any impairment losses.

An impairment loss is recognised in profit or loss when there is objective evidence that the held-to-maturity investments are impaired, and is measured as the difference between the investments' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods and recognised in profit or loss when an increase in the investments' 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 investments at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Investments other than held-to-maturity investments are classified as either financial assets at fair value through profit or loss or available-for-sale financial assets.

(ii) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are either investments classified as held for trading or designated as at fair value through profit or loss upon initial recognition. These investments are subsequently measured at fair value. Gains or losses arising from changes in fair value of these investments are recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments *(continued)*

(iii) Available-for-sale financial asset

Available-for-sale financial assets are non-derivative financial assets not classified as trade and other receivables, held-to-maturity investments or financial assets at fair value through profit or loss. Available-for-sale financial assets are subsequently measured at fair value. Gains or losses arising from changes in fair value of these investments are recognised in other comprehensive income, until the investments are disposed of or there is objective evidence that the investments are impaired, at which time the cumulative gains or losses previously recognised in other comprehensive income are recognised in profit or loss. Interest calculated using the effective interest method is recognised in profit or loss.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, are measured at cost less impairment losses.

Impairment losses recognised in profit or loss for equity investments classified as available-for-sale financial assets are not subsequently reversed through profit or loss. Impairment losses recognised in profit or loss for debt instruments classified as available-for-sale financial assets are subsequently reversed and recognised in profit or loss if an increase in the fair value of the instruments can be objectively related to an event occurring after the recognition of the impairment loss.

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.

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. 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.

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 HKFRSs. 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

Convertible loans

Convertible loans which entitle the holder to convert the loans into a fixed number of equity instruments at a fixed conversion price are regarded as compound instruments consist of a liability 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 fair value of any derivative features embedded in the compound instruments is included in the liability component. The difference between the fair value of the compound financial instrument as a whole and the fair values assigned to the liability component, representing the embedded option for the holder to convert the loans into equity of the Group, is included in equity as capital reserve. The liability component is carried as a liability at amortised cost using the effective interest method until extinguished on conversion or redemption. The derivative components are measured at fair value with gains and losses recognised in profit or loss.

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

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.

Derivative financial instruments

Derivatives are initially recognised and subsequently measured at fair value.

Changes in the fair value of derivatives are recognised in profit or loss as they arise.

Derivatives embedded in other financial instruments or other non-financial host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with changes in fair value recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

(a) Sales of goods

Revenue from the sales of toys and gifts is recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers.

(b) Rental income

Rental income is recognised on a straight-line basis over the lease term.

Employee benefits

(a) 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.

(b) 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.

The Group also participates in a defined contribution retirement scheme organized by the government in the PRC. The Group is required to contribute a specific percentage of the payroll of its employees to the retirement scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the retirement scheme. No forfeited contributions may be used by the employers to reduce the existing level of contributions.

(c) Termination benefits

Termination benefits are recognised at the earlier of the dates when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs and involves the payment of termination benefits.

Share-based payments

The Group issues equity-settled share-based payments to certain directors, employees and consultants.

Equity-settled share-based payments to directors and employees 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payments *(continued)*

Equity-settled share-based payments to consultants are measured at the fair value of the services rendered 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 is recognised as an expense.

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.

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because it excludes items of income or expense that are taxable or deductible in other years 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.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the 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 and joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

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.

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

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

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.

Related parties

A related party is a person or entity that is related to the Group.

(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 Company or of a parent of the Company.

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

   (i) The entity and the Company 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 joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties *(continued)*

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

(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. If the Group is itself such a plan, the sponsoring employers are also 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 a group of which it is a part, provides key management personnel services to the Company or to a parent of the Company.

Impairment of assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and other intangible assets except deferred income tax assets 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 of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Provisions and contingent liabilities *(continued)*

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.

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 financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the financial statements when material.

5. 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 financial statements (apart from those involving estimations, which are dealt with below).

(a) Going concern basis

These consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the successful implementation and outcome of the measures to be undertaken by the Group. Details are explained in note 2 to the consolidated financial statements.

(b) Deferred tax for investment properties

For the purposes of measuring deferred tax for investment properties in the PRC that are measured using the fair value model, the directors have reviewed the Group's investment property in the PRC portfolios and concluded that the Group's investment properties in the PRC are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties in the PRC over time, rather than through sale. Therefore, in determining the Group's deferred tax for investment properties in the PRC, the directors have rebutted the presumption that investment properties in the PRC measured using the fair value model are recovered through sale.

For the purposes of measuring deferred tax for investment properties in Hong Kong that are measured using the fair value model, the directors have reviewed the Group's investment property in Hong Kong portfolios and concluded that the Group's investment properties in Hong Kong are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, in determining the Group's deferred tax for investment properties in Hong Kong, the directors have adopted the presumption that investment properties in Hong Kong measured using the fair value model are recovered through sale.

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES *(continued)*

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) Recoverability of exploration and evaluation assets

As at 31 December 2016, the recoverability of exploration and evaluation assets with carrying value of approximately HK$140,883,000 (2015: approximately HK$139,178,000), is determined by reference to their respective fair values. The directors appointed Roma Appraisals Limited ("Roma"), an independent firm of professional valuer, to determine the fair values of the mines owned by the Group.

The fair values were developed primarily through the application of a market valuation methodology, where certain estimates and assumptions were used (note 18). The directors have exercised their judgements and have made their best estimate of all relevant factors to be included in the valuation model and are satisfied that the method of valuation is reflective of the current market conditions. However, such estimates and assumptions were subject to significant uncertainties and judgements. If any of the estimates and assumptions being used has changed, the aggregate recoverable amount of the exploration and evaluation assets would be different and thus may have an impact on the consolidated financial statements.

If the recoverable values of the exploration and evaluation assets increase/decrease by 10%, the provision for impairment of exploration and evaluation assets will decrease/increase by approximately HK$14,088,000 (2015: approximately HK$13,918,000).

(b) Fair values of investment properties, leasehold land and buildings

In making its estimates, the Group considers the information from the valuations of investment properties (note 17) and leasehold land and buildings (note 15) performed by an external professional valuer by using the market approach. Had the Group used different valuation techniques, the fair value of the investment properties, leasehold land and buildings would be different and thus may have an impact on the consolidated financial statements.

The fair values of investment properties and leasehold land and buildings would change by approximately HK$1,095,000 (2015: approximately HK$1,095,000) and approximately HK$4,470,000 (2015: approximately HK$5,440,000) respectively if the market values of comparable properties or the unobservable inputs adopted under the valuation approach differ by 10% from the Group's estimates.

(c) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expense. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions. The Group will reassess the estimates by the end of each reporting period.

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES *(continued)*

Key sources of estimation uncertainty *(continued)*

(d) Impairment loss for bad and doubtful debts

The Group makes impairment loss for bad and doubtful debts based on assessments of the recoverability of the trade and other receivables, including the current creditworthiness and the past collection history of each debtor. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the trade and other receivables and doubtful debt expenses in the year in which such estimate has been changed.

(e) Current and deferred income taxes

The Group is subject to income taxes in several jurisdictions. Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred income tax assets relating to certain temporary difference and tax losses are recognised when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different.

(f) Estimated impairment of investments in an associate and non-financial assets

The Group assesses whether investments in investment in an associate and non-financial assets have suffered any impairment in accordance with the accounting policy. The recoverable amounts of investments in investment in an associate and non-financial assets have been determined based on value in use calculations or market valuations. These calculations require the use of judgement and estimates, in particular of future revenue or cash flow. Management believes that any reasonable possible deviation from any of these assumptions would not cause the aggregate carrying amounts of cash-generating units to exceed their recoverable amounts.

(g) Estimated impairment of available-for-sale investments

Management assessed the fair value of the unlisted available-for-sale investments based on the present value of the estimated future cash flows expected to arise from the investments and discounted at the appropriate rates of return. Estimation of future cash flows may be adversely affected by the deterioration in financial position of the investees, industry and sector performances, changes in technology, and operational and financing cash flows. Variation in the estimated future cash flows and the discount rates used may result in adjustment to the fair value and may give rise to the recognition of an impairment loss.

6. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign 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) Foreign currency risk

The Group has minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in the functional currencies (HK$, Renminbi ("RMB") and United States Dollars ("US$")) of the Group's entities. 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.

As HK$ is pegged with US$, management is of the view that there is no significant foreign exchange risk to the Group.

(b) Credit risk

The carrying amount of the trade and bills receivables, other receivables, cash and bank balances and deposits included in the consolidated statement of financial position represents the Group's maximum exposure to credit risk in relation to the Group's financial assets.

At 31 December 2016, 49% (2015: 22%) and 75% (2015: 62%) of the total trade receivables were due from the Group's largest customer and the five largest customers at 31 December 2016, respectively. It has policies in place to ensure that sales are made to customers with an appropriate credit history.

The credit risk on cash and bank balances is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Group's maximum exposure to credit risk in the event that counterparties fail to perform their obligations at 31 December 2016 in relation to each class of recognised financial assets is the carrying amounts of those assets as stated in the consolidated statement of financial position. The Group's credit risk is primarily attributable to its trade receivables. In order to minimise credit risk, the directors have delegated a team to be responsible for the determination of credit limits, credit approvals and other monitoring procedures. In addition, the directors review the recoverable amount of each individual trade debt regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. In this regard, the directors consider that the Group's credit risk is significantly reduced.

6. FINANCIAL RISK MANAGEMENT *(continued)*

(c) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The maturity analysis of the Group's financial liabilities is as follows:

	Less than 1 year HK$'000	Between 1 and 2 years HK$'000	Between 2 and 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
At 31 December 2016					
Trade payables	**14,021**	**—**	**—**	**—**	**14,021**
Accruals and other payables	**61,584**	**—**	**—**	**—**	**61,584**
Promissory notes	**106,901**	**100,767**	**—**	**—**	**207,668**
Obligation under finance leases	**218**	**208**	**247**	**—**	**673**
Borrowings	**30,563**	**1,304**	**1,280**	**5**	**33,152**
	213,287	**102,279**	**1,527**	**5**	**317,098**

	Less than 1 year HK$'000	Between 1 and 2 years HK$'000	Between 2 and 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
At 31 December 2015					
Trade payables	17,330	—	—	—	17,330
Accruals and other payables	51,469	—	—	—	51,469
Promissory notes	147,914	—	100,767	—	248,681
Derivative financial liabilities	9,403	—	—	—	9,403
Obligation under finance leases	192	192	579	—	963
Borrowings	78,644	947	1,910	—	81,501
	304,952	1,139	103,256	—	409,347

6. FINANCIAL RISK MANAGEMENT *(continued)*

(d) Interest rate risk

The Group's bank deposits and bank borrowings bear interests at fixed interest rates and therefore are subject to fair value interest rate risks.

The Group's exposure to interest-rate risk arises from its bank deposits and bank borrowings of the Group. These deposits and borrowings bear interests at variable rates varied with the then prevailing market condition.

No sensitivity analysis of interest rate is presented as change in interest rate has no material effect on pre-tax loss as a result of change in interest rate applied to the Group's floating-rate loans.

(e) Categories of financial instruments

	2016 **HK$'000**	2015 HK$'000
Financial assets:		
Available-for-sale financial asset	**74,182**	93,338
Loans and receivables (including bank and cash balances)	**79,528**	70,004
Financial liabilities:		
Derivative financial liabilities	**–**	9,403
Financial liabilities at amortised costs	**298,612**	366,088

(f) Fair values

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 inputs: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable inputs for the asset or liability.

The Group's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

6. FINANCIAL RISK MANAGEMENT *(continued)*

(f) Fair values *(continued)*

(a) Disclosures of level in fair value hierarchy

	Fair value measurements using:			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
At 31 December 2016				
Recurring fair value measurements:				
Leasehold land and building				
— Hong Kong	**—**	**—**	**44,700**	**44,700**
Investment properties				
— Hong Kong	**—**	**—**	**2,150**	**2,150**
— The PRC	**—**	**—**	**8,804**	**8,804**
Available-for-sale financial asset	**—**	**—**	**74,182**	**74,182**
	—	**—**	**129,836**	**129,836**
At 31 December 2015				
Recurring fair value measurements:				
Leasehold land and building				
— Hong Kong	—	—	41,100	41,100
— The PRC	—	—	13,300	13,300
Investment properties				
— Hong Kong	—	—	1,550	1,550
— The PRC	—	—	9,400	9,400
Derivative financial liabilities	—	—	9,403	9,403
	—	—	74,753	74,753

6. FINANCIAL RISK MANAGEMENT *(continued)*

(f) Fair values *(continued)*

(b) Reconciliation of assets measured at fair value based on level 3:

	Investment properties HK$'000	Leasehold land and buildings HK$'000	Available-for-sale financial asset HK$'000	Total HK$'000
At 1 January 2016	**10,950**	**54,400**	**93,338**	**158,688**
Total gains or losses recognised				
in profit or loss (#)	**600**	**—**	**(19,156)**	**(18,556)**
in other comprehensive income	**—**	**5,600**	**—**	**5,600**
Disposal of subsidiaries	**—**	**(13,569)**	**—**	**(13,569)**
Depreciation	**—**	**(2,000)**	**—**	**(2,000)**
Exchange differences	**(596)**	**269**	**—**	**(327)**
At 31 December 2016	**10,954**	**44,700**	**74,182**	**129,836**
(#) Include gains or losses for assets held at the end of reporting period	**600**	**—**	**(19,156)**	**(18,556)**
At 1 January 2015	10,100	55,650	—	65,750
Total gains or losses recognised				
in profit or loss (#)	698	—	—	698
in other comprehensive income	—	3,047	—	3,047
Depreciation	—	(2,746)	—	(2,746)
Transferred from leasehold land and building to investment property	725	(725)	—	—
Exchange differences	(573)	(826)	—	(1,399)
At 31 December 2015	10,950	54,400	—	65,350
(#) Include gains or losses for assets held at end of reporting period	698	—	—	698

The total gains or losses recognised in other comprehensive income are presented in surplus on revaluation of properties in the consolidated statement of profit or loss and other comprehensive income.

The total gains or losses recognised in profit or loss including those for assets held at end of reporting period are presented in other gains in the consolidated profit or loss.

(c) ***Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements***

The Group's chief financial officer is responsible for the fair value measurements of assets and liabilities required for financial reporting purposes, including level 3 fair value measurements. The chief financial officer reports directly to the Board of Directors for these fair value measurements. Discussions of valuation processes and results are held between the financial controller and the Board of Directors at least twice a year.

6. FINANCIAL RISK MANAGEMENT *(continued)*

(f) Fair values *(continued)*

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements (continued)

For level 3 fair value measurements, the Group will normally engage external valuation experts with the recognised professional qualifications and recent experience to perform the valuations.

At 31 December 2016

Description	Valuation technique	Unobservable inputs	Range	Effect on fair value for increase of inputs	Fair value HK$'000
Investment properties — Hong Kong	Direct comparison approach	Market price of car park	HK$860,000–HK$2,000,000 per unit	Increase	2,150
Investment properties — the PRC	Direct comparison approach	Market price of office	HK$13,415–HK$17,347 per square meter	Increase	8,804
Leasehold land and building — Hong Kong	Direct comparison approach	Market price of the leasehold land and building	HK$800,000–HK$1,175,000 per unit	Increase	1,000
Leasehold land and building — Hong Kong	Direct comparison approach	Market price of the leasehold land and building	HK$3,210–HK$3,494 per square feet	Increase	43,700
Available-for-sale financial asset	Discount cash flow	Cash flow	HK$7,093,000–HK$125,594,000 per year	Increase	74,182
		Discount rate	16.13%	Decrease	
		Marketability discount	16.11%	Decrease	
		Minority interest discount	26.79%	Decrease	
		Growth rate	3%	Increase	

At 31 December 2015

Description	Valuation technique	Unobservable inputs	Range	Effect on fair value for increase of inputs	Fair value HK$'000
Investment properties — Hong Kong	Direct comparison approach	Market price of car park	HK$600,000–HK$1,100,000 per unit	Increase	1,550
Investment properties — the PRC	Direct comparison approach	Market price of office	HK$17,692–HK$21,367 per square meter	Increase	9,400
Leasehold land and building — Hong Kong	Direct comparison approach	Market price of the leasehold land and building	HK$860,000–HK$1,210,000 per unit	Increase	700
Leasehold land and building — Hong Kong	Direct comparison approach	Market price of the leasehold land and building	HK$3,210–HK$3,732 per square feet	Increase	40,400
Leasehold land and building — the PRC	Direct comparison approach	Market price of the leasehold land and building	HK$314–HK$391 per square meter	Increase	13,300

During the two years, there were no changes in the valuation techniques used.

7. OPERATING SEGMENT INFORMATION

The Group has five reportable segments as follows:

Exploration	—	Exploration of natural resources
Toys and gifts items	—	Manufacturing and trading of toys and gifts items
Fruit plantation	—	Investment in business related to fruit plantation through associates of the Group
Leisure	—	Investment in the PRC outbound tourism and tea products related business through associates of the Group
Culture	—	Investment in cultural items

The Group's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different economic characteristics.

The accounting policies of the operating segments are the same as those described in note 4 to consolidated financial statement. Segment results do not include corporate finance costs and other corporate income and expenses. Segment assets do not include assets at corporate level. Segment liabilities do not include liabilities at corporate level.

(a) Information about reportable segment revenue, result, assets and liabilities are as follows:

	Exploration		Toys and gifts items		Fruit plantation		Leisure		Culture		Total	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Year ended 31 December												
Revenue from external customers	**—**	—	**235,384**	223,313	**—**	—	**—**	—	**—**	—	**235,384**	223,313
Segment (loss)/profit	**(5,094)**	(959)	**27,582**	3,826	**12,488**	(3,122)	**(118,620)**	(1,934)	**(3)**	(335)	**(83,647)**	(2,524)
Depreciation and amortisation	**(3)**	(8)	**(4,156)**	(5,430)	**—**	—	**—**	—	**—**	—	**(4,159)**	(5,438)
Impairment of investment in an associate	**—**	—	**—**	—	**—**	—	**(117,761)**	—	**—**	—	**(117,761)**	—
Reversal of impairment of exploration and evaluation assets	**11,016**	—	**—**	—	**—**	—	**—**	—	**—**	—	**11,016**	—
Impairment of investment in available-for-sale financial asset	**—**	—	**—**	—	**(19,156)**	—	**—**	—	**—**	—	**(19,156)**	—
Interest income	**—**	—	**6**	5	**—**	—	**—**	—	**—**	—	**6**	5
Interest expenses	**—**	—	**(4,579)**	(1,465)	**—**	—	**—**	—	**—**	—	**(4,579)**	(1,465)
Income tax expenses	**(3,976)**	—	**(1,627)**	(1,858)	**—**	—	**—**	—	**—**	—	**(5,603)**	(1,858)
At 31 December												
Segment assets	**141,489**	139,390	**160,362**	168,630	**261,590**	233,075	**83,971**	117,763	**35,303**	35,303	**682,715**	694,161
Segment liabilities	**(22,445)**	(18,723)	**(74,763)**	(109,935)	**—**	—	**(722)**	—	**—**	—	**(97,930)**	(128,658)
Additions to segment non-current assets	**—**	—	**2,601**	2,530	**41,300**	93,338	**57,993**	117,929	**—**	—	**101,894**	213,797

7. OPERATING SEGMENT INFORMATION *(continued)*

(b) Reconciliations of reportable segment results, assets and liabilities:

	2016 HK$'000	2015 HK$'000
Reconciliation of segment loss:		
Total loss of reportable segments	**(83,647)**	(2,524)
Unallocated income and expenses:		
Corporate finance costs	**(27,590)**	(13,218)
Other corporate income and expenses	**(36,739)**	(71,510)
Loss for the year	**(147,976)**	(87,252)

	2016 HK$'000	2015 HK$'000
Reconciliation of segment assets:		
Total assets of reportable segments	**682,715**	694,161
Unallocated corporate assets		
Property, plant and equipment	**903**	1,473
Bank and cash balances	**620**	3,762
Prepayments, deposits and other receivables	**101,695**	108,037
	103,218	113,272
Total assets	**785,933**	807,433

	2016 HK$'000	2015 HK$'000
Reconciliation of segment liabilities:		
Total liabilities of reportable segments:	**97,930**	128,658
Unallocated corporate liabilities		
Borrowings	**6,577**	12,726
Accruals and other payables	**34,122**	32,418
Promissory notes	**192,214**	223,200
Derivative financial liabilities	**—**	9,403
	232,913	277,747
Total liabilities	**330,843**	406,405

7. OPERATING SEGMENT INFORMATION *(continued)*

(c) Geographical information:

	Revenue		Non-current assets	
	2016	2015	**2016**	2015
	HK$'000	HK$'000	**HK$'000**	HK$'000
The PRC (including Hong Kong)	**2,912**	255	**451,772**	475,235
North America[1]	**224,505**	209,623	**2,258**	1,579
European Union[2]	**5,050**	8,670	**—**	—
Others[3]	**2,917**	4,765	**—**	—
	235,384	223,313	**454,030**	476,814

1 North America includes the United States of America (the "USA") and Canada.

2 European Union includes Spain, Italy, France and the United Kingdom.

3 Others include Middle East, South America and Southeast Asia.

Revenue from one (2015: two) customers, each accounted for more than 10% of the Group's total revenue for the year, represented approximately 52% of the total Group's revenue for the year ended 31 December 2016, respectively (2015: 36% and 10%).

The geographical location of customer is based on the location at which the goods delivered and information about the non-current assets, except deferred tax assets and financial instruments, classified in accordance with geographical location of the assets at the end of the reporting period.

(d) Analysis of revenue by category:

	2016	2015
	HK$'000	HK$'000
Sales of toys and gifts items	**235,384**	223,313

8. OTHER INCOME

	2016	2015
	HK$'000	HK$'000
Moulds income	**92**	12
Interest income	**6**	5
Rental income	**615**	911
Gain on bargain purchase	**—**	4,200
Others	**837**	2,517
	1,550	7,645

9. FINANCE COSTS

	2016	2015
	HK$'000	HK$'000
Interest expenses on:		
Bank borrowings and overdrafts	**4,356**	1,160
Other loans	**4,523**	3,670
Trust receipt loans	**222**	232
Convertible bonds	**—**	1,853
Imputed interest on promissory notes	**15,744**	7,768
Overdue interest on promissory notes	**7,324**	—
	32,169	14,683

10. INCOME TAX EXPENSES

	2016	2015
	HK$'000	HK$'000
Current tax — Hong Kong Profits Tax		
Provision for the year	**643**	875
Over-provision of prior years	**—**	(52)
	643	823
Current tax — Overseas		
Provision for the year	**818**	922
Total current tax	**1,461**	1,745
Deferred income tax	**4,142**	113
Income tax expense	**5,603**	1,858

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 16.5%) on the estimated assessable profits arising in Hong Kong for the year. Taxations on overseas profits have been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the jurisdictions in which the Group operates.

10. INCOME TAX EXPENSES *(continued)*

The reconciliation between the income tax expense and loss before tax multiplied by Hong Kong profits tax rate is as follows:

	2016 **HK$'000**	2015 HK$'000
Loss before income tax	**(142,373)**	(85,394)
Tax at the applicable tax of 16.5% (2015: 16.5%)	**(23,492)**	(14,090)
Tax effect of income that is not taxable	**(5,061)**	(812)
Tax effect of expenses that are not deductible	**40,397**	16,370
Tax effect of utilisation of tax losses not previously recognised	**(1,660)**	(59)
Tax effect of temporary differences not recognised	**(44)**	(193)
Tax effect of share of result of associates	**(6,131)**	622
Over-provision for prior years	**(5)**	(52)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**1,599**	72
	5,603	1,858

Tax charge relating to each component of other comprehensive (loss)/income is as follows:

	2016			2015		
	Amount before tax HK$'000	**Tax HK$'000**	**Amount after tax HK$'000**	Amount before tax HK$'000	Tax HK$'000	Amount after tax HK$'000
Exchange differences on translating foreign operations	**(14,360)**	**—**	**(14,360)**	(12,751)	—	(12,751)
Surplus on revaluation of properties	**5,600**	**(693)**	**4,907**	3,047	(562)	2,485
Share of exchange translation difference of associates	**(21,067)**	**—**	**(21,067)**	—	—	—
Foreign currency translation reserve reclassified to profit or loss upon disposal of subsidiaries	**(2,560)**	**—**	**(2,560)**	—	—	—
Other comprehensive loss	**(32,387)**	**(693)**	**(33,080)**	(9,704)	(562)	(10,266)
Current tax		**—**			—	
Deferred income tax *(note 22)*		**(693)**			(562)	
		(693)			(562)	

11. LOSS FOR THE YEAR

The Group's loss for the year is arrived after charging/(crediting) the following:

	2016 **HK$'000**	2015 HK$'000
Amortisation of other intangible asset	**12**	12
Amortisation of prepaid land lease payments	**56**	118
Auditor's remuneration	**1,600**	1,500
Cost of inventories sold	**112,749**	101,182
Depreciation of property, plant and equipment	**4,659**	5,309
Fair value gain on investment properties*	**(600)**	(698)
Gain on disposal of subsidiaries	**(18,810)**	—
Reversal of impairment of exploration and evaluation assets	**(11,016)**	—
Change in fair value of derivative financial assets*	**537**	—
Change in fair value of derivative financial liabilities*	**(9,403)**	—
Loss on settlement of promissory notes using convertible bonds* *(note 28)*	**3,794**	—
Net foreign exchange gain*	**(1,015)**	(4,311)
Provision for impairment of other receivables*	**976**	2,589
Provision for impairment of trade receivables	**—**	64
Reversal of impairment of trade receivables	**(42)**	—
Minimum lease payments under operating leases in respect of leasehold land and buildings	**14,034**	12,022
Write-back of provision for inventories obsolescence	**(1,300)**	(419)
Write-off and loss on disposals of property, plant and equipment*	**516**	905
Staff costs (including directors' remuneration)		
Salaries, bonus and allowance	**63,606**	60,179
Retirement benefits scheme contributions	**1,857**	1,745
Share-based payment expenses	**—**	29,749
	65,463	91,673

* Included in other gains, net

12. DIRECTORS' EMOLUMENTS

(a) The emoluments of each director were as follows:

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Share-based payment HK$'000	Retirement benefits scheme contributions HK$'000	Total HK$'000
Year ended 31 December 2016					
Executive directors:					
Mr. Hui Kee Fung *(Chairman)*	—	4,750	—	18	4,768
Mr. Yu Won Kong, Dennis *(Chief executive officer)*	—	4,550	—	—	4,550
Mr. Long Tien Ian *(resigned on 23 March 2016)*	—	1,120	—	6	1,126
Mr. Mtafi, Rachid Rene *(appointed on 1 June 2015 and resigned on 26 February 2016)*	—	56	—	3	59
Mr. Yip Kong Nam *(appointed on 1 June 2015)*	—	780	—	18	798
Mr. Sao Cheung Yung Aaron *(appointed on 9 November 2015 and resigned on 1 December 2016)*	—	2,423	—	17	2,440
Mr. Nojiri Makoto *(appointed on 9 November 2015 and resigned on 29 March 2017)*	—	180	—	—	180
Mr. Zhang Qijun *(appointed on 4 March 2016)*	—	165	—	—	165
Ms. Wu Qin *(appointed on 13 April 2016 and resigned on 20 July 2016)*	—	104	—	—	104
Mr. Zhang Yun *(appointed on 25 April 2016)*	—	205	—	—	205
Mr. Hui Lap Keung *(appointed on 9 November 2016 and resigned on 3 March 2017)*	—	133	—	3	136
Dr. Lau Siu Wa *(appointed on 5 December 2016)*	—	61	—	2	63
Non-executive director:					
Mr. Lam Kit Sun *(resigned on 21 April 2016)*	73	—	—	—	73
Mr. Li Zhaosheng *(appointed on 5 December 2016)*	—	9	—	—	9
Independent non-executive directors:					
Mr. Lam Siu Lun, Simon *(resigned on 20 February 2016)*	17	—	—	—	17
Mr. So Chun Pong, Ricky	120	—	—	—	120
Mr. Wang Xiao Ning *(appointed on 1 June 2015)*	120	—	—	—	120
Mr. Xia Liming *(appointed on 5 February 2016 and resigned on 29 December 2016)*	108	—	—	—	108
Mr. Au Yeung Po Fung *(appointed on 20 May 2016 and resigned on 27 September 2016)*	43	—	—	—	43
Mr. Suen Chun Hung, Benjamin *(appointed on 11 November 2016)*	17	—	—	—	17
Mr. Cheung Man Loon, Michael *(appointed on 29 December 2016)*	1	—	—	—	1
	499	14,536	—	67	15,102

12. DIRECTORS' EMOLUMENTS *(continued)*

(a) The emoluments of each director were as follows: *(continued)*

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Share-based payment HK$'000	Retirement benefits scheme contributions HK$'000	Total HK$'000
Year ended 31 December 2015					
Executive directors:					
Mr. Hui Kee Fung *(Chairman)*	—	3,705	2,304	18	6,027
Mr. Yu Won Kong, Dennis *(Chief executive officer)*	—	4,550	2,304	—	6,854
Mr. Cheung Kai Fung *(retired on 1 June 2015)*	—	525	—	8	533
Mr. Long Tien Ian *(resigned on 23 March 2016)*	—	3,900	1,617	18	5,535
Mr. Mtafi, Rachid Rene *(appointed on 1 June 2015 and resigned on 26 February 2016)*	—	210	346	10	566
Mr. Yip Kong Nam *(appointed on 1 June 2015)*	—	420	230	11	661
Mr. Sao Cheung Yung Aaron *(appointed on 9 November 2015)*	—	267	—	3	270
Mr. Nojiri Makoto *(appointed on 9 November 2015)*	—	26	—	—	26
Non-executive director:					
Mr. Lam Kit Sun	—	240	—	—	240
Independent non-executive directors:					
Mr. Lam Siu Lun, Simon *(resigned on 20 February 2016)*	120	—	—	—	120
Mr. Zhang Xianmin *(retired on 1 June 2015)*	50	—	—	—	50
Mr. So Chun Pong, Ricky	120	—	—	—	120
Mr. Wang Xiao Ning *(appointed on 1 June 2015)*	70	—	—	—	70
	360	13,843	6,801	68	21,072

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

12. DIRECTORS' EMOLUMENTS *(continued)*

(b) Five highest paid individuals

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

	2016	2015
	HK$'000	HK$'000
Salaries, wages and allowances	**2,360**	2,700
Share-based payment	**—**	346
Retirement benefits scheme contributions	**90**	101
	2,450	3,147

The emoluments fell within the following band:

	Number of individuals	
	2016	2015
HK$1,000,000 to HK$1,500,000	**—**	1
HK$1,500,001 to HK$2,000,000	**—**	1
HK$2,000,001 to HK$2,500,000	**1**	—
	1	2

During the year, no emoluments (2015: HK$Nil) were paid by the Group to the highest paid individuals of the Group as an inducement to join or upon joining the Group or as compensation for loss of office.

13. DIVIDEND

The directors of the Company did not recommend the payment of any dividend for the years ended 31 December 2016 and 2015.

14. LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share attributable to owners of the Company is based on the loss for the year attributable to owners of the Company of HK$149,652,000 (2015: HK$89,665,000) and the weighted average number of ordinary shares of 4,360,280,407 (2015: 3,035,500,397) in issue during the year.

(b) Diluted loss per share

There was no dilutive potential ordinary shares for the Company's outstanding share options for the years ended 31 December 2016 and 2015. Accordingly, the diluted loss per share is same as basic loss per share for both years.

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Moulds HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
COST:							
1 January 2015	55,650	5,865	12,207	32,582	9,639	3,223	119,166
Additions	—	214	484	670	324	871	2,563
Adjustment on revaluation to equity	301	—	—	—	—	—	301
Transfer to investment property	(725)	—	—	—	—	—	(725)
Disposal/written off	—	—	(3,886)	(1,111)	(564)	(477)	(6,038)
Exchange difference	(826)	(62)	(291)	(1,101)	(72)	(149)	(2,501)
At 31 December 2015 and 1 January 2016	**54,400**	**6,017**	**8,514**	**31,040**	**9,327**	**3,468**	**112,766**
Additions	**—**	**39**	**85**	**984**	**990**	**531**	**2,629**
Adjustment on revaluation to equity	**3,600**	**—**	**—**	**—**	**—**	**—**	**3,600**
Disposal/written off	**—**	**—**	**(762)**	**(9,276)**	**(18)**	**—**	**(10,056)**
Disposal of subsidiaries	**(13,569)**	**—**	**—**	**—**	**(319)**	**—**	**(13,888)**
Exchange difference	**269**	**(62)**	**(209)**	**(746)**	**3**	**(176)**	**(921)**
At 31 December 2016	**44,700**	**5,994**	**7,628**	**22,002**	**9,983**	**3,823**	**94,130**
ACCUMULATED DEPRECIATION:							
1 January 2015	—	3,491	9,924	30,224	5,866	2,878	52,383
Charge for the year	2,746	497	322	967	715	62	5,309
Adjustment on revaluation to equity	(2,746)	—	—	—	—	—	(2,746)
Disposal/written off	—	—	(3,172)	(749)	(501)	(477)	(4,899)
Exchange difference	—	(4)	(189)	(919)	(30)	(130)	(1,272)
At 31 December 2015 and 1 January 2016	**—**	**3,984**	**6,885**	**29,523**	**6,050**	**2,333**	**48,775**
Charge for the year	**2,000**	**524**	**276**	**721**	**904**	**234**	**4,659**
Adjustment on revaluation to equity	**(2,000)**	**—**	**—**	**—**	**—**	**—**	**(2,000)**
Disposal/written off	**—**	**—**	**(681)**	**(8,694)**	**(6)**	**—**	**(9,381)**
Disposal of subsidiaries	**—**	**—**	**—**	**—**	**(204)**	**—**	**(204)**
Exchange difference	**—**	**(7)**	**(122)**	**(575)**	**(1)**	**(136)**	**(841)**
At 31 December 2016	**—**	**4,501**	**6,358**	**20,975**	**6,743**	**2,431**	**41,008**
CARRYING AMOUNTS:							
At 31 December 2016	**44,700**	**1,493**	**1,270**	**1,027**	**3,240**	**1,392**	**53,122**
At 31 December 2015	54,400	2,033	1,629	1,517	3,277	1,135	63,991

15. PROPERTY, PLANT AND EQUIPMENT *(continued)*

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

	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Moulds HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2016							
At cost	**—**	**5,994**	**7,628**	**22,002**	**9,983**	**3,823**	**49,430**
At valuation	**44,700**	**—**	**—**	**—**	**—**	**—**	**44,700**
	44,700	**5,994**	**7,628**	**22,002**	**9,983**	**3,823**	**94,130**
31 December 2015							
At cost	—	6,017	8,514	31,040	9,327	3,468	58,366
At valuation	54,400	—	—	—	—	—	54,400
	54,400	6,017	8,514	31,040	9,327	3,468	112,766

An analysis of the carrying amounts of the Group's leasehold land and buildings is as follows:

	2016 HK$'000	2015 HK$'000
Held under medium term leases in Hong Kong	**44,700**	41,100
Held under medium term leases in the PRC	**—**	13,300
	44,700	54,400

At 31 December 2016, the Group's property, plant and equipment with an aggregate carrying amount of HK$43,700,000 (2015: HK$40,400,000) were pledged to secure banking facilities granted to the Group.

At 31 December 2016, the Group's property, plant and equipment with an aggregate carrying amount of HK$654,000 (2015: HK$828,000) was held under finance lease (note 30).

The Group's leasehold land and buildings were revalued at 31 December 2016 and 2015 on the open market value basis by reference to market evidence of recent transactions for similar properties by Grant Sherman Appraisal Limited, an independent firm of professional valuer.

The carrying amount of the Group's leasehold land and buildings would have been HK$2,033,000 (2015: HK$9,413,000) had they been stated at cost less accumulated depreciation and impairment losses.

16. PREPAID LAND LEASE PAYMENTS

	2016 **HK$'000**	2015 HK$'000
At 1 January	**4,262**	4,646
Amortisation of prepaid land lease payments	**(56)**	(118)
Disposal of subsidiaries	**(4,251)**	—
Exchange difference	**45**	(266)
At 31 December	**—**	4,262
Less: current portion	**—**	(113)
Non-current portion	**—**	4,149

17. INVESTMENT PROPERTIES

	2016 **HK$'000**	2015 HK$'000
At 1 January	**10,950**	10,100
Transfer from leasehold land and building	**—**	725
Fair value gains	**600**	698
Exchange differences	**(596)**	(573)
At 31 December	**10,954**	10,950

Investment properties were revalued at 31 December 2016 and 2015 on the open market value basis by reference to market evidence of recent transactions for similar properties by Grant Sherman Appraisal Limited, an independent firm of chartered surveyors.

At 31 December 2016, the Group's investment properties with an aggregate carrying amount of approximately HK$8,804,000 (2015: approximately HK$9,413,000) were pledged to secure banking facilities granted to the Group.

18. EXPLORATION AND EVALUATION ASSETS

	HK$'000
Cost	
At 1 January 2015	1,410,441
Exchange difference	(82,323)
At 31 December 2015 and 1 January 2016	1,328,118
Exchange difference	(84,185)
At 31 December 2016	1,243,933
Accumulated impairment loss	
At 1 January 2015	1,262,636
Exchange difference	(73,696)
At 31 December 2015 and 1 January 2016	1,188,940
Reversal of impairment of exploration and evaluation assets	(11,016)
Exchange difference	(74,874)
At 31 December 2016	1,103,050
Carrying amount	
At 31 December 2016	140,883
At 31 December 2015	139,178

The exploration and evaluation assets represent exploration rights of Bayanhushuo Coal Field ("BCF") and Guerbanhada Coal Mine ("GCM"). At 31 December 2016, the carrying amount is attributable to BCF of approximately HK$110,836,000 (2015: approximately HK$102,112,000) and GCM of approximately HK$30,047,000 (2015: approximately HK$37,066,000).

The current licence period of the exploration right of BCF and GCM is from 4 July 2016 to 4 July 2018 and from 21 August 2015 to 20 August 2017, respectively.

The carrying values of the exploration and evaluation assets were tested for impairment as at 31 December 2016 using the fair value less costs of disposal model. The recoverable amounts of the exploration and evaluation assets were valued by Roma Appraisals Limited.

19. OTHER INTANGIBLE ASSET

	Trademark HK$'000
Cost	
At 1 January 2015, 31 December 2015, 1 January 2016 and 31 December 2016	1,155
Accumulated amortisation	
At 1 January 2015	96
Amortisation for the year	12
At 31 December 2015 and 1 January 2016	108
Amortisation for the year	12
At 31 December 2016	120
Carrying amount	
At 31 December 2016	1,035
At 31 December 2015	1,047

20. INVESTMENT IN ASSOCIATES

	2016 **HK$'000**	2015 HK$'000
Unlisted investments:		
Share of net assets	**216,676**	139,738
Goodwill	**603,007**	571,647
	819,683	711,385
Impairment losses	**(571,647)**	(453,886)
	248,036	257,499

The following table shows information of associates that are material to the Group. These associates are accounted for in the consolidated financial statements using the equity method. The summarised financial information presented is based on the HKFRS financial statements of the associates.

20. INVESTMENT IN ASSOCIATES *(continued)*

(a) Multijoy Group

Name	Multijoy Developments Limited ("Multijoy")
Principal place of business/country of incorporation	The PRC/British Virgin Islands
Principal activities	Plantation

	2016	2015
% of ownership interests	**40%**	28%
	HK$'000	HK$'000
At 31 December:		
Non-current assets	**583,259**	673,952
Current assets	**45,289**	222
Non-current liabilities	**(144,867)**	(167,443)
Current liabilities	**(15,160)**	(9,462)
Net assets	**468,521**	497,269
Group's share of net assets	**187,409**	139,738
Goodwill	**453,886**	453,886
	641,295	593,624
Impairment losses	**(453,886)**	(453,886)
Group's share of carrying amount of interests	**187,409**	139,738
Year ended 31 December:		
Revenue	**34,207**	33,897
Profit/(loss) before tax	**51,652**	(7,203)
Profit/(loss) after tax	**50,305**	(12,866)
Other comprehensive loss	**(53,797)**	(1,791)
Total comprehensive loss	**(3,492)**	(14,657)
Dividends received from associates	**7,072**	—

On 27 January 2016, the Group further acquired 12% equity interest in Multijoy at a consideration of HK70,000,000 which is satisfied by issue 700,000,000 ordinary shares with fair value of HK$0.059 per share. 12% carrying value of net assets of Multijoy was HK$53,798,000 as at 27 January 2016. Included in the Group's share of result of associates is an amount of HK$12,498,000 which represent excess of 12% carrying value of net assets of HK$53,798,000 over the fair value of consideration of HK$41,300,000 is included in the Group's share of result of associates.

20. INVESTMENT IN ASSOCIATES *(continued)*

(b) Eagle Praise Group

Name	Eagle Praise Limited
Principal place of business/country of incorporation	The PRC/British Virgin Islands
Principal activities	Tourism related business

	2016	2015
% of ownership interests	**20%**	20%
	HK$'000	HK$'000
At 31 December:		
Non-current assets	**—**	—
Current assets	**703**	703
Non-current liabilities	**—**	—
Current liabilities	**(1,773)**	(1,439)
Net liabilities	**(1,070)**	(736)
Group's share of net assets	**—**	—
Goodwill	**117,761**	117,761
	117,761	117,761
Impairment losses	**(117,761)**	—
Group's share of carrying amount of interests	**—**	117,761
Year ended 31 December:		
Revenue	**—**	—
Loss before tax	**(334)**	(830)
Loss after tax	**(334)**	(830)
Other comprehensive loss	**—**	—
Total comprehensive loss	**(334)**	(830)
Dividends received from associates	**—**	—

On 23 April 2015, the Group completed the acquisition of 20% equity interest in Eagle Praise Limited (the "Eagle Praise Group"), a company incorporated in the BVI with limited liability, at a total consideration satisfied by (i) the issue of 150,000,000 new ordinary shares of the Company in two equal tranches of 75,000,000 ordinary shares each; and (ii) a promissory note of HK$92,000,000 issued by the Company.

It was subsequently revealed that the representations made by the vendor in respect of the business of Eagle Praise Group were false and misleading. As a result, full provision for impairment of investment in Eagle Praise Group of approximately HK$117,761,000 was made during the year ended 31 December 2016. For details, please refer to note 28(b).

20. INVESTMENT IN ASSOCIATES *(continued)*

(c) Fujian Yuguo

Name	Fujian Yuguo Chaye Limited
Principal place of business/country of incorporation	The PRC/the PRC
Principal activities	Tea products related

	2016
% of ownership interests	33%
	HK$'000
At 31 December:	
Non-current assets	47,887
Current assets	66,595
Non-current liabilities	(9,100)
Current liabilities	(16,693)
Net assets	88,689
Group's share of net assets	29,267
Goodwill	31,360
Group's share of carrying amount of interests	60,627
Year ended 31 December:	
Revenue	77,410
Profit before tax	18,336
Profit after tax	13,752
Other comprehensive loss	(5,727)
Total comprehensive income	8,025
Dividends received from associates	–

20. INVESTMENT IN ASSOCIATES *(continued)*

(c) Fujian Yuguo *(continued)*

On 4 January 2016, the Group completed the acquisition of 33% equity interest in Fujian Yuguo Chaye Limited ("Fujian Yuguo"), a company incorporated in the PRC with limited liability, at a total consideration of HK$67,490,000 which is satisfied by promissory notes in the principal amount and fair value of HK$67,490,000 and HK$57,979,000 respectively.

As at 31 December 2016, the bank and cash balances of the Group' associates in the PRC denominated in Renminbi ("RMB") amounted to HK$20,753,000 (2015: HK$222,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations.

21. AVAILABLE-FOR-SALE FINANCIAL ASSET

	2016 **HK$'000**	2015 HK$'000
Unlisted equity securities, at cost	**—**	93,338
Unlisted equity securities, at fair value	**74,182**	—
	74,182	93,338

On 5 October 2015, Trinity Force Investments Limited, an indirect wholly-owned subsidiary of the Company, entered into the agreement with Green Luxuriant Group Investment Limited (the "Vendor"), regarding the Company's acquisition of 19% equity interests of USO Management & Holding Co Ltd. ("USO"). USO entered into the Tenancy Agreement with The Alii and Faipule of the village of Sasina, Savaii ("AFS") pursuant to which AFS granted to USO the legal right to use prime agricultural property with approximately 500 acres located at Sasina, Savaii in Samoa for a term of 90 plus 30 years (120 years in total) at an annual lease payment of US$120,000 (equivalent to approximately HK$936,000) for the development of USO's Plantation Business.

The total consideration of this acquisition of approximately HK$120,000,000 was satisfied by issue of the 49,000,000 consideration shares at HK$0.144 per share and issue of the first promissory notes and the second promissory notes in the principal amount of HK$100,767,000 and HK$12,177,000 respectively. The consideration shares were issued on 20 October 2015.

This acquisition was completed on 7 December 2015. Accordingly, the first promissory notes were issued by the Company to the Vendor.

During 2016, the vendor was not able to complete the post completion undertakings with six months after the completion date of acquisition. The second promissory notes with principal amount of HK$12,177,000 was not issued to the vendor.

As at 31 December 2015, unlisted equity securities with carrying amount of approximately HK$93,338,000 was carried at cost as they do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

22. DEFERRED INCOME TAX

The following are the major deferred tax liabilities and assets recognised by the Group.

	Decelerated tax depreciation HK$'000	Accelerated tax depreciation HK$'000	Revaluation surplus on investment properties and leasehold land and buildings HK$'000	Exploration and evaluation assets HK$'000	Total HK$'000
At 1 January 2015	377	(67)	(10,105)	(19,664)	(29,459)
Charge to equity for the year	—	—	(562)	—	(562)
Charge to profit or loss for the year *(note 10)*	(69)	(8)	(36)	—	(113)
Exchange differences	—	—	194	1,148	1,342
At 31 December 2015 and 1 January 2016	**308**	**(75)**	**(10,509)**	**(18,516)**	**(28,792)**
Charge to equity for the year	**—**	**—**	**(693)**	**—**	**(693)**
Charge to profit or loss for the year *(note 10)*	**(120)**	**(46)**	**—**	**(3,976)**	**(4,142)**
Disposal of subsidiaries	**—**	**—**	**1,636**	**—**	**1,636**
Exchange differences	**—**	**—**	**87**	**1,351**	**1,438**
At 31 December 2016	**188**	**(121)**	**(9,479)**	**(21,141)**	**(30,553)**

The following is the analysis of the deferred income tax balances (after offset) for the consolidated statement of financial position purposes:

	2016 HK$'000	2015 HK$'000
Deferred income tax assets	**188**	308
Deferred income tax liabilities	**(30,741)**	(29,100)
	(30,553)	(28,792)

At the end of the reporting period the Group has unused tax losses of HK$1,388,000 (2015: HK$11,152,000) available for offset against future profits. No deferred income tax assets have been recognised due to the unpredictability of future taxable profit of these subsidiaries. Tax losses may be carried forward indefinitely.

23. INVENTORIES

	2016 **HK$'000**	2015 HK$'000
Raw materials	**4,888**	7,181
Work in progress	**22,935**	1,352
Finished goods	**13,707**	9,915
	41,530	18,448
Ceramic items	**35,303**	35,303
Less: Provision for inventories obsolescence	**(964)**	(2,264)
	75,869	51,487

24. TRADE AND BILLS RECEIVABLES

	2016 **HK$'000**	2015 HK$'000
Trade receivables	**27,134**	29,504
Less: provision for impairment	**(120)**	(162)
Trade receivables, net	**27,014**	29,342
Bills receivables	**2,971**	13,344
	29,985	42,686

The Group's trading terms with its customers are mainly on credit, except for new customers where payment in advance is normally required. The credit period is generally for a period of 1 month, extending up to 3 months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management.

The aging analysis of trade receivables, based on the invoice date, and net of allowance, is as follows:

	2016 **HK$'000**	2015 HK$'000
Within 30 days	**15,192**	6,757
31 days to 90 days	**10,746**	11,687
91 days to 180 days	**1,058**	10,611
181 days to 360 days	**—**	208
Over 360 days	**18**	79
	27,014	29,342

24. TRADE AND BILLS RECEIVABLES *(continued)*

As of 31 December 2016, trade receivables of approximately HK$5,656,000 (2015: approximately HK$18,127,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2016 **HK$'000**	2015 HK$'000
Within 90 days	**5,571**	13,366
91 days to 180 days	**68**	4,654
181 days to 360 days	**—**	64
Over 360 days	**17**	43
	5,656	18,127

Reconciliation of allowance for trade receivables:

	2016 **HK$'000**	2015 HK$'000
At 1 January	**162**	98
Provision for impairment	**—**	64
Reversal of impairment	**(42)**	—
At 31 December	**120**	162

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2016 **HK$'000**	2015 HK$'000
Deposits for sales right of a property development	**95,411**	101,868
Trade deposits	**2,962**	8,525
Deposit and other receivables	**12,623**	13,930
Prepayments	**3,326**	5,051
	114,322	129,374
Less: provision for impairment	**—**	(2,589)
	114,322	126,785

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(continued)*

Reconciliation of allowance for other receivables:

	2016 HK$'000	2015 HK$'000
At 1 January	2,589	—
Provision for impairment	976	2,589
Written off of impairment	(3,565)	—
At 31 December	—	2,589

26. BANK AND CASH BALANCES

As at 31 December 2016, the bank and cash balances of the Group denominated in Renminbi ("RMB") amounted to HK$8,902,000 (2015: HK$1,961,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations.

27. TRADE PAYABLES

An aging analysis of the Group's trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2016 HK$'000	2015 HK$'000
Within 30 days	12,880	13,547
31 days to 90 days	840	1,133
91 days to 180 days	184	640
181 days to 360 days	6	86
Over 360 days	111	1,924
	14,021	17,330

28. PROMISSORY NOTES

	2016 HK$'000	2015 HK$'000
At 1 January	**223,200**	—
Issuance of promissory notes	**69,480**	221,932
Imputed interest	**15,744**	7,768
Repayment of promissory notes	**(21,014)**	(6,500)
Off set against convertible bonds	**(95,196)**	—
At 31 December	**192,214**	223,200
Analysed as:		
Current liabilities	**106,901**	144,930
Non-current liabilities	**85,313**	78,270
	192,214	223,200

Notes:

(a) On 27 March 2015, the Company issued a promissory note with a principal amount of HK$31,500,000, as part of the consideration for the acquisition of 19 pieces of Jingdezhen contemporary ceramics including ceramic vases and plates. The promissory note is unsecured, non-interest bearing and has a maturity period of one year after the date of issue. The promissory note is measured at amortised cost using the effective interest rate method with the effective interest rate at 9% per annum. On 30 November 2016, the Company issued convertible bonds with principal amount of HK$31,500,000 with the rights to convert into 315,000,000 shares at conversion price of HK$0.10 per share in order to settle such promissory note.

(b) On 23 April 2015, the Company issued a promissory note with a principal amount of HK$92,000,000, as part of the consideration for the acquisition of 20% equity interests of Eagle Praise Limited. The promissory note is unsecured, non-interest bearing and has a maturity period of one year after the date of issue. The promissory note is measured at amortised cost using the effective interest rate method with the effective interest rate at 9% per annum. On 16 December 2015, the promissory note was replaced by a new promissory note of the same principal amount with maturity date on 31 December 2016.

On 30 December 2016, the Company engaged its legal advisers to issue a legal letter (the "Letter") to Unicorn Sino Limited ("Unicorn"), the vendor of Eagle Praise Limited. As set out in the Letter, the Company relied on the representations of Ms. Wei, the ultimate sole beneficial owner of Unicorn, in particular, the business plan presented by Unicorn to the Company, when the Company and its subsidiaries entered into the sale and purchase agreement (as amended by the supplemental agreement dated 16 December 2015) and the Shareholders' Agreement (as amended by the supplemental agreement dated 16 December 2015) (collectively, the "Agreements") with Unicorn.

It was subsequently revealed that the representations made by Ms. Wei in respect of the business of Eagle Praise were false and misleading. The Company is seeking legal advice on the arrangements for the rescission of the Agreements and the promissory note of HK$92,000,000.

(c) On 29 July 2015, the Company issued a promissory note with a principal amount of HK$13,500,000 for the settlement of other borrowings. The promissory note is unsecured, non-interest bearing and has a maturity period of six months after the date of issue. The fair value of the promissory note approximates their carrying amount.

(d) On 19 September 2015, the Company issued a promissory note with a principal amount of HK$2,622,000 for the settlement of other borrowings. The promissory note is unsecured, non-interest bearing and has a maturity period of three months after the date of issue. The fair value of the promissory note approximates their carrying amount. During 2016, this promissory note of HK$2,622,000 was settled by the promissory note holder received dividend from Multijoy

28. PROMISSORY NOTES *(continued)*

Notes: (continued)

(e) On 7 December 2015, the Company issued a promissory note with a principal amount of HK$100,767,000, as part of the consideration for the acquisition of 19% equity interests of USO Management & Holding Co Ltd.. The promissory note is unsecured, non-interest bearing and has a maturity period of three years after the date of issue. The promissory note is measured at amortised cost using the effective interest rate method with the effective interest rate at 9% per annum.

(f) On 14 December 2015, the Company issued two promissory notes with a principal amount of HK$5,000,000 and HK$3,292,000 respectively for the settlement of other borrowings. Those promissory notes are unsecured, non-interest bearing and have a maturity period of six months after the date of issue. The fair value of the promissory note approximates their carrying amount.

(g) On 4 January 2016, the Group acquired 33% equity interest of Fujian Yuguo Chaye Limited with consideration of HK$67,490,000 which is satisfied by the issue of the promissory notes in the aggregate principal amount of HK$67,490,000 by the Company. The promissory note is measured at amortised cost using the effective interest rate method with the effective interest rate at 10.68% per annum. On 6 December 2016, the Group issued convertible bonds with principal amount of HK$67,490,000 with the rights to convert into 674,902,800 shares at conversion price of HK$0.10 per share to set off the promissory notes of HK$67,490,000.

(h) During the year ended 31 December 2016, in addition of the above, the Group issued promissory note of HK$11,500,000. Those promissory notes are unsecured, non-interest bearing and have a maturity period of less than one year. The fair value of the promissory note approximates their carrying amount.

As at 31 December 2015 and 2016, all promissory notes are carried at zero coupon rate.

29. DERIVATIVE FINANCIAL LIABILITIES

	2016 **HK$'000**	2015 HK$'000
Derivative financial liabilities	–	9,403

On 24 November 2015, the Company and Green Luxuriant Group Investment Limited (the "Vendor") entered into a supplemental agreement and the parties agreed that the second promissory notes in the principal amount of HK$12,177,000 would be issued to the Vendor within five business days given that a number of undertakings set out in a supplemental agreement were completed within six months after the completion date of acquisition.

As at 31 December 2015, the directors of the Company estimated that all undertakings set out in a supplemental agreement would be completed. The fair value of the derivative financial instrument approximated its carrying amount.

For details, please refer to the Company's announcement dated 24 November 2015.

During 2016, the Vendor was not able to complete the post completion undertakings within six months after the completion date of acquisition. The second promissory notes with principal amount of HK$12,177,000 was not issued to the Vendor.

30. OBLIGATION UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2016	2015	**2016**	2015
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**192**	192	**167**	155
In the second to fifth years, inclusive	**481**	771	**455**	677
	673	963	**622**	832
Less: Future finance charges	**(51)**	(131)	**N/A**	N/A
Present value of lease obligations	**622**	832	**622**	832
Less: Amount due for settlement within 12 months (shown under current liabilities)			**(167)**	(155)
Amount due for settlement after 12 months			**455**	677

The Group's finance lease payables are secured by the lessor's title to the leased assets.

31. BORROWINGS

	2016	2015
	HK$'000	HK$'000
Bank loans	**22,788**	17,261
Trust receipt loans	**675**	9,240
Other loans	**7,330**	47,561
	30,793	74,062
Analysed as:		
Secured	**30,793**	33,198
Unsecured	**—**	40,864
	30,793	74,062

The borrowings are repayable on demand.

31. BORROWINGS *(continued)*

The average interest rates at 31 December were as follows:

	2016	2015
Bank loans	**5%**	5%
Trust receipt loans	**5%**	4%
Other loans	**14%**	13%

Borrowings of HK$8,342,000 (2015: HK$6,696,000) are arranged at fixed interest rates and expose the Group to fair value interest rate risk. Other borrowings are arranged at floating rates, thus exposing the Group to cash flow interest rate risk.

The directors estimate the fair value of the Group's borrowings approximate the carrying amount.

Notes:

(i) The Group's property, plant and equipment of HK$43,700,000 (2015: 40,400,000) and investment properties of HK$8,804,000 (2015: HK$9,413,000) were pledged as security for the Group's borrowing amounted to HK$8,043,000 (2015: HK$17,522,000).

(ii) The Group's borrowing of HK$7,453,000 (2015: HK$7,314,000) were secured by a personal guarantee by the director of the Company.

(iii) The Group's borrowing of HK$21,761,000 (2015: HK$9,727,000) were secured by personal guarantee by directors or senior management of subsidiaries of the Group.

32. SHARE CAPITAL

		Number of shares		**Amount**	
		2016	2015	**2016**	2015
	Notes			**HK$'000**	HK$'000
Ordinary shares of HK$0.10 each (2015: HK$0.10 each)					
Authorised:					
At the beginning of the year		**30,000,000,000**	4,000,000,000	**3,000,000**	400,000
Increase in authorised share capital	*(a)*	**—**	26,000,000,000	**—**	2,600,000
At the end of the year		**30,000,000,000**	30,000,000,000	**3,000,000**	3,000,000

32. SHARE CAPITAL *(continued)*

		Number of shares 2016	2015	Amount 2016 HK$'000	2015 HK$'000
Issued and fully paid:					
At the beginning of the year		**3,543,907,176**	2,578,377,599	**354,391**	257,838
Issue of shares					
— on placement	*(b)*	**840,000,000**	67,200,000	**84,000**	6,720
— upon conversion of convertible bonds	*(c)*	**989,902,800**	699,329,577	**98,990**	69,933
— upon acquisitions	*(d)*	**700,000,000**	199,000,000	**70,000**	19,900
— settlement of remuneration	*(e)*	**18,906,000**	—	**1,891**	—
At the end of the year		**6,092,715,976**	3,543,907,176	**609,272**	354,391

Notes:

(a) On 30 December 2015, the Company increased its authorised share capital from HK$400,000,000 divided into 4,000,000,000 ordinary shares of HK$0.10 each to HK$3,000,000,000 divided into 30,000,000,000 ordinary shares of HK$0.10 each by the creation of additional 26,000,000,000 new ordinary shares of HK$0.10 each.

(b) On 21 April 2015, the Company and its placing agent entered into a conditional placing and subscription agreement in respect of the placement of 67,200,000 ordinary shares of HK$0.10 each of the Company to not less than six placees at the placing price of HK$0.174 per share. The placement and subscription of 67,200,000 ordinary shares of HK$0.10 each of the Company was completed on 4 May 2015. The premium on the issue of these shares amounting to approximately HK$4,668,000 in aggregate (after deducting placing expenses) was credited to the Company's share premium account for the year ended 31 December 2015.

On 28 October 2016, the Company and its placing agent entered into a conditional placing and subscription agreement in respect of the placement of 840,000,000 ordinary shares of HK$0.10 each of the Company to not less than six placees at the placing price of HK$0.11 per share. The placement and subscription of 840,000,000 ordinary shares of HK$0.10 each of the Company was completed on 18 November 2016. The premium on the issue of these shares amounting to approximately HK$8,400,000 in aggregate (after deducting placing expenses) was credited to the Company's share premium account for the year ended 31 December 2016.

(c) During the year ended 31 December 2015, the Company issued 699,329,577 ordinary shares of HK$0.10 each in relation to the conversion of the convertible bonds at the conversion price of HK$0.15 and HK$0.225 per share. Approximately HK$69,933,000 and HK$127,216,000 were credited to share capital and share premium respectively during the year ended 31 December 2015.

During the year ended 31 December 2016, the Company issued 989,902,800 ordinary shares of HK$0.10 each in relation to the conversion of the convertible bonds at the conversion price of HK$0.10 per share. Approximately HK$98,990,000 and HK$537,000 were credited to share capital and share premium respectively during the year ended 31 December 2016.

(d) On 3 March 2015 and 23 April 2015, pursuant to the acquisition of 20% equity interest in Eagle Praise Limited, the Company issued 75,000,000 ordinary shares of HK$0.10 each to Unicorn Sino Limited with an issue price of HK$0.22 per share, respectively. The premium on the issue of these shares amounting to HK$18,525,000 in aggregate was credited to the Company's share premium account for the year ended 31 December 2015. On 20 October 2015, pursuant to the acquisition of 19% equity interest in USO Management & Holding Co Ltd., the Company issued 49,000,000 ordinary shares of HK$0.10 each to Green Luxuriant Group Investment Limited with an issue price of HK$0.144 per share. The premium on the issue of these shares amounting to HK$1,225,000 in aggregate was credited to the Company's share premium account for the year ended 31 December 2015.

On 27 January 2016, pursuant to the acquisition of 12% equity interest in Multijoy, the Company issued 700,000,000 ordinary shares of HK$0.10 each to Delight Grace Limited with an issue price of HK$0.10 per share. The premium on the issue of these shares amounting to HK$28,700,000 in aggregate was debited to the Company's share premium account for the year ended 31 December 2016.

32. SHARE CAPITAL *(continued)*

Notes: (continued)

(e) On 9 December 2016, the Group issued 18,906,000 shares to Chanceton Capital Partners Limited at an issue price of HK$0.10 per share for setting off outstanding financial advisory fees of approximately HK$1,891,000.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to continue with the expansion plan of the Group's businesses. In order to fund the daily operation and the expansion of the businesses of the Group, significant amounts of capital in the form of borrowing or equity, or a combination of both, is considered to be necessary in the future. The directors consider such funding for the future operation and expansion will be available as and when required.

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. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, if any, return capital to shareholders, issue new shares, or sell assets to reduce debts. No changes had been made in the objectives, policies and processes during the years ended 31 December 2016 and 2015.

The Group monitors capital using a gearing ratio, which is the Group's net debt (comprising trade payables, accruals and other payables, income tax payable, promissory notes, obligation under finance lease and borrowings less bank and cash balances) over its total equity. The Group's policy is to keep the gearing ratio at a reasonable level. The Group's gearing ratio as at 31 December 2016 was 57.8% (2015: 88.2%).

33. SHARE OPTION SCHEME

The Company operates two share option schemes, namely the 2012 Share Option Scheme and the 2013 Share Option Scheme (collectively, the "Schemes") for the purpose of providing incentives and rewards to eligible participants who are invited at directors' discretion. The 2012 Share Option Scheme became effective on 28 May 2002 and was expired on 27 May 2012. Notwithstanding the expiration of the 2012 Share Option Scheme, its provisions would remain in force in all respects with respect to the outstanding share options granted under the 2012 Share Option Scheme. Due to the expiry of the 2012 Share Option Scheme, the Company adopted the 2013 Share Option Scheme which became effective on 31 May 2013, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

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 full-time and part-time employees, executives, officers, directors, business consultants, agents, legal and financial advisers of the Company and the Company's subsidiaries.

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 shares options in excess of this limit is subject to shareholders' approval in a general meeting.

33. SHARE OPTION SCHEME *(continued)*

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.

The offer of a grant of share options may be accepted within 14 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 five years from the date of the offer 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 highest of (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the Company's shares on the date of the offer.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

Details of the specific categories of options are as follows:

Share option type	Date of grant	Vesting period	Exercise period	Exercise price HK$
2006 (a)	19 June 2006	19 June 2006 to 31 December 2006	1 January 2007 to 18 June 2016	0.5080
2006 (b)	19 June 2006	19 June 2006 to 31 December 2006	1 January 2007 to 18 June 2016	0.5080
2007 (b)	5 July 2007	5 July 2007 to 30 June 2008	1 July 2008 to 18 June 2016	3.7000
2012 (a)	29 March 2012	N/A	29 March 2012 to 28 March 2015	0.3220
2012 (b)	29 March 2012	N/A	29 March 2012 to 28 March 2015	0.3865
2014 (a)	1 September 2014	N/A	1 September 2014 to 31 August 2019	0.4000
2014 (b)	1 September 2014	1 September 2014 to 31 August 2015	1 September 2015 to 31 August 2019	0.4000
2015 (a)	14 July 2015	N/A	14 July 2015 to 13 July 2018	0.2320
2015 (b)	20 July 2015	N/A	20 July 2016 to 19 July 2018	0.2250
2015 (c)	1 September 2015	N/A	1 September 2015 to 31 August 2018	0.1308

Options are forfeited if the employee leaves the Group.

33. SHARE OPTION SCHEME *(continued)*

Details of the share options outstanding during the year are as follows:

	2016		2015	
	Number of share options	**Weighted average exercise price HK$**	Number of share options	Weighted average exercise price HK$
Outstanding at the beginning of the year	**371,046,000**	**0.2931**	157,146,120	0.4118
Granted during the year	**—**	**—**	251,800,000	0.2300
Forfeited/expired during the year	**(46,246,000)**	**0.3698**	(37,900,120)	0.3663
Outstanding at the end of the year	**324,800,000**	**0.2821**	371,046,000	0.2931
Exercisable at the end of the year	**324,800,000**	**0.2821**	371,046,000	0.2931

The options outstanding at the end of the year have a weighted average remaining contractual life of 1.8 years (2015: 2 years) and the exercise prices range from HK$0.1308 to HK$0.4000 (2015: HK$0.1308–HK$3.7). In 2015, options were granted on 14 July, 20 July and 1 September. The estimated fair values of the options on those dates were approximately HK$27,994,000, HK$429,000 and HK$283,000 respectively.

These fair values were calculated using the Black-Scholes pricing model. The inputs into the model are as follows:

	2015
Weighted average share price	HK$0.1220–0.2320
Weighted average exercise price	HK$0.1308–0.2320
Expected volatility	108.54%–109.58%
Expected life	1.5
Risk free rate	0.73%–0.82%
Expected dividend yield	Nil

Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous 390 days. The expected life used in the model has been adjusted, based on the Group's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

Share options granted to consultants were incentives for helping the Group expand its business network, acquire and explore new business projects and opportunities. The fair value of such benefit could not be estimated reliably and as a result, the fair value is measured by reference to the fair value of share options granted.

34. DISPOSAL OF SUBSIDIARIES

On 1 August 2016, the Group disposed its subsidiaries, Jet Profit Enterprises Limited and Fujian Ka Hung Toys Co., Ltd., at a consideration of HK$5,665,000 to Power Global Holdings Limited which is beneficially owned as to 40% by Mr. KF Hui, 34% by Mr. KY Hui and 26% by Ms. Teresa Hui. Mr. KF Hui is an executive Director and Mr. KY Hui and Ms. Teresa Hui are both former executive Directors. Mr. KF Hui is the brother of Mr. KY Hui and Ms. Teresa Hui.

Net liabilities at the date of disposal were as follows:

	HK$'000
Property, plant and equipment	13,684
Prepaid land lease payments	4,138
Prepayments, deposits and other receivables	113
Cash and bank balances	109
Due from fellow subsidiaries	6,619
Accrued liabilities and other payables	(110)
Due to an immediate holding company	(1,074)
Deferred tax liabilities	(1,636)
Borrowings	(32,428)
Net liabilities disposed of	(10,585)
Release of foreign currency translation reserve	(2,560)
Gain on disposal of subsidiaries	18,810
Total consideration	5,665
Less:	
Due from fellow subsidiaries	(6,619)
Due to an immediate holding company	1,074
Total consideration — satisfied by cash	120
Net cash inflow arising on disposal:	
Cash consideration received	120
Cash and cash equivalents disposed of	(109)
	11

35. STATEMENT OF FINANCIAL POSITION AND RESERVE OF THE COMPANY

Statement of Financial Position of the Company

	2016 HK$'000	2015 HK$'000
Non-current assets		
Investments in subsidiaries	**693,215**	685,634
Current assets		
Prepayments, deposits and other receivables	**1,240**	1
Bank and cash balances	**473**	35
Total current assets	**1,713**	36
Current liabilities		
Accruals and other payables	**28,974**	32,421
Due to subsidiaries	**13,773**	11,133
Derivative financial liabilities	**—**	9,403
Promissory notes	**106,901**	144,930
Borrowings	**6,577**	12,726
Total current liabilities	**156,225**	210,613
Net current liabilities	**(154,512)**	(210,577)
Total assets less current liabilities	**538,703**	475,057
Non-current liabilities		
Promissory notes	**85,313**	78,270
Net assets	**453,390**	396,787
Equity		
Share capital	**609,272**	354,391
Reserves	**(155,882)**	42,396
	453,390	396,787

35. STATEMENT OF FINANCIAL POSITION AND RESERVE OF THE COMPANY
(continued)

Reserve

	Share premium HK$'000	Contributed surplus HK$'000	Share-based payment reserve HK$'000	Convertible bonds equity reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2015	1,422,969	125,161	21,363	72,581	(1,611,587)	30,487
Total comprehensive loss for the year	—	—	—	—	(96,893)	(96,893)
Issue of shares on placement	4,668	—	—	—	—	4,668
Issue of convertible bonds	—	—	—	24,087	—	24,087
Issue of shares upon conversion of convertible bonds	127,216	—	—	(96,668)	—	30,548
Issue of consideration shares	19,750	—	—	—	—	19,750
Recognition of share-based payment	—	—	29,749	—	—	29,749
Release on equity/forfeiture of share option	—	—	(2,736)	—	2,736	—
At 31 December 2015 and 1 January 2016	**1,574,603**	**125,161**	**48,376**	**—**	**(1,705,744)**	**42,396**
Total comprehensive loss for the year	**—**	**—**	**—**	**—**	**(178,515)**	**(178,515)**
Issue of shares on placement	**8,400**	**—**	**—**	**—**	**—**	**8,400**
Issue of convertible bonds	**—**	**—**	**—**	**58,622**	**—**	**58,622**
Issue of shares upon conversion of convertible bonds	**537**	**—**	**—**	**(58,622)**	**—**	**(58,085)**
Issue of consideration shares	**(28,700)**	**—**	**—**	**—**	**—**	**(28,700)**
Release on equity/forfeiture of share option	**—**	**—**	**(9,472)**	**—**	**9,472**	**—**
At 31 December 2016	**1,554,840**	**125,161**	**38,904**	**—**	**(1,874,787)**	**(155,882)**

36. LEASE COMMITMENTS

At 31 December 2016, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2016 HK$'000	2015 HK$'000
As lessor:		
Within one year	**10**	639
In the second to fifth years inclusive	**—**	4
	10	643
As lessee:		
Within one year	**9,936**	10,429
In the second to fifth years inclusive	**4,644**	9,073
	14,580	19,502

Operating lease payments represent rentals payable by the Group for certain of its offices. Leases are negotiated for an average term of 4 years (2015: 2 years) and rentals are fixed over the lease terms and do not include contingent rentals.

37. CAPITAL COMMITMENTS

As at 31 December 2015 and 31 December 2016, the Group had no material capital commitments.

38. CONTINGENT LIABILITIES

As at 31 December 2015 and 31 December 2016, the Group had no material contingent liability.

39. RELATED PARTY TRANSACTIONS

(a) In addition to those related party transactions and balances disclosed elsewhere in the financial statements, the Group had the following transactions with its related parties during the year:

	2016	2015
	HK$'000	HK$'000
Product development, sale and marketing services fee paid to a related company *(note a)*	**3,518**	2,655

Note:

(a) The sole owner of the related company is also the director and beneficial owner of 49% (2015: 49%) equity interest in the Company's subsidiary paying for the services.

(b) Outstanding balance with related parties

	2016	2015
	HK$'000	HK$'000
Promissory note payable to a director of the Company	**2,500**	—
Prepayment, deposits and other receivables		
— Amount due from a related company	**—**	174
— Amount due from a non-controlling interest	**—**	700

The amounts due from related parties are unsecured, interest free and repayment on demand.

(c) Key management compensation

	2016	2015
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**20,284**	18,169
Share-based payments	**—**	7,147
Retirement benefits scheme contributions	**221**	216
	20,505	25,532

(d) Guarantee provided by related parties

At 31 December 2016, the Group's borrowings of approximately HK$7,453,000 (2015: HK$7,314,000) and HK$21,761,000, (2015: HK$9,727,000) were secured by a personal guarantee by the Company's directors and a director of the Company's indirect non-wholly owned subsidiary, respectively.

40. LITIGATIONS

(a) Wing Siu

Pursuant to a tenancy agreement dated 23 September 2014 entered into between Wing Siu Company Limited ("Wing Siu") as landlord and Super Dragon Management Limited ("Super Dragon"), a wholly-owned subsidiary of the Company, as tenant, and the Company as guarantor to Super Dragon, Wing Siu agreed to let Super Dragon the premises located at 19th Floor, Everbright Centre, 108 Gloucester Road, Wanchai, Hong Kong (the "Wanchai Property") for a term of three years from 15 December 2014 to 14 December 2017.

On 8 August 2016, Super Dragon and the Company received from Wing Siu a writ of summons issued in the Court of First Instance in the High Court of the Hong Kong Special Administrative Region (the "High Court") with an indorsement of claim against Super Dragon and the Company jointly for (i) vacant possession of the Wanchai Property; (ii) the outstanding total amount of rent, management fees, interests and other charges of approximately HK$3,886,000 as at 1 August 2016; (iii) rent, management fees and rates to the date of delivery of vacant possession of the Wanchai Property; (iv) damage for breach of the tenancy agreement to be assessed; (v) interest; (vi) costs; and (vii) further or other relief.

As at the date of this announcement, the Company is liaising with Wing Siu and expects to settle the above claim during the second quarter of 2017.

(b) Ultimate Dream

Pursuant to a tenancy agreement dated 7 November 2014 entered into between Ultimate Dream Enterprises Limited ("Ultimate Dream") as landlord and Super Dragon, as tenant, Ultimate Dream agreed to let Super Dragon the premises located at 20th Floor, Hong Kong Diamond Exchange Building, 8–10 Duddell Street, Central, Hong Kong (the "Central Property") for a term of two years from 1 September 2014 to 31 August 2016.

On 5 August 2016, the Company received from Ultimate Dream a writ of summons issued in the District Court of the Hong Kong Special Administrative Region with an indorsement of claim against the Company for the outstanding total amount of rent, management fees and rates of approximately HK$699,000.

The above claim had been fully settled in October 2016.

(c) Others

On 8 June 2016 and 19 July 2016, the Company and a director of the Company received from Mr. Guo Jingsheng ("Mr. Guo") a writ of summons and an indorsement of claim issued in the High Court, respectively, against the Company as borrower and the director of the Company as guarantor for the outstanding amount of borrowing including interests of approximately HK$13,921,000.

The Company, the director of the Company and Mr. Guo entered into a deed of settlement before end of 2016. As at the date of this announcement, the Company is liaising with Mr. Guo and expects to settle the outstanding amount of such borrowing including interests of approximately HK$11,921,000 in aggregate after completion of the placing of new shares of the Company under specific mandate (as announced by the Company on 28 October 2016), which is subject to obtaining the approval of (i) the Stock Exchange; and (ii) the Company's shareholders in an extraordinary general meeting to be convened.

41. INVESTMENTS IN SUBSIDIARIES

Particulars of the principal subsidiaries as at 31 December 2016 are as follows:

Company name	Place of incorporation/ registration and operation	Issued and paid up capital	Percentage of ownership interest	Principal activities
Legend Wealth Holding Limited	BVI, limited liability company	50,500 ordinary shares of US$1 each	100%	Investment holding, Hong Kong
King Wish Limited	BVI, limited liability company	1 ordinary share of US$1 each	100%	Investment holding, Hong Kong
Super Dragon Management Limited	BVI, limited liability company	1 ordinary share of US$1 each	100%	Provision of management service, Hong Kong
Bestever Developments Limited	BVI, limited liability company	100 ordinary shares of US$1 each	100%	Investment holding, Hong Kong
Better Sourcing Worldwide Limited	Hong Kong, limited liability company	HK$100	51%	Trading of gifts and toys, Hong Kong
Kiu Hung Industries Limited	Hong Kong, limited liability company	HK$1,000	100%	Trading of gifts and toys, Hong Kong
Kiu Hung Toys Company Limited	Hong Kong, limited liability company	HK$2 ordinary share capital and HK$10,000 non-voting deferred share capital	100%	Investment holding, Hong Kong
Newgary Development Limited	Hong Kong, limited liability company	HK$2 ordinary share capital and HK$10,000 non-voting deferred share capital	100%	Property holding, Hong Kong
Toland International Limited	Hong Kong, limited liability company	HK$4,200,000	70%	Trading of flags and garden products, Hong Kong
福建奇嘉禮品玩具有限公司 (Fujian Kcare Giftoys Co., Ltd.*)	The PRC, limited liability company	RMB10,000,000	100%	Manufacture and trading of gifts and toys, The PRC
福建嘉雄玩具有限公司 (Fujian Ka Hung Toys Co., Ltd.*)	The PRC, limited liability company	RMB10,000,000	100%	Manufacture and trading of gifts and toys, The PRC
內蒙古銘潤峰能源有限公司 (Inner Mongolia Mingrunfeng Energy Co., Ltd.*)	The PRC, limited liability company	RMB53,000,000	100%	Exploration and mining, The PRC

41. INVESTMENTS IN SUBSIDIARIES *(continued)*

Company name	Place of incorporation/ registration and operation	Issued and paid up capital	Percentage of ownership interest	Principal activities
內蒙古潤恒礦業有限公司 (Inner Mongolia Run Heng Mining Company Limited*)	The PRC, limited liability company	RMB56,014,705	100%	Exploration and mining, The PRC
Bright Asset Investments Limited	BVI, limited liability company	10,000 ordinary shares of US$1 each	100%	Investment holding, Hong Kong
First Choice Resources Limited	BVI, limited liability company	1 ordinary share of US$1 each	100%	Investment holding, Hong Kong
Growth Gain Investments Limited	BVI, limited liability company	100 ordinary shares of US$1 each	100%	Investment holding, Hong Kong
Jumplex Investments Limited	BVI, limited liability company	1 ordinary share of US$1 each	100%	Investment holding, Hong Kong
Lucky Dragon Resources Limited	BVI, limited liability company	1 ordinary share of US$1 each	100%	Investment holding, Hong Kong
Top Point Investments Limited	BVI, limited liability company	100 ordinary shares of US$1 each	100%	Investment in securities, Hong Kong
Wise House Limited	BVI, limited liability company	36,000 ordinary shares of US$1 each	100%	Investment holding, Hong Kong
Marketing Resource Group Inc.	The USA, limited liability company	350,000 ordinary shares of US$1 each	51%	Trading of flags and garden products, The USA
Kiu Hung Financial Holding Limited	BVI, limited liability company	1 ordinary share of US$1 each	100%	Investment holding, Hong Kong
Kiu Hung Capital Company Limited	BVI, limited liability company	641,027 ordinary shares of US$1 each	100%	Corporate finance, Hong Kong
Shun Jun Ventures Limited	Samoa, limited liability company	13,743,131 ordinary shares of US$1 each	100%	Investing property, The PRC
Sharp Precision Management Limited	BVI, limited liability company	1 ordinary share of US$1 each	100%	Investment holding, Hong Kong
Kiu Hung Health Food (HK) Limited	Hong Kong, limited liability company	HK$1	100%	Investment holding, Hong Kong

* For identification purpose

42. EVENTS AFTER THE REPORTING PERIOD

(a) Acquisition of additional equity interest of tangerine plantation business

On 28 February 2017, Kiu Hung Properties Company Limited, an indirect wholly owned subsidiary of the Company ("Kiu Hung Properties") and Delight Grace Limited ("Delight Grace") entered into a sales and purchase agreement, pursuant to which Kiu Hung Properties has conditionally agreed to purchase and Delight Grace has conditionally agreed to sell the issued share capital of Multijoy Developments Limited for a consideration of HK$65,700,000, which will be satisfied by the issue of a promissory note with a principal amount of HK$65,700,000 by the Company at completion. The sale shares represent 9% of the issued share capital of Multijoy Developments Limited, an associated company of the Group that is held as to 40% by Kiu Hung Properties. As the conditions precedent of the sales and purchase agreement were not completely fulfilled or waived by 30 April 2017, the sales and purchase agreement has been lapsed after 30 April 2017.

For details, please refer to the Company's announcement dated 28 February 2017.

(b) Possible acquisition of certain equity interest in Shanghai Liming Technology

On 13 March 2017, the Company and Stunning Honour Enterprises Limited ("Stunning Honour") entered into a non-legally binding memorandum of understanding indicating the intention of the Company and Stunning Honour to enter into a formal acquisition agreement in respect of the possible acquisition of certain equity interest in Shanghai Liming Intelligent Technology Limited 上海立名智能科技有限公司 ("Shanghai Liming Technology") Shanghai Liming Technology is principally engaged in hotel intelligent technology, robotic hotel operation and intelligent security and the research and development and operation of building data interactive platform.

43. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved and authorised for issue by the Board of Directors on 30 May 2017.

FIVE YEARS FINANCIAL SUMMARY

The following is a summary of the published consolidated results and statement of assets and liabilities of the Group for the last five years:

RESULTS

	Year ended 31 December				
	2016	2015	2014	2013	2012
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**235,384**	223,313	229,022	169,910	192,803
Loss before income tax	**(142,373)**	(85,394)	(508,965)	(73,671)	(654,881)
Income tax (expenses) credit	**(5,603)**	(1,858)	293	3,921	149,945
Loss for the year	**(147,976)**	(87,252)	(508,672)	(69,750)	(504,936)
Attributable to:					
Equity holders of the Company	**(149,652)**	(89,665)	(509,606)	(71,826)	(508,859)
Non-controlling interests	**1,676**	2,413	934	2,076	3,923
	(147,976)	(87,252)	(508,672)	(69,750)	(504,936)

ASSETS AND LIABILITIES

	As at 31 December				
	2016	2015	2014	2013	2012
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**785,933**	807,433	461,777	301,084	376,933
Total liabilities	**(330,843)**	(406,405)	(168,586)	(161,626)	(175,921)
Net assets	**455,090**	401,028	293,191	139,458	201,012
Equity attributable to equity holders of the Company	**441,984**	389,598	284,174	131,375	195,005
Non-controlling interests	**13,106**	11,430	9,017	8,083	6,007
Total equity	**455,090**	401,028	293,191	139,458	201,012

Notes:

(1) The consolidated statement of profit or loss for the years ended 31 December 2016 and 2015 are set out on page 44 of this annual report.

(2) The consolidated statement of financial position at 31 December 2016 and 31 December 2015 are set out on pages 46 to 47 of this annual report.