WINSHINE
瀛晟科學

Winshine Science Company Limited
瀛 晟 科 學 有 限 公 司**

(Incorporated in Bermuda with limited liability)

Stock Code: 209

ANNUAL REPORT 2017

* For identification purpose only

CONTENTS

ABBREVIATIONS

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

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

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Xing Wei *(Chairman)*
(appointed on 8 May 2017)
Mr. Wei Guo
(appointed on 16 November 2017)
Mr. Zhang Jack Jiyei
(resigned on 16 November 2017)

Non-executive Directors

Mr. Lin Shaopeng
(appointed on 18 December 2017)
Mr. Lo Ming Chi, Charles
(resigned on 18 December 2017)

Independent Non-executive Directors

Mr. Li Fang
Mr. Lau Shun Pong Johnson
(appointed on 31 October 2017)
Mr. Lai Ming Wai
(appointed on 18 December 2017)
Mr. Wong Kee Fung Kenneth
(deceased on 30 October 2017)
Mr. Wong Kwok Tai
(resigned on 18 December 2017)

AUDIT COMMITTEE

Mr. Li Fang *(Chairman)*
Mr. Lau Shun Pong Johnson
Mr. Lai Ming Wai

REMUNERATION COMMITTEE

Mr. Lau Shun Pong Johnson *(Chairman)*
Mr. Li Fang
Mr. Lai Ming Wai

NOMINATION COMMITTEE

Mr. Li Fang *(Chairman)*
Mr. Lau Shun Pong Johnson
Mr. Lai Ming Wai

COMPANY SECRETARY

Mr. Lau On Kwok

TRADING OF SHARES

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

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL BANKERS

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

AUDITOR

Deloitte Touche Tohmatsu

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

WEBSITE

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

CHAIRMAN'S STATEMENT

BUSINESS REVIEW

In 2017, the Group recorded substantial increase in its revenue by more than 150% to HK$589.9 million (2016: HK$236.2 million), mainly due to the robust performance of its toys division. Gross profit also increased to HK$87.6 million (2016: HK$15.4 million) as a result of improved cost efficiency and better economies of scale. The securities investments division recorded a loss of HK$5.9 million in 2017 (2016: loss of HK$151.4 million), representing a drop of 96.1% year-on-year. For the year of 2017, the Group reduced its net loss by 65.8% to HK$77.7 million (2016: loss of HK$227.3 million).

Toys Division

For the year ended 31 December 2017, revenue of the toys division increased by 150% to HK$589.9 million as a result of a popular product series developed and marketed by one of its major customers. As production volume increased, the division enjoyed better economies of scale and achieved gross profit of HK$87.6 million (2016: 15.4 million). A gain of HK$3.6 million was also recorded from disposal of a piece of land reclaimed by the local government for development. Due to RMB appreciation, the division incurred an exchange loss of approximately HK$11.7 million. As a result, the toys division turned around the loss operation in 2016 and reported segment profit before taxation of HK$15.5 million for 2017 (2016: loss of HK$22.2 million).

Securities Investments Division

Amid a robust global capital market, the Hong Kong stock market outperformed most of the major stock markets in both Asian and Western markets. The Hang Seng Index reported an increase of 36% in 2017 and average daily turnover also reached higher by a year-on-year increase of 32%. The Group adopted a conservative strategy in managing its investment portfolio during the year. As a result, the securities investments division substantially reduced its segment loss to HK$5.9 million, representing a decrease of loss of 96% from that of 2016. As at 31 December 2017, the Group securities portfolio was valued at HK$27.6 million (2016: HK$34.6 million). The Group did not receive any dividend income during the year (2016: nil).

Medical and Health Division

During the year, the Group participated in a medical research project by investing in Success Impact Corporation ("Success Impact"). The project was mainly about the preclinical research studies of genetically engineered bacteria for targeted cancer therapy ("Project GEB"). During the year, a total of approximately HK$6.4 million research and development expenses were recorded in the Project GEB. In 2016, the Company incurred a total of HK$20.7 million in research and development on studies relating to the peptide secretion technology. In September 2017, an international application of a patent relevant to the Project GEB invention was filed to one of the Patent Cooperation Treaty offices.

Genetically engineered bacteria for targeted cancer therapy

Targeted tumor therapy is highly desired as it attacks tumors but leaves normal tissues intact. However, targeted therapy mediated by abiotic drugs has represented a difficult task due to insufficient tumor specificity and/or poor diffusion into tumor tissues. Some anaerobic bacteria preferentially colonize solid tumors and might be employed for targeted tumor therapy. A barrier of using these bacteria is their non-negligible infection of normal tissues despite their selective colonization in solid tumors. The Project GEB therefore aims to solve this problem by rationally designing and genetically engineering bacteria as a new type of antitumor drugs that specifically target solid tumors and effectively eradicate tumors with little side effects. So far the project team have created a novel tumor-targeting genetic DNA circuit that confers bacteria the ability to sense tumor-specific signals and accordingly selectively colonize solid tumors while sparing normal tissues.

Further efforts and more research studies will be made towards improving the tumor specificity of the bacteria and their antitumor efficacy by equipping the bacteria with more antitumor "weapons" and elucidating the underlying antitumor mechanisms.

FUND RAISING ACTIVITIES OF THE COMPANY

During the year of 2017, the Company has carried out the following equity fund raising activities:

Date of announcement	Date of Completion	Fund raising activity	Net proceeds (approximately)	Intended use of proceeds	Actual use of proceeds
14 December 2016, 26 January, 27 February, 17 March, 17 April and 21 April 2017	21 April 2017	Issuing of 680,000,000 shares under specific mandate	HK$121.6 million	For development of existing business, possible investment in new projects and as working capital of the Company	Approximately HK$50 million has been applied for acquisition of Hainan Zhongzhi Company Ltd.; HK$39 million has been applied for general operating expenses

CHAIRMAN'S STATEMENT

PROSPECTS

On 28 December 2017, the Company announced that it entered into a sale and purchase agreement to conditionally sell the entire share capital of Bright Triumph Development Ltd. ("Bright Triumph") at a consideration of HK$142 million. The principal assets of Bright Triumph, held through its indirect subsidiary Yi Nuo Technology (Suzhou) Company Ltd. included a piece of land and buildings thereon at Jiangsu Suzhou. As the transaction constitutes a major transaction under the Listing Rules, it is subject to reporting, announcement, circular and shareholders' approval requirement. As more time is required for preparing and finalizing the financial information, the Company announced on 28 February 2018 that the despatch date of the circular will be further postponed to a date on or before 30 March 2018. It is expected that the disposal can provide the Group more funding and flexibility to develop the existing business and to look for other new opportunities.

Looking ahead to 2018, the toys division is expected to continue to perform satisfactorily. Although it will also face with challenges such as strong RMB, rising raw material costs and labor shortage in the Pearl Delta Region, the division will strive to minimize the negative impacts by bringing in more automation into its production process. On the other hand, the Group will continue to invest in the research studies of the medical project according to the joint venture agreement.

APPRECIATION

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

Xing Wei
Chairman

Hong Kong, 28 March 2018

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATIONS REVIEW

For the year ended 31 December 2017, the Group mainly engaged in the existing businesses of manufacturing and trading of toys, securities investment and research and development in medical and health products.

Toys Division

Revenue of the toys division increased in 2017 by more than 150% to HK$589.9 million. During the year, one of its major customer successfully developed a highly popular product series and hence expanded purchase orders significantly. Gross profits also increased from HK$15.4 million in 2016 to HK$87.6 million in 2017. Selling and distribution expenses, administrative expenses and finance expenses also rose as additional workers, additional working capital and more peripheral expenses were required to support the higher production and sales volume.

During the first half of 2017, the toys division reported a one-off gain of HK$3.6 million on disposal of a piece of land to the local government for development. As the RMB continued to appreciate over the year, an exchange loss of HK$11.7 million was also recorded in 2017. As a result, overall performance of the toys division reported segment profit before taxation of HK$15.5 million (2016: loss of HK$22.2 million).

In 2018, the toys division will face more challenges from the rising costs of material and labor. The strong RMB will also impact its profit margin and more competition are also expected in the region. In order to enhance production efficiency, the toy division will continue to invest in automation equipment for its key production processes so to improve the overall performance.

Securities investments

2017 has been a remarkable year of the global capital market not only seeing accelerated growth in the developed market, but also showing revived growth in the emerging market. The Hong Kong stock market outperformed major global stock markets in 2017. As a result of various positive factors such as resilient Chinese economy, gains by technology giants, abundant market liquidity and mainland southbound capital flow, the Hong Kong stock market achieved a year-on-year increase of 36% in the Hang Seng Index. The average daily turnover of HK$88.2 billion in 2017 also recorded an increase of 32% from HK$66.9 billion in 2016. Trade volume in Stock Connect also grew significantly. Total northbound turnover for 2017 reached RMB2,266 billion, representing an increase of 207.1% year-on-year while southbound turnover reached HK$2,259 billion, an increase of 186.6% year-on-year.

MANAGEMENT DISCUSSION AND ANALYSIS

During 2017, the Hang Seng Index points started from 22,000 points as at 31 December 2016, reaching the highest and the lowest points of 30,200 and 21,884 respectively and ended at 29,919 points as at 31 December 2017. For the year ended 31 December 2017, the securities investments division of the Group recorded segment loss before taxation of HK$5.9 million (2016: loss of HK$151.4 million), comprised unrealised loss (net) of HK$7.0 million. As at 31 December 2017, the Group's securities portfolio which consisted of only the listed equity shares of Hong Kong was valued at HK$27.6 million (2016: HK$34.6 million) on a fair value basis.

Breakdown of the Group's significant investments held as at 31 December 2017

Stock Code	Name	Principal businesses	Market value as at 31/12/2017	Number of shares held as at 31/12/2017	Percentage held to the total issued share capital of the stock	Gain/(loss) on change of fair value during the year ended 31/12/2017
			HK$'000			*HK$'000*
928	Life Healthcare Group Ltd. (Previously known as Tack Fiori International Group Ltd.)	Development and marketing of education software products and the provision of technology support services in China; sales of apparels in China; and trading and investment of securities in Hong Kong.	16,723	63,104,000	1.20%	7,004
8316	Pak Wing Group (Holdings) Ltd.	Provision of foundation works in Hong Kong.	2,678	1,530,000	0.19%	597
8356	CNC Holdings Ltd.	Provision of waterworks engineering services for public sector in Hong Kong, television broadcasting business in the Asia-Pacific region (excluding PRC) and large outdoor display screen advertisement business in the PRC.	6,495	124,930,000	3.08%	(14,617)
	Others		1,683	–	–	–
Total			**27,579**			**(7,016)**

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

Stock Code	Name	Principal businesses	Market value as at 31/12/2016 HK$'000	Number of shares held as at 31/12/2016	Percentage held to the total issued share capital of the stock	Gain/(loss) on change of fair value during the year ended 31/12/2016 HK$'000
235	China Strategic Holdings Ltd.	Trading of metal minerals and electronic components, investment in securities and money lending	–	–	–	(3,773)
527	China Ruifeng Renewable Energy Holdings Ltd.	Wind power generation	–	–	–	(11,439)
928	Tack Fiori International Group Ltd.	Development and promotion of education software products and provision of technical support services in the PRC; sale of apparel in the PRC; and securities trading and investments in Hong Kong	9,718	63,104,000	2.64%	(115,228)
8055	China E-Learning Group Ltd.	Provision of an internet platform for education program	–	–	–	5,228
8316	Pak Wing Group (Holdings) Ltd.	Properties & construction – Construction – Heavy construction & engineering	2,081	1,530,000	0.19%	(7,252)
8356	CNC Holdings Ltd.	Provision of waterworks engineering services for public sector in Hong Kong, television broadcasting business in the Asia-Pacific region (excluding PRC) and large outdoor display screen advertisement business in the PRC	21,113	124,930,000	3.08%	(15,392)
	Others		1,683	–	–	(2,946)
Total			**34,595**			**(150,802)**

MANAGEMENT DISCUSSION AND ANALYSIS

The Group's significant investments held as at 31 December 2017 mainly consists of three stocks, namely: (1) Life Healthcare Group Ltd. (Previously known as Tack Fiori International Group Ltd.) (Stock code: 928) ("LH"); (2) Pak Wing Group (Holdings) Ltd. (Stock code: 8316) ("PW") and (3) CNC Holdings Ltd. (Stock code: 8356) ("CNC"). The net value of these stocks recorded a drop in 2017. During the year of 2017, the share price of LH opened from HK$0.138(adjusted), reaching the highest and lowest price of HK$0.305(adjusted) and HK$0.137(adjusted) respectively and closed at HK$0.265(adjusted); the share price of PW opened at HK$1.36, reaching the highest and lowest price of HK$2.70 and HK$0.52 respectively and closed at HK$1.75; the share price of CNC opened from HK$0.169, reaching the highest and lowest price of HK$0.174 and HK$0.050 respectively and closed at HK$0.052.

During the year, LH completed the rights issue on the basis of one rights share for one right at the subscription price of HK$0.126 per share. The Group disposed of all its rights and recorded a gain of HK$1.1 million.

Looking ahead to 2018, it is expected that the global economy recovery will continue. The Hong Kong stock market will continue to benefit from steady economic growth, improved corporate earnings and further influx of southbound capital. Amid the positive factors, there are also risks to be concerned such as the geopolitical uncertainty, protectionism, financial deleveraging process in China and potential US interest rate hikes.

Despite that the Hang Seng Index points set new record high in the first quarter, more volatility will be expected. The Group will continue to adopt a prudent strategy and manage its stock portfolio in accordance with the market development.

Medical and Health Division

In April 2017, the Group invested in Success Impact Corporation ("Success Impact") and participated in a pre-clinical research project about the studies of genetically engineered bacteria for targeted cancer therapy ("Project GEB"). The project was led by an ex-research assistant professor of the Chinese University of Hong Kong who specialized in the area of genetically engineered bacterial studies. In September 2017, an international application of a patent relating to the Project GEB was filed to one of the patent offices of the Patent Cooperation Treaty. During the year, a total of approximately HK$6.4 million research and development expenses were incurred in the medical and health division. The division did not record any income as the studies were still at the preliminary stage in 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

Genetically engineered bacteria for targeted cancer therapy

Targeted tumor therapy is highly desired as it attacks tumors but leaves normal tissues intact. However, targeted therapy mediated by abiotic drugs has represented a difficult task due to insufficient tumor specificity and/or poor diffusion into tumor tissues. Some anaerobic bacteria preferentially colonize solid tumors and might be employed for targeted tumor therapy. A barrier of using these bacteria is their non-negligible infection of normal tissues despite their selective colonization in solid tumors. The Project GEB therefore aims to solve this problem by rationally designing and genetically engineering bacteria as a new type of antitumor drugs that specifically target solid tumors and effectively eradicate tumors with little side effects. So far the project team have created a novel tumor-targeting genetic DNA circuit that confers bacteria the ability to sense tumor-specific signals and accordingly selectively colonize solid tumors while sparing normal tissues.

During the research studies, the project team have verified the tumor specificity of the genetically engineered bacteria in both immunocompromised and immunocompetent mouse tumor models. By screening numerous bacteria strains, the team have subsequently identified oncolytic bacteria that quickly kill tumors cells as evidenced by both in vitro and in vivo experiments. By introducing the novel tumor-targeting genetic circuit into the oncolytic bacteria, bacteria have been synthetically engineered that not only target solid tumors but also repress tumor growth and increase survival.

Specifically, the engineered bacteria have proved to be a broad-spectrum antitumor agent and a single dose of the bacteria was effective against various human cancer cell line xenografts in nude mice (such as human colorectal cancer, human hepatic cancer, human pancreatic cancer and human renal cancer) and murine syngeneic tumors in immunocompetent mice (such as murine breast cancer and murine malignant melanoma). In the subcutaneous mouse tumor models, the engineered bacteria when intravenously injected was found most effective against human colorectal cancer, human pancreatic cancer and murine melanoma. In addition to repression or clearance of tumors, survival was also increased by the bacteria. The mechanism studies have further revealed that the antitumor bacteria fight solid tumors partially by eliciting production of an array of antitumor cytokines within the tumor tissues.

Further efforts and more research studies will be made towards improving the tumor specificity of the bacteria and their antitumor efficacy by equipping the bacteria with more antitumor "weapons" and elucidating the underlying antitumor mechanisms.

MANAGEMENT DISCUSSION AND ANALYSIS

Disposal of 100% equity interest of Bright Triumph Development Ltd. ("Bright Triumph")

The Group announced on 28 December 2017 that it entered into a sale and purchase agreement to conditionally sell the entire share capital of Bright Triumph at a consideration of HK$142 million. The main assets of Bright Triumph, being held through its indirect subsidiary Yi Nuo Technology (Suzhou) Company Ltd. included a parcel of land and buildings thereon at Suzhou, Jiangsu Province. As the transaction constituted a major transaction under the Listing Rules, it will be subject to reporting, announcement, circular and shareholder's approval requirement. The Group is still in preparation of the relevant circular at the date of this report. The first deposit equivalent to HK$28.4 million which is payable in January according to the agreement, is received by the Group in March 2018 after negotiation of payment schedule with the buyer. It is expected that the disposal upon completion will provide the Group with more funding and flexibility to develop the existing business and to explore new business opportunities. Details of the transaction can be referred to the announcement of the Company dated 28 December 2017.

Completion of acquisition of 100% equity interest of Hainan Zhongzhi Company Limited ("Hainan Zhongzhi")

In April and May 2017, the Group announced that it had acquired 60% and 40% equity interests of Hainan Zhongzhi at the consideration of RMB30 million and RMB20 million respectively. The main asset of Hainan Zhongzhi is two adjacent parcels of land located at Haikou City of Hainan Province. An application for change of permitted use to medical establishment has been made to the relevant government department. The acquisition will allow the Group to increase its land reserve for future business development and the land is intended to be used for collaboration with its medical and health business. The acquisition has been completed in May 2017. Details of the transactions can be referred to the announcements of the Company dated 3 April and 11 May 2017.

FINANCIAL REVIEW

Liquidity, Financial Resources and Capital Structure

At 31 December 2017, the Group had current assets of HK$458,332,000 (2016: HK$286,487,000) comprising cash and cash equivalents of HK$131,523,000 (2016: HK$78,497,000) (excluding pledged bank deposits). The Group's current ratio, calculated as current assets divided by current liabilities of HK$410,624,000 (2016: HK$203,894,000), remained at an acceptable ratio of 1.12 (2016: 1.41). The Group's borrowings as at 31 December 2017 were denominated in Hong Kong dollars and Renminbi in the proportion of 85% and 15% (2016: 84% and 16%) respectively. All borrowings totaling HK$184,662,000 (2016: HK$119,569,000, except for HK$45,000,000 which would mature after one year but within two years) would mature within one year, out of which all bore fixed interest rate and none bore floating interest rate.

The equity attributable to owners of the Company increased by 30% to HK$333,168,000 (2016: HK$255,564,000) mainly as a result of equity fund raising activities offset by the loss incurred by the Group during the year. The Group financed its operations through a combination of debt financing and shareholder's equity. The Group's gearing ratio was determined as its net debt divided by total equity plus net debt where net debt included borrowings, trade and bills payables and other payables and accruals less pledged bank deposits and cash and cash equivalents. The gearing ratio of the Group as at 31 December 2017 was 43% (2016: 39%).

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

MANAGEMENT DISCUSSION AND ANALYSIS

Foreign Currency Management

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

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

Charge on Assets

At 31 December 2017, the Group's certain leasehold buildings and prepaid land premium in Mainland China with aggregate carrying amount of HK$107,016,000 (2016: HK$100,398,000) and approximately HK$4,016,000 (2016: HK$4,398,000) respectively, and bank deposits of HK$21,474,000 (2016: HK$2,570,000) were pledged to secure general banking facilities granted to the Group.

Contingent Liabilities

At 31 December 2017 a subsidiary of the Company is a defendant in a legal action in Hong Kong involving the alleged claim of commission income by a consultant in relation to an investment project of the Group in the past. The claim above against the subsidiary is approximately US$1,375,000 (equivalent to approximately HK$10,725,000) in aggregate. The directors believe, based on legal advice, that the case has a good arguable defence and therefore it is not probable that losses will be incurred. As a result, no provision has been made at the end of the reporting period in this regard.

Capital Commitments

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

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2017, the Group had a total of approximately 2,377 (2016: 1,789) employees, including directors, in Hong Kong and Mainland China. The Group's total staff costs, including directors' remuneration, and value of share options granted to directors and other employees, increased by 20.9% to HK$165,126,000 (2016: HK$136,568,000). Remuneration packages for employees and directors were structured by reference to market terms, individual performance and experience. Benefit plans maintained by the Group included provident fund scheme, pension scheme, medical insurance, discretionary bonuses and share options. The Group also provided subsidies to staff for external training.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

INTRODUCTION

The Board is accountable for the sustainable business development in respect of environmental and social responsibilities while balance the financial performance of the Group. The Board is pleased to present the Environmental, Social and Governance Report (the "Report") for the second year to demonstrate its effort in sustainable development.

The Report delivers the Group's commitment and practices of the environmental, social and governance performance during the financial year of 2017. It mainly covers the toys division in Zhongshan. The Report is prepared in accordance with Appendix 27, Environmental, Social and Governance Reporting Guide (the "ESG Reporting Guide") of the Listing Rules set out by The Stock Exchange of Hong Kong Limited.

COMMUNICATION WITH STAKEHOLDERS

The Board believes that the better understand the stakeholders' expectation are more likely to gain their support and trust. The Group identifies its' stakeholders and varies of communication channels are used to engaged stakeholders on regular basis to enable to prioritize the action to be taken in the operation. The below list are the major stakeholders and communication channels.

Major stakeholders	Communication channels
Investors	Annual General Meeting, Annual/Interim Reports, Announcements and circulars and Company's website
Customer	Meetings, Phone calls, Surveys, Reports, Emails, Site visits
Industrial organization	Company's website, Reports, Seminars
Regulators	Company's website, Reports, Meetings, Phone calls, Site visits
Suppliers	Meetings, Phone calls, Site visits
Employees	Surveys, Meetings, Company events

A ENVIRONMENTAL PROTECTION

Business sustainability depends not only on the financial performance but also resources. Resources deplete and generate emissions in any kind of operation. The Group opt to balance the financial performance and lessen the environmental impact. Environmental Management Committee is established to oversee the environmental performance with the aim to reduce environmental risks.

The Group has identified the environmental impact through certificated ISO 14001. Each of the environmental impact are carefully accessed and monitored. Measures are carried out to minimized the influenced to the environment.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A1 Emission

The Chinese Government have tightened the environmental legislation and management of the manufacturing industries. The Group work closely with the regulators and support on the monitoring. There is no violation of the environmental law during the reporting period.

Air emission

Greenhouse gas causes the global warming. This issue is highly concerned by the global and the Chinese Government. The Group has started to track its carbon footprint since 2017.

GHG emission	Unit	
Total emission (Scope 1 & 2)	CO_2e tonnes	8077
Scope 1	CO_2e tonnes	150
Scope 2	CO_2e tonnes	7927
Intensity (Scope 1 & 2) per number of production volume	kg CO_2e/piece	0.0004

Paint used in toys contain volatile organic compound (VOC) that is harmful to human health and evaporates into the air causing emission. In 2017, the Group newly invest a VOC system to improve the indoor air quality. The system is expected to enhance the air quality level, which benefit to staff health and to the environment. Real time data are connected to the Ministry of Environmental Protection of the PRC to monitor emission.

Air-emission is also generated during transportation. Car-pooling has been arranged to reduce fuel use and air-emission.

Air emission	Unit	
Nitrogen Oxides (NO_x)	g	56530
Sulfur Oxides (SO_x)	g	240
Particulate Matter (PM)	g	3160

Waste emission

The waste management approach starts from the raw material. Materials are sourced from the qualified suppliers. Long term relationship is built for stable and reliable quality. Detailed calculations of raw material increase the utilization results in waste reduction. Production team uses their expertise to design work process to reduce waste generated. Carton boxes are used for the delivery purpose. In order to reduce material used, the Group discuss with client to minimize the packing. During the year, 3.4 tonnes of carton boxes were used. Reduce, reuse and recycle (3R) approach is adopted. Internal waste policy is established to ensure plastic waste are fully reused and recycled. Wastes are handled and separated on-site into general and hazardous waste in accordance to the National Hazardous Waste List. Hazardous waste is collected and disposed by qualified contractor.

Waste	**Unit**	
Hazardous waste	tonnes	20
Non-hazardous waste	tonnes	36

A2 Use of resources

Energy

Energy consumption is inevitable in any industry. Resources management procedure regulates the energy, gas and water used in the factory. The maintenance department continues to refine the high energy consumption area by replace with new equipment and environment practices.

Energy and fuel consumption	**Unit**	
Energy consumption	kwh	8,848,271
Energy consumption per number of production volume	kwh/piece	0.44

Water

Water consumption is less material compared to the energy consumption in the toy manufacturing. During the year, the Group has consumed 248,853 litres of water. Water is fully recycled and reused where possible. Condenser is installed in each work station to collect steam from the injection molding department. The Group obtained from the government the water discharge licenses and ensure any discharge complied with the regulations. Waste water treatment plant is in full operation. Treated water is reused in the production or in cleaning.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A3 The Environment and Natural Resources

Natural resources induce the healthiness of the ecosystem. Protecting the earth require everyone effort. Trainings have been arranged to raise staff awareness. Environmental consultant is engaged to monitor and provide suggestion for area of improvement regarding the environmental performance. Vegetarian and sustainable seafood options are provided for meal selection. To better manage company resources and reduce cost, the Group used Enterprise Resources Planning (ERP) system to continuous enhance operation excellence and paperless environment.

B SOCIAL

B1 Employment

The Group relies staff effort for its success. It is important to provide with employees the suitable working environment. Employment Policy is established based on the National Labour Law and revision will be made subsequent to any update by the regulators. The Group has been certified by ICTI CARE Foundation "Class A", which showcase its commitment to promote safe and fair working conditions. There is no complaint received during the reporting period.

The Group adopted fair employment system. Any form of discrimination is forbidden. Requirements are determined for each position. Work experience and business needs are the only consideration in the employment. All staff are treated equally on development opportunities and benefits.

The Group understands remuneration package itself might not fulfil employee needs. The Group takes into consideration the business performance and benchmark to the market for fair reward. All staff participate in the annual appraisal. It provides a platform for staff to discuss with their superior the needs and expectation. The Group also uses the appraisal system to seek for potentials.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Total workforce	Unit		
By Gender	No. of people*	Male	1024
		Female	1660
By employment type	No. of people*	Full time	2644
		Apprentice/intern	40
By age	No. of people*	15-24 years old	305
		25-34 years old	564
		35-44 years old	858
		45-54 years old	940
		55-64 years old	17
By employee category	No. of people*	Senior Management	7
		Middle Management	16
		Supervisor	27
		General staff	2634

Turnover rate			
By Gender	%	Male	47
		Female	53
By age	%	15-24 years old	23
		25-34 years old	29
		35-44 years old	25
		45-54 years old	24

* Average number of employees during the year 2017.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B2 Health and Safety

Employees health and safety is the priority. It is the Group's responsibility to provide a safe working environment. Health and safety committee is established to overview the overall health and safety performance. The committee member includes the senior human resource and administrative manager, safety manager, security and fire service representative, labour union representative and business units representative. It noticed the inherent occupation health and safety in the industry. Preventive actions have been in place to protect employees' health. Risk assessment is carried out in all work areas for potential hazards area. Personal protective equipment is provided to staff. Health checkup is arranged regularly. Jobs are rotated in planned schedule to reduce toxic gas exposure. Equipment and machineries are checked regularly to ensure efficiency and trustworthy.

The Group has certified OHSAS 18001 to systemize the occupational health and safety performance in work place. On top of social insurance governed by the Chinese Government, the Group purchases medical insurance surplus for extra protection. During the year, there was no work fatality recorded. However, the Group recorded that 1713 work days were lost due to work related accidents. Immediate support is provided to injured staff. The Committee has investigated into each of the accidents to avoid reoccurrence.

B3 Development and Training

Development evolves with the toy industry continuously. The Group is together with the staff to keep on track to the market changes. Training plan is established yearly with the business units and human resources department. Diverse topics including technical and management skills are provided. The Group sponsors the external trainings for staff to capture the latest technology in the market. All staff participated in certain training during the year. The average training received per staff is 16 hours.

The Group believes the new generation is the future star. Internships are offered to fresh graduates. Through intensive and structural training hoping to bring innovation creations to the Group. Experienced staff are invited to partner with new staff at work in order to share of experience and knowledge.

B4 Labour Standard

The Group believes children should enjoy their childhood rather than working. No children are allowed to work in any functions in the Group. Identification is checked during the employment process to ensure regulatory working age is met when onboard. Long working hours depreciate productivity and increase accident risk. The importance of work life balance is fully encouraged. Production schedule is arranged to avoid overtime work. Employees are entitled to statutory holidays and different types of paid leave. The Group neither encourage nor force to work overtime. Workflow will be reviewed when encounter huge amount of overtime work. Labor union is established. All staff are welcomed and free to participate. Staff could raise out their opinion freely. Meetings with the Group representatives are held monthly. Communication channels such as emails, phones and interviews are arranged for feedback.

B5 Supply Chain Management

The product cannot be delivered without the cooperation with suppliers. Long term partnership with suppliers enables us to achieve the goals. Purchase are made from 213 suppliers from China, 47 suppliers from Hong Kong and 2 from other countries during 2017. Financial is not the only consideration for supplier selection. Service quality and on-time delivery are also take into accounts. Evaluation and sites visit may be required before engagement. Supplier who is unable to meet the expectation might be removed from the qualified supplier list.

The Group work with our suppliers to achieve social sustainability. All sppliers are required to provide safe working environment and ethical business culture. Suppliers' assessment is carried out yearly to confirm the status. Regular meetings and sites visits are held with customers and suppliers to ensure meeting the requirement.

B6 Product Responsibility

Children are closely connected with toys in their grown up. As a responsible producer, the Group concentrates on produce high-quality and safe toys. Quality Management System ISO 9001:2015 is achieved to systemize the manufacturing process. Customers' requirements are continous reviewed to improve quality. Internal audits are carried out regularly to monitor the working stages. Quality checking is on-going throughout the production days to avoid failure at the end- product.

All input and output fulfilled the national and international regulations. Certificates and test reports are required for the incoming materials from suppliers. Laboratory certified by China National Accreditation Service (CNAS) is set up in the factory. Products are also tested by third-party laboratory before delivery. The Group deals with customers designs and other confidential information. The Group required its staff to safeguard the information together. Customers' information and designs are kept confidential at all time. No one is allowed to share the customer information to third party without consent.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Notwithstanding the Group devotes to work hard to safeguard the product safety, for preventive measures, recall system is prepared. The Group is delighted that there are no recalls received from customers during the reporting period. Although measures have been carried out to understand from customers, the Group is unable to satisfy all demand. Three complaint cases are received from customers. All of these complaint cases are handled immediately in accordance to the internal procedures. Investigations are carried out to identify the root case for continuous improvement.

B7 Anti-corruption

The Group operates in the highest standard of integrity. Any form of corruption and bribery destroys the brand images that has been built up from years. The code of conduct clearly outlines the area of anti-corruption risk and handling procedures. The standpoint against corruption is communicated to all staff and suppliers. Employees are expected to declare for any conflict of interest to human resources department. Internal control function is set up to review the operation flow and assure operation consistence. Whistle blowing channels such as emails, phone calls and comment box are established to report on any case of suspected case of anti-corruption. Any inappropriate situations will be reported to the management or the judiciary department. There were no report of suspected case of bribery, extortion, fraud and money laundering during reporting period.

B8 Community Investment

Business development are closely connected with the community. The Group uses its strength and resources to develop the community. There are many areas that require help. The Group believes monetary donation itself is not enough. Partnership with the local charitable organizations is one of the ways to provide direct impact. The Group encourages its staff to join hands to improve the community. Friends and family of employees are also welcomed to participate. Trees planting, community visit at child and elderly care center and other community services such as sport events at local school are organized. Toys and stationery are dispatched during the visit. Over 1,200 volunteer hours and HK$35,000 are dedicated in 2017. Sponsorship is made to the local schools and sports events are participated together with students. The Group continues to support the community with the strength and resource for community betterment.

BIOGRAPHICAL DETAILS OF DIRECTORS

The biographical details of Directors as at 28 March 2018, the date of this annual report, are set out below:

EXECUTIVE DIRECTORS

Mr. Xing Wei, *Chairman*

Aged 53, joined the Company as an Executive Director and was appointed the Chairman of the Company on 8 May 2017. Mr. Xing holds a Bachelor of Economics degree from Sun Yat-Sen University. Mr. Xing has extensive experience in property investment and management, trading and international investments. From 1985 to 1995, Mr. Xing worked at the PRC office of The World Food Programme, the food-assistance branch of the United Nations and the world's largest humanitarian organization addressing hunger and promoting food security. Subsequently, from 1995 to 2015, Mr. Xing was the chief executive officer of Landmark Investment & Development Pty Ltd, a company incorporated in Australia carrying on the business of property investment and management.

Mr. Wei Guo

Aged 53, joined the Company as an Executive Director on 16 November 2017. Mr. Wei holds a Bachelor's degree in Labour, Human Resources and Economic Management from the Renmin University of China. Since 2014, Mr. Wei has been the chairman of Beijing Hua Anxiang Helicopter Company Limited# (北京華安祥直升機有限公司) and the chairman of Beijing Kaisheng Investment Company Limited# (北京啟晟投資有限公司). From 2008 to 2014, Mr. Wei was the deputy general manager of Beijing Peng Xing Estate Development Company Limited# (北京鵬興房地產開發有限公司).

NON-EXECUTIVE DIRECTOR

Mr. Lin Shaopeng

Aged 59, joined the Company as a consultant in December 2014 and a Non-executive Director of the Company on 18 December 2017. He has been providing advisory services to the Group's toys operation since December 2014. Mr. Lin is also a director of several subsidiaries of the Company. Mr. Lin has extensive experience in factory and logistics management in the PRC.

Literal translation of the Chinese company name

BIOGRAPHICAL DETAILS OF DIRECTORS

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

Aged 64, joined the Company as an Independent Non-executive Director on 10 November 2014. Mr. Li holds a Bachelor's degree of Law and a Master's degree of Law from Peking University Law School, a LL. M degree from Harvard Law School and a Diploma for Harvard International Tax Research Programme. Mr. Li is a partner of Tian Yuan Law Firm, Beijing office and an arbitrator of China International Economic and Trade Arbitration Commission as well as Shenzhen Court of International Arbitration.

Mr. Lau Shun Pong Johnson, *Chairman of the Remuneration Committee and member of the Audit Committee and the Nomination Committee*

Aged 44, joined the Company as an Independent Non-executive Director on 31 October 2017. Mr. Lau obtained a Bachelor's degree in Commerce in April 1996 from Monash University, Australia. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and Certified Public Accountant of the Australian Society of Certified Practising Accountants. Mr. Lau has over 20 years of experience in the accounting profession. Mr. Lau is the chief financial officer of China Golden Classic Group Limited ("China Golden"), a company listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (stock code: 8281) since July 2015 and further appointed as the company secretary of China Golden on 17 June 2016. Mr. Lau was employed by Deloitte Touche Tohmatsu CPA Limited in Hong Kong and Beijing from 1997 to 2004. Mr. Lau worked in various public companies in the United States and England as director of finance and chief financial officer for over 10 years. Mr. Lau has been appointed as an independent director of Future FinTech Group Inc. (formerly known as "SkyPeople Juice, Inc."), a company listed on the NASDAQ Capital Market (NASDAQ code: FTFT), on 23 December 2014.

Mr. Lai Ming Wai, *Member of the Audit Committee, the Remuneration Committee and the Nomination Committee*

Aged 58, joined the Company as an Independent Non-Executive Director on 18 December 2017. Mr. Lai holds a Bachelor of Social Sciences degree from The University of Hong Kong. Mr. Lai was a senior executive of Bank of America and was primarily responsible for developing and managing the business of the bank in southern region of the PRC. He has extensive experience in the banking and finance industry. Mr. Lai was an executive director and the chairman of Courage Investment Group Limited (stock code: 1145), a company primarily listed on the Main Board of the Stock Exchange and secondarily listed on the Singapore Exchange Securities Trading Limited from 19 October 2017 to 28 February 2018 and was an executive director and the chief executive officer of Courage Investment Group Limited from 14 October 2015 to 31 March 2017. He was also an executive director of Enviro Energy International Holdings Limited (stock code: 1102), a company listed on the Main Board of the Stock Exchange until 15 September 2017. Mr. Lai is a non-executive director of Hong Wei (Asia) Holdings Limited (stock code: 8191), a company listed on the Growth Enterprise Market of the Stock Exchange since 10 July 2015. He is also an executive director and the chief executive officer of Sustainable Forest Holdings Limited (stock code: 723), a company listed on the Main Board of the Stock Exchange since 1 March 2018.

REPORT OF THE DIRECTORS

The Directors hereby present their report and the audited consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company is investment holding and the principal activities of its subsidiaries are set out in note 44 to the consolidated financial statements.

Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a description of the principal risks and uncertainties facing the Company and an indication of likely future development in the Company's business, can be found in the Chairman's Statement and the Management Discussion and Analysis set out on pages 7 to 13 of this annual report. This discussion forms part of this Report of the Directors.

RESULTS

The results of the Group for the year ended 31 December 2017 are set out in the consolidated statement of profit or loss on page 46.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend in respect of the year ended 31 December 2017 (2016: nil).

FIVE YEARS FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the last five financial years is set out on page 126.

SHARE CAPITAL

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

DISTRIBUTABLE RESERVES

As at 31 December 2017, the Company's reserve available for distribution, calculated in accordance with the provisions of the Companies Act 1981 of Bermuda and the Bye-laws of the Company, amounted to HK$nil (2016: HK$nil).

PRE-EMPTIVE RIGHTS

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

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

During the year ended 31 December 2017, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

MAJOR CUSTOMERS AND SUPPLIERS

During the year under review, sales to the Group's five largest customers accounted for approximately 93% of the total sales for the year and sales to the largest customer accounted for approximately 76%. Purchases from the Group's five largest suppliers accounted for approximately 31.5% of the total purchases for the year and purchases from the largest supplier accounted for approximately 10.5%.

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

DIRECTORS

Executive Directors:

Mr. Xing Wei	(appointed on 8 May 2017)
Mr. Wei Guo	(appointed on 16 November 2017)
Mr. Zhang Jack Jiyei	(resigned on 16 November 2017)

Non-executive Directors:

Mr. Lin Shaopeng	(appointed on 18 December 2017)
Mr. Lo Ming Chi, Charles	(resigned on 18 December 2017)

Independent Non-executive Directors:

Mr. Li Fang	
Mr. Lau Shun Pong Johnson	(appointed on 31 October 2017)
Mr. Lai Ming Wai	(appointed on 18 December 2017)
Mr. Wong Kee Fung Kenneth	(deceased on 30 October 2017)
Mr. Wong Kwok Tai	(resigned on 18 December 2017)

REPORT OF THE DIRECTORS

DIRECTORS' SERVICE CONTRACTS

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

UPDATES ON DIRECTORS' INFORMATION

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

1. Mr. Lai Ming Wai resigned as an executive director and ceased to be the chairman of Courage Investment Group Limited (stock code: 1145), a company primarily listed on the Main Board of the Stock Exchange and secondarily listed on the Singapore Exchange Securities Trading Limited, on 28 February 2018. Besides, he is appointed as an executive director and the chief executive officer of Sustainable Forest Holdings Limited (stock code: 723), a company listed on the Main Board of the Stock Exchange, on 1 March 2018.

DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

INDEMNITY OF DIRECTORS

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

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

Save as disclosed in the section headed "MATERIAL RELATED PARTY TRANSACTIONS" disclosure in note 35 to the consolidated financial statements, no contract of significance to which the Company or any of its subsidiaries was a party and in which a director or the controlling shareholder of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

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

As at 31 December 2017, the interests of each of the directors or the chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Listing Rules were as follows:

Long positions in the shares and underlying shares of the Company

Name of Director	Capacity and nature of interest	Personal interest	Corporate interest	Total interest	Approximate percentage of the Company's issued share capital *(Note 2)*
Mr. Xing Wei ("Mr. Xing")	Beneficial owner	10,000,000	–	10,000,000	0.27%
	Interest of controlled corporation	–	651,995,472	651,995,472 *(Note 1)*	17.81%
Mr. Li Fang	Beneficial owner	1,820,000	–	1,820,000	0.05%

Note:

1. 651,995,472 shares were held by Right Perfect Limited, which was a wholly-owned subsidiary of Brilliant Vision Global Limited ("BVG"). BVG was owned as to 58% by Ms. Zhao Yuanyuan and 42% by Mr. Xing, an Executive Director of the Company. Accordingly, Mr. Xing, Ms. Zhao Yuanyuan and BVG were deemed to be interested in 651,995,472 shares of the Company under the SFO.

2. The percentage of shareholding is calculated on the basis of 3,661,864,729 shares of the Company in issue as at 31 December 2017.

Save as disclosed above and in the "EQUITY-SETTLED SHARE-BASED PAYMENTS" disclosure in note 30 to the consolidated financial statements, as at 31 December 2017, none of the directors or chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the sections headed "DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES" and "EQUITY-SETTLED SHARE-BASED PAYMENTS" disclosure in note 30 to the consolidated financial statements, at no time during the year ended 31 December 2017 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors or their spouse or minor children had any rights to subscribe for the securities of the Company, or had exercised any such rights during the year.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 31 December 2017, the following interests of more than 5% of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to section 336 of the SFO:

Long positions in the shares of the Company

Name of shareholder	Capacity and nature of interest	Personal interest	Corporate interest	Number of shares held	Approximate percentage of the Company's issued share capital *(Note 5)*
Mr. Xing Wei ("Mr. Xing")	Beneficial owner	10,000,000	–	10,000,000	0.27%
	Interest of controlled corporation	–	651,995,472	651,995,472 *(Note 1)*	17.81%
Ms. Zhao Yuanyuan ("Ms. Zhao")	Beneficial owner	4,996,000	–	4,966,000	0.14%
	Interest of spouse	3,540,000	–	3,540,000	0.10%
	Interest of controlled corporation	–	651,995,472	651,995,472 *(Note 1)*	17.81%
China Strategic Holdings Limited ("CSH")	Interest of controlled corporation	–	651,995,472	651,995,472 *(Note 2)*	17.81%
Mr. Ji Xiang (" Mr. Ji")	Interest of controlled corporation	–	496,976,000	496,976,000 *(Note 3)*	13.57%
Ms. Zhang Yuqin ("Ms. Zhang")	Interest of controlled corporation	–	400,000,000	400,000,000 *(Note 4)*	10.92%

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

Notes:

1. 651,995,472 shares were held by Right Perfect Limited, which was a wholly-owned subsidiary of Brilliant Vision Global Limited ("BVG"). BVG was owned as to 58% by Ms. Zhao and 42% by Mr. Xing, an Executive Director of the Company. Accordingly, Mr. Xing, Ms. Zhao and BVG were deemed to be interested in 651,995,472 shares of the Company under the SFO.

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

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

4. 400,000,000 shares were held by Lasting Wealth Enterprises Holdings Limited, which was owned as to 100% by Ms. Zhang. Accordingly, Ms. Zhang was deemed to be interested in 400,000,000 shares of the Company under the SFO.

5. The percentage of shareholding is calculated on the basis of 3,661,864,729 shares of the Company in issue as at 31 December 2017.

Save as disclosed above, the Company had not been notified of other relevant interests or short positions in the shares and underlying shares of the Company as at 31 December 2017 as required pursuant to section 336 of the SFO.

SUFFICIENCY OF PUBLIC FLOAT

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

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

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

RELATIONSHIP WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group understands the importance of maintaining a good relationship with its employees, customers and suppliers to meet its immediate and long-term business goals. During the year ended 31 December 2017, there were no material and significant dispute between the Group and its employees, customers and suppliers.

REPORT OF THE DIRECTORS

ENVIRONMENTAL POLICY AND PERFORMANCE

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

AUDITORS

The consolidated financial statements for the year ended 31 December 2017 have been audited by Deloitte Touche Tohmatsu who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Xing Wei
Chairman

Hong Kong, 28 March 2018

CORPORATE GOVERNANCE REPORT

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

CORPORATE GOVERNANCE

During the year ended 31 December 2017, the Company had complied with all the applicable code provisions of the Corporate Governance Code set out in Appendix 14 of the Listing Rules except for the following deviation with reason as explained.

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

One Non-executive Director and two Independent Non-executive Directors of the Company were unable to attend the special general meeting of the Company held on 13 February 2017 due to other prior business engagements. One Executive Director and one Independent Non-executive Director of the Company were unable to attend the annual general meeting of the Company held on 1 June 2017 due to other prior business engagements. However, there were at least one Executive Director and one Independent Non-executive Director presented at each meeting to enable the Board to develop a balanced understanding of the views of shareholders of the Company.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted its own code of conduct regarding directors' dealings in the Company's securities (the "Own Code") on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. Specific enquiries have been made with the Directors and they have confirmed their compliance with the Own Code and the Model Code during the year ended 31 December 2017.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS

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

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

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

As at the date of this annual report, the Board comprises six Directors, including two Executive Directors, namely Mr. Xing Wei (Chairman) and Mr. Wei Guo; one Non-executive Director, namely Mr. Lin Shaopeng; and three Independent Non-executive Directors, namely Mr. Li Fang, Mr. Lau Shun Pong Johnson and Mr. Lai Ming Wai. The Company has received from each of the Independent Non-executive Director an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all Independent Non-executive Directors are independent in accordance with the independence guidelines set out in the Listing Rules. Biographical details of the Directors are set out under the section headed "BIOGRAPHICAL DETAILS OF DIRECTORS" on pages 22 to 23 of this annual report.

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

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

BOARD OF DIRECTORS (Continued)

During the year ended 31 December 2017, three regular full Board meetings and two general meetings were held and the attendance of each director is set out as follows:

	Number of attendance	
Name of directors	**Board Meetings**	**General Meetings**
Executive Directors		
Mr. Xing Wei (appointed on 8 May 2017)	1/3	1/2
Mr. Wei Guo (appointed on 16 November 2017)	0/3	0/2
Mr. Zhang Jack Jiyei (resigned on 16 November 2017)	3/3	2/2
Non-executive Directors		
Mr. Lin Shaopeng (appointed on 18 December 2017)	0/3	0/2
Mr. Lo Ming Chi, Charles (resigned on 18 December 2017)	3/3	1/2
Independent Non-executive Directors		
Mr. Li Fang	3/3	0/2
Mr. Lau Shun Pong Johnson (appointed on 31 October 2017)	0/3	0/2
Mr. Lai Ming Wai (appointed on 18 December 2017)	0/3	0/2
Mr. Wong Kee Fung Kenneth (deceased on 30 October 2017)	3/3	1/2
Mr. Wong Kwok Tai (resigned on 18 December 2017)	3/3	2/2

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

There are two key aspects of the management of the Company – the management of the Board and the day-to-day management of the Group's business. The Company supports that there should be a clear division of these responsibilities at the Board level to ensure a balance of power and authority, so that power is not concentrated in any one individual. Currently, Mr. Xing Wei ("Mr. Xing"), the Chairman of the Board and the Executive Director of the Company, takes up the responsibility of the management of the Board. Following Mr. Zhang Jack Jiyei's resignation as Chief Executive Officer of the Company on 12 October 2017 and the Executive Director of the Company on 16 November 2017, the Company does not have designated Chief Executive Officer. The responsibility for the management of the Board has been shared by the directors of the Company to balance the power and authority. The Board would review and monitor the situation on a regular basis and would ensure that the present structure would not impair the balance of power in the Company.

NON-EXECUTIVE DIRECTORS

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

REMUNERATION COMMITTEE

The Remuneration Committee has specific written terms of reference as set out in the CG Code. As at the date of this annual report, the Remuneration Committee comprises three Independent Non-executive Directors, namely Mr. Li Fang, Mr. Lau Shun Pong Johnson and Mr. Lai Ming Wai. Mr. Lau Shun Pong Johnson is the Chairman of the Remuneration Committee.

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

The Remuneration Committee met two times during the year ended 31 December 2017 to review the remuneration packages for directors. The attendance of each member is set out as follows:

Name of member	**Number of attendance**
Mr. Lau Shun Pong Johnson (appointed on 31 October 2017)	1/2
Mr. Li Fang	2/2
Mr. Lai Ming Wai (appointed on 18 December 2017)	0/2
Mr. Wong Kee Fung Kenneth (deceased on 30 October 2017)	1/2
Mr. Wong Kwok Tai (resigned on 18 December 2017)	2/2

CORPORATE GOVERNANCE REPORT

NOMINATION COMMITTEE

The Nomination Committee has specific written terms of reference as set out in the CG Code. As at the date of this annual report, the Nomination Committee comprises three Independent Non-executive Directors, namely Mr. Li Fang, Mr. Lau Shun Pong Johnson and Mr. Lai Ming Wai. Mr. Li Fang is the Chairman of the Nomination Committee.

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

The Nomination Committee met one time during the year ended 31 December 2017 to review the appointment of the directors, the structure, size and composition of the Board. The attendance of each member is set out as follows:

Name of member	Number of attendance
Mr. Li Fang	1/1
Mr. Lau Shun Pong Johnson (appointed on 31 October 2017)	0/1
Mr. Lai Ming Wai (appointed on 18 December 2017)	0/1
Mr. Wong Kee Fung Kenneth (deceased on 30 October 2017)	1/1
Mr. Wong Kwok Tai (resigned on 18 December 2017)	1/1

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

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE

The Audit Committee has specific written terms of reference as set out in the CG Code. As at the date of this annual report, the Audit Committee comprises three Independent Non-executive Directors, namely Mr. Li Fang, Mr. Lau Shun Pong Johnson and Mr. Lai Ming Wai. Mr. Li Fang is the Chairman of the Audit Committee.

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

The Audit Committee met two times during the year ended 31 December 2017 and the attendance of each member is set out as follows:

Name of member	Number of attendance
Mr. Li Fang	2/2
Mr. Lau Shun Pong Johnson (appointed on 31 October 2017)	0/2
Mr. Lai Ming Wai (appointed on 18 December 2017)	0/2
Mr. Wong Kee Fung Kenneth (deceased on 30 October 2017)	2/2
Mr. Wong Kwok Tai (resigned on 18 December 2017)	2/2

The following is a summary of work performed by the Audit Committee during the year ended 31 December 2017:

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

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

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

AUDITOR AND AUDITOR'S REMUNERATION

The consolidated financial statements of the Company for the year ended 31 December 2017 have been audited by Deloitte Touche Tohmatsu ("DTT"). The statement of the external auditor of the Company about its reporting responsibilities on the Company's consolidated financial statements for the year ended 31 December 2017 is set out in the section headed "Independent Auditor's Report" on pages 41 to 45 of this annual report.

During the year ended 31 December 2017, the following fees were paid or payable to DTT, the auditor of the Company, and Deloitte & Touche Corporate Finance Ltd. ("DTCF"):

	HK$'000
Fee for audit services *(Note a)*	2,000
Fee for non-audit services *(Note b)*	1,900
Total	3,900

Notes:

(a) The audit services provided by DTT.

(b) The amount included HK$1,900,000 non-audit services provided by DTCF.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the consolidated financial statements of the Company for the year ended 31 December 2017 and are not aware of any material uncertainties relating to events or conditions which may cast significant doubt over the Company's ability to continue as a going concern. Accordingly, the Directors continue to adopt the going concern basis in preparing the consolidated financial statements.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE FUNCTIONS

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

INTERNAL CONTROL

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

The Group has a positive attitude to internal controls improvements. For the purpose of strengthening its existing internal control system, the Company has appointed an independent professional firm to perform a review of the Group's selected internal control cycles during the year ended 31 December 2017. The internal control review report has been reviewed by the Audit Committee.

COMPANY SECRETARY

Mr. Lau On Kwok ("Mr. Lau") was appointed as the Company Secretary of the Company on 10 November 2014. Mr. Lau is a full time employee of the Company who has day-to-day knowledge of the Company. Mr. Lau has taken no less than 15 hours of the relevant professional training during the year ended 31 December 2017.

SHAREHOLDERS' RIGHTS

Procedures for shareholders to convene a special general meeting

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

Procedures for shareholders to put forward proposals at general meetings

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

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

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

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

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS (Continued)

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

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

Procedures for directing shareholders' enquiries to the Board

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

INVESTOR RELATIONS

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

INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

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

Opinion

We have audited the consolidated financial statements of Winshine Science Company Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 46 to 125, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

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

Key Audit Matters

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

INDEPENDENT AUDITOR'S REPORT

Key audit matters	How our audit addressed the key audit matters
Valuation of inventories	
We identified the valuation of inventories as a key audit matter because of the significant judgement exercised by management in identifying obsolete and slow-moving inventory items that are no longer suitable for use in production or for sale and determining the appropriate levels of write down of inventories. As set out in note 5 to the consolidated financial statements, in determining the write down of obsolete and slow-moving inventory items, the management considers the ageing of inventories and carries out an inventory review on a product-by-product basis. As at 31 December 2017, the carrying amount of inventories is HK$83,987,000 and write down of inventories of HK$11,146,000 was charged to profit or loss for the year then ended.	Our audit procedures in relation to evaluating the reasonableness of the valuation of inventories included: • Understanding the inventory allowance policy of the Group in the identification of obsolete and slow-moving inventories and measurement of the write down of inventories; • Assessing whether the write down of inventories at the end of the reporting period was calculated in a manner consistent with the Group's inventory write down policy; • Testing the accuracy of the Group's inventories ageing analysis, on a sample basis, to purchase invoices or production notes and assessing whether the write down of inventories is reasonable based on the factors considered by the management; • Enquiring the management and the sales team about any expected changes in plans for markdown or disposal of obsolete and slow-moving inventories on a product-by-product basis; and • Comparing the carrying value of inventories to actual prices for sales transactions subsequent to the end of the reporting period, on a sample basis.

INDEPENDENT AUDITOR'S REPORT

Key audit matters	How our audit addressed the key audit matters
Valuation of trade receivables	
We identified the valuation of trade receivables as a key audit matter due to the use of judgement and estimates by the management on the evaluation of the recoverability of trade receivables. As set out in note 5 to the consolidated financial statements, in determining the impairment loss on trade receivables, the management considers the credit history of its customers, including default or delay in payments, settlement records, subsequent settlements and ageing analysis of the trade receivables. As at 31 December 2017, the carrying amount of trade receivables is HK$114,700,000. No impairment loss was recognised as at 31 December 2017	Our procedures in relation to evaluating the recoverability of trade receivables included: • Obtaining an understanding of the Group's trade receivables impairment policy and the controls over monitoring of trade receivables; • Testing the accuracy of the Group's trade receivables ageing analysis, on a sample basis, to sales invoices; • Assessing whether impairment assessment by management is reasonable based on the credit history of its customers, including default or delay in payments, settlement records, subsequent settlements and ageing analysis of the trade receivables; • Testing the subsequent settlements, on a sample basis, to bank remittance advice; and • Inquiring management for follow up plan on overdue trade receivables without subsequent settlement.

Other Information

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
28 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2017

	NOTES	2017 HK$'000	2016 HK$'000
Revenue	6	**589,933**	236,174
Cost of sales		**(502,364)**	(220,750)
Gross profit		**87,569**	15,424
Other income, gains and losses	7	**(7,027)**	23,871
Selling and distribution costs		**(9,441)**	(5,063)
Administrative expenses		**(101,277)**	(75,763)
Research and development expenses		**(6,389)**	(20,690)
Changes in fair value of trading securities		**(7,016)**	(150,802)
Other operating expenses		**(12,436)**	(4,208)
Finance costs	9	**(11,808)**	(6,993)
Loss before taxation	8	**(67,825)**	(224,224)
Income tax expense	12	**(9,908)**	(3,072)
Loss for the year		**(77,733)**	(227,296)
Loss per share			
Basic and diluted	14	**(HK2.25 cents)**	(HK8.92 cents)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

	NOTES	2017 HK$'000	2016 HK$'000
Loss for the year		**(77,733)**	(227,296)
Other comprehensive income (loss)			
Items that will not be reclassified to profit or loss:			
Revaluation surplus (deficit) on leasehold buildings	*15*	**10,310**	(1,440)
Deferred tax charge arising from revaluation surplus on leasehold buildings	*27*	**(420)**	(287)
		9,890	(1,727)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		**23,047**	(14,089)
Other comprehensive income (loss) for the year, net of tax		**32,937**	(15,816)
Total comprehensive loss for the year		**(44,796)**	(243,112)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

	NOTES	2017 HK$'000	2016 HK$'000
Non-current assets			
Property, plant and equipment	15	**123,283**	110,530
Prepaid land premiums	16	**3,873**	4,246
Investment properties	17	**101,926**	37,631
Deposit paid for construction of properties		**65,438**	61,151
Deposit paid for purchase of property, plant and equipment		**–**	12,500
		294,520	226,058
Current assets			
Trading securities	18	**27,579**	34,595
Inventories	19	**83,987**	41,566
Prepaid land premiums	16	**143**	152
Trade receivables	20	**114,700**	29,311
Loan receivables	21	**16,159**	48,403
Prepayments, deposits and other receivables	22	**62,767**	51,393
Pledged bank deposits	23	**21,474**	2,570
Cash and cash equivalents	23	**131,523**	78,497
		458,332	286,487
Current liabilities			
Trade and bills payables	24	**171,375**	51,187
Other payables and accruals	25	**44,908**	28,256
Borrowings	26	**184,662**	119,569
Tax payables		**9,679**	4,882
		410,624	203,894
Net current assets		**47,708**	82,593
Total assets less current liabilities		**342,228**	308,651
Non-current liabilities			
Borrowings	26	**–**	45,000
Deferred tax liabilities	27	**9,060**	8,087
		9,060	53,087
Net assets		**333,168**	255,564

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

	NOTES	**2017** ***HK$'000***	2016 *HK$'000*
Equity			
Share capital	*28*	**366,186**	298,186
Deficit		**(33,018)**	(42,622)
Total equity		**333,168**	255,564

The consolidated financial statements on pages 46 to 125 were approved and authorised for issue by the directors on 28 March 2018 and are signed on its behalf by:

Xing Wei
Director

Wei Guo
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

	Issued share capital *HK$'000*	Share premium *HK$'000*	Asset revaluation reserve *HK$'000*	Statutory reserve fund *HK$'000* *(Note)*	Share options reserve *HK$'000*	Warrant reserve *HK$'000*	Exchange fluctuation reserve *HK$'000*	Accumulated losses *HK$'000*	Total equity *HK$'000*
At 1 January 2016	248,489	858,182	47,821	8,745	66,953	–	30,276	(871,569)	388,897
Loss for the year	–	–	–	–	–	–	–	(227,296)	(227,296)
Other comprehensive loss	–	–	(1,727)	–	–	–	(14,089)	–	(15,816)
Total comprehensive loss for the year	–	–	(1,727)	–	–	–	(14,089)	(227,296)	(243,112)
Issue of shares	49,697	29,818	–	–	–	–	–	–	79,515
Issue of warrants *(note 29)*	–	–	–	–	–	31,200	–	–	31,200
Transaction costs attributable to issue of warrants	–	–	–	–	–	(936)	–	–	(936)
Revaluation reserve realised	–	–	(1,562)	–	–	–	–	1,562	–
Appropriation to statutory reserve fund	–	–	–	640	–	–	–	(640)	–
At 31 December 2016	**298,186**	**888,000**	**44,532**	**9,385**	**66,953**	**30,264**	**16,187**	**(1,097,943)**	**255,564**
Loss for the year	–	–	–	–	–	–	–	(77,733)	(77,733)
Other comprehensive income	–	–	9,890	–	–	–	23,047	–	32,937
Total comprehensive income (loss) for the year	–	–	9,890	–	–	–	23,047	(77,733)	(44,796)
Issue of shares	68,000	54,400	–	–	–	–	–	–	122,400
Revaluation reserve realised	–	–	(1,536)	–	–	–	–	1,536	–
Share options lapsed *(note 30)*	–	–	–	–	(8,260)	–	–	8,260	–
Warrants lapsed *(note 29)*	–	–	–	–	–	(30,264)	–	30,264	–
Appropriation to statutory reserve fund	–	–	–	845	–	–	–	(845)	–
At 31 December 2017	**366,186**	**942,400**	**52,886**	**10,230**	**58,693**	**–**	**39,234**	**(1,136,461)**	**333,168**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

	2017 HK$'000	2016 HK$'000
Operating activities		
Loss before taxation	**(67,825)**	(224,224)
Adjustments for:		
Finance costs	**11,808**	6,993
Interest income	**(2,936)**	(7,980)
Amortisation of prepaid land premiums	**146**	151
Depreciation of property, plant and equipment	**9,086**	9,166
Unrealised loss on fair value of trading securities	**7,016**	138,413
Change in fair value of investment properties	**(2,146)**	(3,953)
Gain on disposal of a prepaid land premium	**(3,625)**	–
Loss on disposal of property, plant and equipment	**16**	78
Impairment loss on deposit paid for purchase of property, plant and equipment	**12,500**	–
Impairment loss on trade receivables	**–**	2,609
Write down of inventories, net	**11,146**	9,072
Other operating expenses related to investing activities	**10,016**	4,208
Operating loss before changes in working capital	**(14,798)**	(65,467)
Increase in inventories	**(56,039)**	(13,276)
Increase in trade receivables	**(68,540)**	(16,454)
(Increase) decrease in prepayments, deposits and other receivables	**(9,966)**	22,846
Increase in trade payables	**113,771**	2,901
Increase (decrease) in other payables and accruals	**14,483**	(7,913)
Decrease in trading securities	**–**	82,984
Cash (used in) generated from operations	**(21,089)**	5,621
Interest received	**63**	310
Interest paid	**(11,702)**	(6,993)
Income tax paid	**(4,291)**	(2,121)
Net cash used in operating activities	**(37,019)**	(3,183)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

	NOTE	2017 HK$'000	2016 HK$'000
Investing activities			
Payment for the purchase of property, plant and equipment		**(10,602)**	(3,549)
Proceeds from disposal of property, plant and equipment		**393**	74
Proceed from disposal of a prepaid land premium		**3,861**	–
Acquisition of assets through acquisition of a subsidiary	*36*	**(50,312)**	(69,443)
Other operating expenses paid in relation to investing activities		**(10,016)**	(4,208)
Advance of loan receivables		**(7,800)**	(13,300)
Receipt of loan receivables		**34,801**	12,897
Interest received		**4,981**	10,542
Deposit paid for construction of properties		**–**	(61,151)
Placement of pledged bank deposits		**(18,904)**	–
Withdrawal of pledged bank deposits		**–**	10,079
Net cash used in investing activities		**(53,598)**	(118,059)
Financing activities			
Proceeds from borrowings		**405,102**	366,037
Repayment of borrowings		**(390,377)**	(301,797)
Proceeds from issue of shares		**122,400**	79,515
Proceeds from issue of warrants		**–**	31,200
Transaction costs attributable to issue of warrants		**–**	(936)
Net cash from financing activities		**137,125**	174,019
Net increase in cash and cash equivalents		**46,508**	52,777
Cash and cash equivalents at 1 January		**78,497**	26,005
Effect of foreign exchange rate changes		**6,518**	(285)
Cash and cash equivalents at 31 December		**131,523**	78,497
Analysis of balances of cash and cash equivalents			
Cash and cash equivalents		**131,523**	78,497

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

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

The principal activity of the Company is investment holding. The principal activities of its principal subsidiaries are set out in note 44.

The consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") are presented in Hong Kong dollars ("HK$"), which is also the functional currency of the Company.

2. STATEMENT OF COMPLIANCE

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

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

3. APPLICATION OF NEW AND REVISED HKFRSs

Amendments to HKFRSs that are mandatorily effective for the current year

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

Amendments to HKAS 7	Disclosure initiative
Amendments to HKAS 12	Recognition of deferred tax assets for unrealised losses
Amendments to HKFRS 12	As part of the annual improvements to HKFRSs 2014 - 2016 cycle

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

Amendments to HKAS 7 "Disclosure initiative"

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flow from those financial assets were or future cash flows will be included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other business; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of the relevant items is provided in note 38. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in note 38, the application of these amendments has had no impact on the Group's consolidated financial statements.

3. APPLICATION OF NEW AND REVISED HKFRSs (Continued)

New and revised HKFRSs in issue but not yet effective

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

HKFRS 9	Financial instruments[1]
HKFRS 15	Revenue from contracts with customers and the related amendments[1]
HKFRS 16	Leases[2]
HKFRS 17	Insurance contracts[4]
HK(IFRIC) - Int 22	Foreign currency transactions and advance consideration[1]
HK(IFRIC) - Int 23	Uncertainty over income tax treatments[2]
Amendments to HKFRS 2	Classification and measurement of share-based payment transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial instruments with HKFRS 4 Insurance contracts[1]
Amendments to HKFRS 9	Prepayment features with negative compensation[2]
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture[3]
Amendments to HKAS 28	Long-term interests in associates and joint ventures[2]
Amendments to HKAS 28	As part of the annual improvements to HKFRSs 2014 - 2016 cycle[1]
Amendments to HKAS 40	Transfers of investment property[1]
Amendments to HKFRSs	Annual improvements to HKFRSs 2015-2017 cycle[2]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2021

Except for the new and revised HKFRSs mentioned below, the directors of the Company anticipate that the application of all other new and revised HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

3. APPLICATION OF NEW AND REVISED HKFRSs (Continued)

HKFRS 9 "Financial instruments"

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

Key requirements of HKFRS 9 are described below:

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

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

Based on the Group's financial instruments and risk management policies as at 31 December 2017, the directors of the Company anticipate the following potential impact on initial application of HKFRS 9:

3. APPLICATION OF NEW AND REVISED HKFRSs (Continued)

HKFRS 9 "Financial instruments" (Continued)

Classification and measurement:

- Debt instruments classified as loan receivables carried at amortised cost: these are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, these financial assets will continue to be subsequently measured at amortised cost upon the application of HKFRS 9;

- All financial liabilities will continue to be measured on the same bases as are currently measured under HKAS 39.

Impairment:

In general, the directors of the Company anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of HKFRS 9 by the Group.

Based on the assessment by the directors of the Company, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by the Group as at 1 January 2018 would be increased as compared to the accumulated amount recognised under HKAS 39 mainly attributable to expected credit losses provision on trade receivables. Such further impairment recognised under expected credit loss model would reduce the opening accumulated profits at 1 January 2018.

HKFRS 15 "Revenue from contracts with customers"

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

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

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

3. APPLICATION OF NEW AND REVISED HKFRSs (Continued)

HKFRS 15 "Revenue from contracts with customers" (Continued)

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

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

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

HKFRS 16 "Leases"

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

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

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

3. APPLICATION OF NEW AND REVISED HKFRSs (Continued)

HKFRS 16 "Leases" (Continued)

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

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of HK$3,911,000 as disclosed in note 33. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16.

In addition, the Group currently considers refundable rental deposits paid as right under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosures as indicated above.

4. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation of the consolidated financial statements

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of preparation of the consolidated financial statements (Continued)

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

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

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

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

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

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

Basis of consolidation

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

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

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

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

Acquisition of a subsidiary not constituting a business

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

Property, plant and equipment

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

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

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment properties

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

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

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

Impairment of tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Recoverable amount is the higher of fair value less costs of disposal and value in use. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset (or a cash-generating unit). If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of tangible assets (Continued)

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

Leases

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

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

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

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

Financial assets

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

Effective interest method

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

Interest income is recognised on an effective interest basis for debt instruments.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Financial assets carried at fair value through profit or loss are initially recognised at fair value.

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

Loans and receivables

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

Impairment of financial assets

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments

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

Equity instruments

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

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Financial liabilities

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Derecognition

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

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

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

Inventories

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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

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

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

Revenue recognition

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

(a) revenue from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither continuing managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; the amount of revenue can be measured reliably; it is probable that the economic benefits associated with the transaction will flow to the Group; and the costs incurred or to be incurred in respect of the transaction can be measured reliably. This is usually taken as the time when the goods are delivered and titles have passed;

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

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

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

Employee benefits

Pension schemes

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

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

Short-term employee benefits

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee benefits (Continued)

Share-based payment arrangements

Share-based payment transactions of the Company

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity.

At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

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

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

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

Borrowing costs

Borrowing costs are recognised in profit or loss in the period in which they are incurred.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Valuation of inventories

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

During the year ended 31 December 2017, write down of inventories of HK$11,146,000 (2016: HK$9,072,000) was charged to profit or loss. As at 31 December 2017, the carrying amount of the Group's inventories is HK$83,987,000 (2016: HK$41,566,000).

Valuation of trade receivables

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

As at 31 December 2017, the carrying amount of the Group's trade receivable is HK$114,700,000 (2016: HK$29,311,000). No impairment loss was recognised in current year. As at 31 December 2016, an amount of HK$2,609,000 was recognised as impairment loss due to financial difficulties of the relevant customers.

Estimate fair value of leasehold buildings

The Group's leasehold buildings are stated at valuation less accumulated depreciation in accordance with the accounting policies stated in note 4 to the consolidated financial statements. The valuations of the leasehold buildings are determined by independent qualified professional valuer, as set out in note 15 to the consolidated financial statements. Such valuation was based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. As at 31 December 2017, the carrying amount of the Group's leasehold buildings is HK$103,000,000 (2016: HK$96,000,000).

5. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Estimate fair value of investment properties

Investment properties were revalued at the end of the reporting period using direct comparison approach by independent qualified professional valuer. Such valuation was based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the valuation, the Group's management has made judgement in identifying relevant properties for comparison. The assumptions used are intended to reflect conditions existing at the end of the reporting period. Where there are any changes in the assumptions due to the market conditions in the PRC, the estimate of fair value of investment properties may be significantly affected. As at 31 December 2017, investment properties of approximately HK$101,926,000 (2016: HK$37,631,000) were revalued.

Collectability of loan receivables

The policy for impairment of loan receivables of the Group is based on management's judgement on the evaluation of collectability and the values of underlying collateral. A considerable amount of judgement is required in assessing the ultimate realisation of loan receivables, including the credit quality and repayment history of interest and penalty, if any, of the borrowers. If the management considers the collectability is doubtful or the values of the underlying collateral fall below the carrying amounts of the loan receivables, impairment may be required. The aggregate carrying value of loan receivables at 31 December 2017 was HK$16,159,000 (2016: HK$48,403,000).

6. REVENUE AND SEGMENT REPORTING

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

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

	2017 *HK$'000*	2016 *HK$'000*
Revenue		
Sale of goods	**589,933**	236,174

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

6. REVENUE AND SEGMENT REPORTING (Continued)

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

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

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

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

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

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

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

6. REVENUE AND SEGMENT REPORTING (Continued)

(a) Segment results, assets and liabilities

For the year ended 31 December 2017 and 2016

	Securities investments		Manufacturing and trading of toys		Medical and health		Total	
	2017 HK$'000	2016 HK$'000	2017 HK$'000	2016 HK$'000	2017 HK$'000	2016 HK$'000	2017 HK$'000	2016 HK$'000
Reportable segment revenue								
Revenue from external customers	**–**	–	**589,933**	236,174	**–**	–	**589,933**	236,174
Reportable segment (loss) profit before taxation	**(5,922)**	(151,424)	**15,490**	(22,217)	**(12,973)**	(20,690)	**(3,405)**	(194,331)
Unallocated corporate income							**7,281**	17,090
Unallocated corporate expenses							**(71,701)**	(46,983)
Loss before taxation							**(67,825)**	(224,224)
Other segment information (included in the measure of segment profit or loss or regularly provided to chief operating decision maker)								
Depreciation of property, plant and equipment	**–**	–	**(7,985)**	(8,382)	**–**	–	**(7,985)**	(8,382)
Amortisation of prepaid land premiums	**–**	–	**(146)**	(151)	**–**	–	**(146)**	(151)
Impairment loss of trade receivables	**–**	–	**–**	(2,609)	**–**	–	**–**	(2,609)
Write down of inventories, net	**–**	–	**(11,146)**	(9,072)	**–**	–	**(11,146)**	(9,072)
Loss on disposal of property, plant and equipment, net	**–**	–	**(16)**	(78)	**–**	–	**(16)**	(78)
Gain on disposal of a prepaid land premium	**–**	–	**3,625**	–	**–**	–	**3,625**	–
Changes in fair value of trading securities	**(7,016)**	(150,802)	**–**	–	**–**	–	**(7,016)**	(150,802)
Bank interest income	**–**	–	**38**	310	**–**	–	**38**	310
Interest expense	**–**	–	**(9,081)**	(6,992)	**–**	–	**(9,081)**	(6,992)
Research and development expenses	**–**	–	**–**	–	**(6,389)**	(20,690)	**(6,389)**	(20,690)
Addition to non-current assets								
Property, plant and equipment	**–**	–	**8,463**	2,823	**–**	–	**8,463**	2,823

6. REVENUE AND SEGMENT REPORTING (Continued)

(b) Reconciliation of reportable segment, assets and liabilities

As at 31 December 2017

	Securities investments *HK$'000*	Manufacturing and trading of toys *HK$'000*	Medical and health *HK$'000*	Total *HK$'000*
Reportable segment assets	**27,579**	**391,049**	**–**	**418,628**
Unallocated corporate assets				**334,224**
Total assets				**752,852**
Reportable segment liabilities	**–**	**(360,108)**	**–**	**(360,108)**
Unallocated corporate liabilities				**(59,576)**
Total liabilities				**(419,684)**

As at 31 December 2016

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

6. REVENUE AND SEGMENT REPORTING (Continued)

(c) Geographical information

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

	Revenue from external customers		Non-current assets	
	2017 *HK$'000*	2016 *HK$'000*	**2017** *HK$'000*	2016 *HK$'000*
Hong Kong	**20,437**	19,862	**1,625**	2,109
The PRC	**–**	–	**292,895**	223,949
United States and Canada	**506,519**	157,418	**–**	–
Japan and Europe	**62,977**	58,894	**–**	–
	589,933	236,174	**294,520**	226,058

(d) Information about major customers

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

	2017 *HK$'000*	2016 *HK$'000*
Revenue from manufacturing and trading of toys		
Customer A	**446,921**	58,389
Customer B	**N/A***	48,630
Customer C	**N/A***	29,632
Customer D	**N/A***	24,091

* The revenue contributed by the customer is smaller than 10% of the total revenue of the Group.

7. OTHER INCOME, GAINS AND LOSSES

	2017 *HK$'000*	2016 *HK$'000*
Bank interest income	**63**	310
Loan interest and late charge	**2,873**	7,670
Changes in fair value of investment properties	**2,146**	3,953
Mould income	**2,907**	1,118
Net foreign exchange (loss) gain	**(10,920)**	11,693
Gain on disposal of a prepaid land premium	**3,625**	–
Rental income	**2,237**	1,399
Impairment loss on trade receivables	**–**	(2,609)
Impairment loss on deposit paid for purchase of property, plant and equipment (Note)	**(12,500)**	–
Loss on disposal of property, plant and equipment, net	**(16)**	(78)
Sundry income	**2,558**	415
	(7,027)	23,871

Note: The Group paid the deposit to an independent third party (the "Equipment Supplier") during the year ended 31 December 2015 for the purchase of certain equipment. On 19 March 2017, the Group entered into a termination agreement with the Equipment Supplier to cancel the purchase and the Equipment Supplier agreed to refund the deposit in full by three instalments before the end of June 2017. However, no subsequent payment has been received from the Equipment Supplier, in the opinion of the directors, the collectability of this amount receivable from the Equipment Supplier is doubtful and impairment loss was recognised accordingly during the current year.

8. LOSS BEFORE TAXATION

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

	2017 HK$'000	2016 HK$'000
Employee benefit expense (including directors' remuneration):		
Wages and salaries	**149,823**	121,195
Other employee benefits	**3,202**	2,895
Contributions to defined contribution retirement plans	**12,101**	12,478
	165,126	136,568
Sub-contracting labour cost	**51,288**	–
Auditors' remuneration	**2,000**	1,780
Cost of inventories recognised as an expense (included in cost of sales)	**483,543**	204,974
Depreciation of property, plant and equipment	**9,086**	9,166
Amortisation of prepaid land premiums	**146**	151
Write down of inventories, net (included in cost of sales)	**11,146**	9,072
Operating lease charges in respect of land and buildings	**5,853**	4,307
Rental income	**(2,237)**	(1,399)

Other operating expenses

Included in other operating expenses is an amount of HK$10,016,000 (2016: HK$4,208,000) which represented professional fees incurred for consulting and due diligence services for various potential investment projects.

9. FINANCE COSTS

	2017 HK$'000	2016 HK$'000
Interest on borrowings	**11,808**	6,993

10. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	Fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Retirement scheme contributions *HK$'000*	Total remuneration *HK$'000*
2017				
Executive directors:				
Mr. Xing Wei *(Note i)*	–	2,528	5	2,533
Mr. Zhang Jack Jiyei *(Note ii)*	–	11,033	17	11,050
Mr. Wei Guo *(Note iii)*	–	135	–	135
	–	13,696	22	13,718

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

Independent non-executive directors:				
Mr. Wong Kee Fung Kenneth *(Note iv)*	100	–	–	100
Mr. Wong Kwok Tai *(Note v)*	116	–	–	116
Mr. Li Fang	120	–	–	120
Mr. Lau Shun Pong Johnson *(Note vi)*	20	–	–	20
Mr. Lai Ming Wai *(Note vii)*	5	–	–	5
	361	–	–	361

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

Non-executive director:				
Mr. Lo Ming Chi, Charles *(Note v)*	116	–	6	122
Mr. Lin Shaopeng *(Note vii)*	5	1,308	18	1,331
	121	1,308	24	1,453
	482	15,004	46	15,532

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

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

The non-executive directors' emolument shown above was mainly for their service as directors of the Company or its subsidiaries.

Notes:

(i) Appointed on 8 May 2017

(ii) Ceased to be chief executive officer on 12 October 2017 and resigned as an executive director on 16 November 2017

(iii) Appointed on 16 November 2017

(iv) Deceased on 30 October 2017

(v) Resigned on 18 December 2017

(vi) Appointed on 31 December 2017

(vii) Appointed on 18 December 2017

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

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

	Fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Retirement scheme contributions *HK$'000*	Total remuneration *HK$'000*
Independent non-executive directors:				
Mr. Wong Kee Fung Kenneth	96	–	–	96
Mr. Wong Kwok Tai	96	–	–	96
Mr. Li Fang	96	–	–	96
	288	–	–	288

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

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

	Fees	Salaries, allowances and benefits in kind	Retirement scheme contributions	Total remuneration
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-executive directors:				
Mr. Lo Ming Chi, Charles	120	–	6	126
Total	408	13,067	50	13,525

The non-executive director's emolument shown above was mainly for his service as a director of the Company or its subsidiaries.

Notes:

(i) Resigned on 29 November 2016.

(ii) Retired on 1 June 2016.

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

As at 31 December 2017 and 2016, the directors held share options under the Company's share option scheme (note 30).

There was no arrangement under which a director has waived or agreed to waive any remuneration for the years ended 31 December 2017 and 2016.

No remuneration was paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for the loss of office for the years ended 31 December 2017 and 2016.

11. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2016: three) directors, details of whose remuneration are set out in note 10 above. Details of the remuneration of the remaining three (2016: two) individuals were as follows:

	THE GROUP	
	2017	2016
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	**6,639**	3,305
Retirement scheme contributions	**72**	72
	6,711	3,377

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

	No. of individuals	
	2017	2016
HK$1,500,001 to HK$2,000,000	**1**	2
HK$2,000,001 to HK$2,500,000	**2**	–

12. INCOME TAX EXPENSE

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

	2017	2016
	HK$'000	*HK$'000*
Hog Kong Profit Tax		
– underprovision in prior years	**6,012**	–
The PRC Enterprise Income Tax ("EIT")		
– charge for the year	**3,131**	2,377
– underprovision in prior year	**212**	356
	9,355	2,733
Deferred tax charge *(note 27)*	**553**	339
Income tax expense	**9,908**	3,072

12. INCOME TAX EXPENSE (Continued)

Hong Kong Profits Tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

The tax affairs of a subsidiary (incorporated in Hong Kong) of the Group for the period starting from 1 January 2004 are currently under field audit by the Hong Kong Inland Revenue Department ("IRD"). In current year, the Group submitted a reply to the IRD where the Group agreed to withdraw certain deductions claims in prior years, based on the directors' estimation, an extra provision of income tax of approximately HK$6,012,000 has been provided.

EIT in the PRC has been provided on the estimated assessable profits of subsidiaries operating in the PRC at 25% (2016: 25%).

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

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

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

12. INCOME TAX EXPENSE (Continued)

Reconciliation between income tax expense and loss before taxation per the consolidated statement of profit or loss and other comprehensive income is as follows:

	2017	2016
	HK$'000	*HK$'000*
Loss before taxation	**(67,825)**	(224,224)
Notional tax on loss before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	**(12,066)**	(38,131)
Tax effect of unused tax losses not recognised	**7,755**	16,874
Tax effect of non-taxable income	**(1,320)**	(1,203)
Tax effect of non-deductible expenses	**10,347**	25,033
Tax effect of unrecognised temporary differences	**(816)**	809
Utilisation of deductible temporary differences previously not recognised	**–**	(1,005)
Effect of withholding tax at 5% on the distributable profits of the Company's subsidiaries in the PRC	**448**	339
Underprovision in prior years	**6,224**	356
Utilisation of tax losses previously not recognised	**(664)**	–
Income tax expense	**9,908**	3,072

13. DIVIDENDS

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

14. LOSS PER SHARE

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

	2017 *HK$'000*	2016 *HK$'000*
Loss		
Loss attributable to owners of the Company for the purposes of basic and diluted loss per share	**(77,733)**	(227,296)
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	**3,456,933**	2,547,350

The computation of diluted loss per share for the years ended 31 December 2017 and 2016 does not assume the exercise of share options (2016: warrants issued or share options) granted by the Company as the exercise price of those options (2016: warrants and options) were higher than the average market price.

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
2017						
At 1 January 2017						
Cost or valuation	96,000	994	53,292	29,450	5,382	185,118
Accumulated depreciation	–	(412)	(45,945)	(25,220)	(3,011)	(74,588)
Carrying amount	96,000	582	7,347	4,230	2,371	110,530
Year ended 31 December 2017						
Opening net carrying amount	96,000	582	7,347	4,230	2,371	110,530
Additions	–	–	5,463	4,045	1,094	10,602
Disposals	–	–	(328)	(73)	(8)	(409)
Surplus on revaluation	10,310	–	–	–	–	10,310
Depreciation	(3,310)	(367)	(1,745)	(2,936)	(728)	(9,086)
Exchange realignment	–	9	896	361	70	1,336
Closing net carrying amount	103,000	224	11,633	5,627	2,799	123,283
At 31 December 2017						
Cost or valuation	103,000	1,015	59,105	34,673	6,560	204,353
Accumulated depreciation	–	(791)	(47,472)	(29,046)	(3,761)	(81,070)
Carrying amount	103,000	224	11,633	5,627	2,799	123,283
Analysis of cost or valuation:						
At cost	–	1,015	59,105	34,673	6,560	101,353
At valuation	103,000	–	–	–	–	103,000
	103,000	1,015	59,105	34,673	6,560	204,353

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

(a) The carrying amounts of the leasehold buildings of the Group at 31 December 2017 would have been approximately HK$41,433,000 (2016: HK$42,913,000) had they been carried at cost less accumulated depreciation.

(b) At 31 December 2017, the Group's leasehold buildings in the PRC with carrying amounts of approximately HK$103,000,000 (2016: HK$96,000,000) were pledged to secure general banking facilities granted to the Group (note 26).

(c) The leasehold buildings situated in the PRC of HK$103,000,000 (2016: HK$96,000,000) are located on the leasehold land as disclosed in note 16 to the consolidated financial statements.

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

(d) Fair value measurement of leasehold buildings

Fair value hierarchy

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

	Fair value at 31 December 2017	**Fair value measurement as at 31 December 2017 categorised into**		
		Level 1	**Level 2**	**Level 3**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Recurring fair value measurement				
Leasehold buildings in the PRC	**103,000**	**–**	**–**	**103,000**

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

During the years ended 31 December 2017 and 2016, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3.

The Group's leasehold buildings were revalued at 31 December 2017 and 2016 by reference to a depreciated replacement cost basis calculated based on the current cost of replacement of a property less deductions for physical deterioration and all relevant forms of obsolescence and optimisation. The valuations were carried out by an independent qualified professional valuer, RHL Appraisal Limited, whose has among their staff members of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued. The Group's finance department had discussions with the independent qualified professional valuer on the valuation assumptions and valuation results when the valuation was performed at the annual reporting date.

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

Information about Level 3 fair value measurements

For the years ended 31 December 2017 and 2016

	Valuation techniques	Unobservable input	Range	Weighted average
Leasehold buildings in the PRC	Depreciated replacement cost approach	General increasing rate of construction cost	13% to 20% (2016: 13% to 20%)	16% (2016: 16%)

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

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

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

16. PREPAID LAND PREMIUMS

	2017 *HK$'000*	2016 *HK$'000*
Current portion	**143**	152
Non-current portion	**3,873**	4,246
	4,016	4,398

During the year ended 31 December 2017, the Group disposed a prepaid land premium with carrying amount of HK$236,000 at a consideration of HK$3,861,000. Gain on disposal of a prepaid land premium of HK$3,625,000 was recognised in profit or loss.

At 31 December 2017, the Group's prepaid land premiums in the PRC with carrying amounts of approximately HK$4,016,000 (2016: HK$4,398,000) were pledged to secure general banking facilities granted to the Group (note 26).

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

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17. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
At 1 January 2016	–
Additions *(note 36)*	34,421
Changes in fair value recognised in profit or loss	3,953
Exchange adjustments	(743)
At 31 December 2016	37,631
Additions *(note 36)*	56,692
Changes in fair value recognised in profit or loss	2,146
Exchange adjustment	5,457
At 31 December 2017	101,926
Unrealised gain on properties revaluation included in profit or loss	2,146

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

The fair value of the Group's investment properties as at the end of the reporting period has been arrived at on the basis of a valuation carried out on the respective date by Roma Appraisals Limited, an independent qualified professional valuer not connected to the Group.

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

17. INVESTMENT PROPERTIES (Continued)

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

	Valuation technique(s)	Significant unobservable input(s)	Sensitivity
Manufacturing plant located in Suzhou, the PRC – completed properties	Direct comparison approach	Recent transaction price, taking into account the differences in location, and individual factors, such as frontage and size, between the comparables and the property, at an average of Renminbi ("RMB") 1,755 (2016: RMB1,645) per square metre per month.	A significant increase in the recent transaction price would result in a significant increase in fair value, and vice versa.
Leasehold land located in Suzhou, the PRC	Direct comparison approach	Recent transaction price, taking into account the differences in location, and individual factors, such as frontage and size, between the comparables and the property, at an average of RMB336 (2016: RMB336) per square metre per month.	A significant increase in the recent transaction price would result in a significant increase in fair value, and vice versa.
Leasehold land located in Haikou, the PRC	Direct comparison approach	Recent transaction price, taking into account the differences in location, and individual factors, such as frontage and size, between the comparables and the property, at an average of RMB566 (2016: n/a) per square metre.	A significant increase in the recent transaction price would result in a significant increase in fair value, and vice versa.

17. INVESTMENT PROPERTIES (Continued)

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

	Level 3	Fair value 2017
	HK$'000	*HK$'000*
Located in Suzhou, the PRC		
Manufacturing plant and leasehold land	**41,751**	**41,751**
Located in Haikou, the PRC		
Leasehold land	**60,175**	**60,175**

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

There were no transfers into or out of Level 3 for both years.

18. TRADING SECURITIES

	2017	2016
	HK$'000	*HK$'000*
Listed equity securities, at fair value	**27,579**	34,595

19. INVENTORIES

	2017	2016
	HK$'000	*HK$'000*
Raw materials	**21,034**	9,368
Work in progress	**43,141**	19,055
Finished goods	**19,812**	13,143
	83,987	41,566

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20. TRADE RECEIVABLES

	2017 HK$'000	2016 HK$'000
Trade receivables	**114,700**	29,311

Ageing analysis

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

	2017 HK$'000	2016 HK$'000
0 to 30 days	**77,526**	15,813
31 to 90 days	**37,134**	13,028
Over 90 days	**40**	470
	114,700	29,311

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

Impairment of trade receivables

At the end of the reporting period, the Group reviews trade receivables for evidence of impairment. The impairment on receivables are recognised based on the credit history of its customers, indication default or delay in payments, settlement records, subsequent settlements and ageing analysis of the trade receivables. As at 31 December 2017 and 2016, none of the trade receivables of the Group were individually determined to be impaired except for an amount of HK$2,609,000 due from a customer as at 31 December 2016 due to financial difficulties of the customer.

20. TRADE RECEIVABLES (Continued)

Movement in the allowance for doubtful debts

	2017	2016
	HK$'000	*HK$'000*
1 January	**–**	–
Impairment loss recognised	**–**	2,609
Amounts written off as uncollectible	**–**	(2,609)
31 December	**–**	–

Trade receivables that are not impaired

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

	2017	2016
	HK$'000	*HK$'000*
Neither past due nor impaired	**111,555**	28,124
Past due but not impaired		
Less than 1 month past due	**1,864**	958
1 to 3 months past due	**1,279**	121
Over 3 months	**2**	108
	114,700	29,311

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

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

21. LOAN RECEIVABLES

	2017	2016
	HK$'000	*HK$'000*
Fixed-rate loan receivables	**16,159**	48,403

As at 31 December 2017, the loans are unsecured, carry interest at a fixed rate of 10% (2016: 8% to 15%) per annum and are repayable with one year, except for an amount of HK$8,359,000 (2016: HK$13,000,000) which is secured. As at 31 December 2017, the loan receivables were neither past due nor impaired. As at 31 December 2016, HK$35,103,000 of the loan receivables were past due but not impaired, which had been fully settled during the year ended 31 December 2017.

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2017	2016
	HK$'000	*HK$'000*
Other receivables	**59,620**	48,528
Deposits	**1,588**	1,486
Prepayment	**1,559**	1,379
	62,767	51,393

23. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

At 31 December 2017, the cash and cash equivalents and pledged bank deposits of the Group denominated in RMB amounted to approximately HK$7,843,000 (2016: HK$3,365,000) and HK$21,474,000 (2016: HK$2,570,000).

Bank balances carried interest rates which ranged from 0.001% to 0.300% per annum (2016: 0.001% to 0.300% per annum). The bank balances were deposited with creditworthy banks with no recent history of default.

Pledged bank deposits represented deposits pledged to banks to secure banking facilities and bank borrowings granted to the Group. As at 31 December 2017, deposits amounting to HK$21,474,000 (2016: HK$2,570,000) were pledged to secure bank borrowings (note 26). The pledged bank deposits would be released upon the settlement of relevant bank borrowings.

The interest rates on the pledged bank deposits was 0.001% per annum (2016: 0.001% per annum).

24. TRADE AND BILLS PAYABLES

The ageing analysis of the trade and bills payables as at 31 December 2017 is as follows:

	2017	2016
	HK$'000	*HK$'000*
0 to 30 days	**96,591**	19,701
31 to 90 days	**53,991**	18,356
Over 90 days	**20,793**	13,130
	171,375	51,187

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

25. OTHER PAYABLES AND ACCRUALS

	2017	2016
	HK$'000	*HK$'000*
Accrued staff cost	**16,306**	11,230
Other payables	**8,656**	367
Consideration payables *(note 36)*	**6,170**	5,033
Receipts in advance	**3,093**	4,981
Accruals	**10,683**	6,645
	44,908	28,256

26. BORROWINGS

	2017 Contractual interest rate (%)	2017 HK$'000	2016 Contractual interest rate (%)	2016 HK$'000
Current				
Bank loans - secured	**Fixed rates of 2.5% to 5.7% per annum**	**104,662**	Fixed rates of 3.2% to 5.7% per annum	76,569
Other loans - unsecured	**Fixed rates of 10.0% per annum**	**35,000**	Fixed rates of 10.0% per annum	43,000
Other loans - secured	**Fixed rates of 6.0% per annum**	**45,000**	N/A	–
		184,662		119,569
Non-current				
Other loans - secured	**N/A**	**–**	Fixed rates of 6.0% per annum	45,000

	2017 HK$'000	2016 HK$'000
The carrying amounts of the above borrowings are repayable:		
Within one year	**184,662**	119,569
Within a period of more than one year but not exceeding two years	**–**	45,000
	184,662	164,569

Notes:

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

(i) mortgage over the Group's leasehold buildings and prepaid land premiums with aggregate carrying amount of approximately HK$103,000,000 (2016: HK$96,000,000) and approximately HK$4,016,000 (2016: HK$4,398,000) respectively; and

(ii) pledge over the Group's bank deposits (note 23) of approximately HK$21,474,000 (2016: HK$2,570,000).

(b) The total banking facilities granted to the Group amounted to approximately HK$107,668,000 (2016: HK$83,846,000) of which approximately HK$104,662,000 (2016: HK$76,569,000) were utilised as at 31 December 2017.

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

(d) The Group's secured other loans were secured by pledge of shares of a subsidiary of the Group.

27. DEFERRED TAX LIABILITIES

Deferred tax assets and liabilities recognised

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

	Accelerate tax depreciation HK$'000	Revaluation of properties HK$'000	Tax losses HK$'000	Withholding tax HK$'000	Total HK$'000
Deferred tax arising from:					
At 1 January 2016	1,835	6,157	(934)	403	7,461
Deferred tax charged to profit or loss for the year *(note 12)*	–	–	–	339	339
Deferred tax charged to other comprehensive income for the year	–	287	–	–	287
At 31 December 2016 and 1 January 2017	1,835	6,444	(934)	742	8,087
Deferred tax charged to profit or loss for the year *(note 12)*	–	105	–	448	553
Deferred tax charged to other comprehensive income for the year	–	420	–	–	420
At 31 December 2017	1,835	6,969	(934)	1,190	9,060

Deferred tax assets not recognised

The Group has estimated tax losses arising in Hong Kong of approximately HK$528,640,000 (2016: HK$493,585,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised as it is not probable that future taxable profits against which the losses can be utilised will be available for the companies in which losses arose. As at 31 December 2017, the Group has tax losses of approximately HK$18,691,000 (2016: HK$13,463,000) available for offsetting against future profits that may be carried forward for up to five years for EIT purpose.

28. SHARE CAPITAL

	Number of shares		Amount	
	2017	2016	**2017**	2016
	'000	*'000*	***HK$'000***	*HK$'000*
Authorised:				
At 31 December, ordinary shares of HK$0.10 each	**7,000,000**	7,000,000	**700,000**	700,000
Issued and fully paid:				
At 1 January	**2,981,865**	2,484,889	**298,186**	248,489
Issue of ordinary shares *(Note)*	**680,000**	496,976	**68,000**	49,697
At end of the year	**3,661,865**	2,981,865	**366,186**	298,186

Note:

On 21 April 2017, the Company issued 680,000,000 new ordinary shares of HK$0.1 each at a price of HK$0.18 per share. The subscription was completed on 21 April 2017. These new shares rank pari passu with other shares in all respects.

On 16 November 2016, the Company issued 496,976,000 new ordinary shares of HK$0.1 each at a price of HK$0.16 per share. These new shares rank pari passu with other shares in issue in all respects.

29. WARRANTS

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

30. EQUITY-SETTLED SHARE-BASED PAYMENTS

Details of share options granted during the years ended 31 December 2017 and 2016 under the share option scheme of the Company are as follows:

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

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

The movement of share options during 2017 is presented as follows:

	Name of grant	Number of share options			
		At 1 January 2017 '000	Reclassified during the year '000	Lapsed during the year '000	At 31 December 2017 '000
Executive directors					
Mr. Xing Wei *(Note b)*	2015 grant	–	10,000	–	10,000
Mr. Zhang Jack Jiyei *(Note c)*	2014 grant	16,800	–	(16,800)	–
	2015 grant	3,400	–	(3,400)	–
		20,200	10,000	(20,200)	10,000
Independent non-executive directors					
Mr. Li Fang	2014 grant	1,680	–	–	1,680
	2015 grant	140	–	–	140
		1,820	–	–	1,820
Employees	2014 grant	7,000	–	–	7,000
	2015 grant	34,200	–	(5,000)	29,200
Other participants	2014 grant	80,000	–	(16,800)	63,200
	2015 grant	144,700	(10,000)	(3,400)	131,300
Total		287,920	–	(45,400)	242,520

Notes:

(a) There were no share options granted, exercised or cancelled during the year.

(b) Mr. Xing Wei was other participants before his appointment as the director of the Company on 8 May 2017.

(c) Mr. Zhang Jack Jiyei resigned as the director of the Company on 16 November 2017.

(d) There were no share options granted or exercised during the year.

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

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

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

Notes:

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

(b) There were no share options, granted, exercised or cancelled during the year.

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

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

The fair value of share options was calculated using Binominal Option Pricing Model. The following major assumptions were used to calculate the fair values of share options:

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

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

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31. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2017 HK$'000	2016 HK$'000
Non-current assets		
Interests in subsidiaries	**307,381**	263,670
Current assets		
Prepayments, deposits and other receivables	**290**	160
Cash and cash equivalents	**63,078**	55,355
	63,368	55,515
Current liabilities		
Other payables	**3,911**	4,191
Borrowing	**45,000**	–
	48,911	4,191
Net current assets	**14,457**	51,324
Non-current liability		
Borrowing	**–**	45,000
Net assets	**321,838**	269,994
Equity		
Capital and reserves		
Share capital	**366,186**	298,186
Deficit	**(44,348)**	(28,192)
Total equity	**321,838**	269,994

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

Movements in the Company's reserves

	Share premium HK$'000	Contributed surplus HK$'000	Share options reserve HK$'000	Warrant reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2016	858,182	152,762	66,953	–	(914,375)	163,522
Total comprehensive loss for the year	–	–	–	–	(251,796)	(251,796)
Issue of shares	29,818	–	–	–	–	29,818
Issue of warrant	–	–	–	31,200	–	31,200
Transaction costs attributable to issue of warrant	–	–	–	(936)	–	(936)
At 31 December 2016	888,000	152,762	66,953	30,264	(1,166,171)	(28,192)
Total comprehensive loss for the year	–	–	–	–	(70,556)	(70,556)
Issue of shares	54,400	–	–	–	–	54,400
Share option lapsed	–	–	(8,260)	–	8,260	–
Warrants lapsed	–	–	–	(30,264)	30,264	–
At 31 December 2017	942,400	152,762	58,693	–	(1,198,203)	(44,348)

32. CAPITAL MANAGEMENT

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2017 and 2016.

The Group monitors capital using a gearing ratio, which is net debt divided by the capital plus net debt ("adjusted capital"). Net debt includes borrowings, trade and bills payables, other payables and accruals, less cash and cash equivalents and pledged bank deposits. Capital represents total equity. The net debt-to-adjusted capital ratio as at the end of the reporting period was 43% (2016: 39%).

33. OPERATING LEASE COMMITMENTS

The Group as lessee

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

	2017 HK$'000	2016 HK$'000
Within one year	**2,829**	3,791
In the second to fifth year, inclusive	**1,082**	1,683
	3,911	5,474

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

The Group as lessor

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

	2017 HK$'000	2016 HK$'000
Within one year	**912**	4,786
In the second to fifth year, inclusive	**–**	823
	912	5,609

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

34. COMMITMENTS

(a) As at 31 December 2017 and 2016, the Group had the following commitments.

(i) Provision of financial assistance and advance to entity

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

During the year 2017 and 2016, the Company is in negotiation with Beijing Novotide about its technology investment budget and measures to enhance its research efficiency. As at 31 December 2017, the condition precedent had not been fulfilled and the transactions were suspended.

(ii) Acquisition of property, plant and equipment

	2017 ***HK$'000***	2016 *HK$'000*
Capital expenditure in respect of the construction of properties contracted for but not provided in consolidation financial statements	**60,196**	56,232
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in consolidation financial statements	**–**	12,500

35. MATERIAL RELATED PARTY TRANSACTIONS

Key management personnel remuneration

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

36. ACQUISITION OF ASSETS THROUGH ACQUISITION OF SUBSIDIARIES

(a) On 2 April 2017 and 11 May 2017, the Group entered into sale and purchase agreements with independent third parties for the acquisition of certain assets through the acquisition of the entire equity interest of 海南中置實業有限公司 (Hainan Zhongzhi Company Limited) at a cash consideration of RMB50,000,000 (equivalent to HK$56,692,000). Pursuant to the sale and purchase agreement, the Group has agreed a payment schedule with one of the vendors ("Vendor A"), subject to which approximately HK$1,137,000 of the consideration remained payable upon the completion of the acquisition.

As at 31 December 2017, HK$1,137,000 of the consideration remained payable and was included in other payables. A portion of the consideration amounted to HK$5,243,000 was settled by setting off with a loan receivable balance due from a related party of one of the vendors during the year. Therefore, net cash used in this acquisition was HK$50,312,000.

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

	HK$'000
Investment properties	56,692

36. ACQUISITION OF ASSETS THROUGH ACQUISITION OF SUBSIDIARIES (Continued)

(b) On 17 February 2016, the Group entered into a sale and purchase agreement with independent third parties for the acquisition of certain assets and recognised certain liabilities through the acquisition of the entire equity interest of 宜諾科技(蘇州)有限公司 (Yi Nuo Technology (Suzhou) Co., Ltd., "Yi Nuo") at a cash consideration of RMB64,500,000 (equivalent to HK$74,480,000). Pursuant to the sale and purchase agreement, one of the vendors (the "Vendor B") shall settle an amount owed to Yi Nuo of RMB62,000,000 (equivalent to HK$71,532,000, the "Receivables"). The Group has agreed a payment schedule with the Vendor B, subject to which approximately HK$40,483,000 of the Receivables remained unsettled and receivable from the Vendor B and HK$6,171,000 (2016: HK$5,033,000) of the consideration remained payable to the Vendor B upon the completion of the acquisition.

As at 31 December 2017, HK$5,033,000 (2016: HK$5,033,000) of the consideration remained payable and was included in other payables. Net cash used in this acquisition was HK$69,443,000.

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

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

37. MAJOR NON-CASH TRANSACTION

During the year ended 31 December 2017, part of the consideration for the acquisition of assets through the acquisition of a subsidiary amounted to HK$5,243,000 was settled by setting off with a loan receivable balance, and part of the consideration amounted to HK$1,137,000 remained unsettled at the end of the reporting period. Further details of the acquisitions were set out in note 36(a).

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

38. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be classified in the Group's consolidated statement of cash flows as cash flows financing activities.

	Borrowings
	HK$'000
At 1 January 2017	164,569
Financing cash flows	14,725
Foreign exchange translation	5,368
At 31 December 2017	**184,662**

39. EVENT AFTER END OF THE REPORTING PERIOD

On 28 December 2017, the Company announced that it has entered into a sale and purchase agreement with an independent third party, 南京三友置業有限公司 (Nanjing Sanyou Real Estate Company Limited, "Nanjing Sanyou") to conditionally sell the entire share capital of a wholly owned subsidiary, Bright Triumph Development Limited ("Bright Triumph"), at a consideration of HK$142 million. The principal assets of Bright Triumph, held through its indirect subsidiary Yi Nuo, included a piece of land and buildings thereon at Jiangsu Suzhou. On 20 March 2018, the Group received deposits of approximately HK$28.4 million from Nanjing Sanyou and the transaction has not been completed at the date of this report.

40. CONTINGENT LIABILITIES

A subsidiary of the Company is a defendant in a legal action in Hong Kong involving the alleged claim of commission income by a consultant in relation to an investment project of the Group in the past. The claim above against the subsidiary is approximately US$1,375,000 (equivalent to approximately HK$10,725,000) in aggregate. The directors believe, based on legal advice, that the case has a good arguable defence and therefore it is not probable that losses will be incurred. As a result, no provision has been made at the end of the reporting period in this regard.

41. SUMMARY OF FINANCIAL ASSETS AND LIABILITIES BY CATEGORY

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

	2017 *HK$'000*	2016 *HK$'000*
Financial assets		
Financial assets at fair value through profit or loss		
Trading securities	**27,579**	34,595
Loans and receivables (including cash and cash equivalents)		
Trade receivables	**114,700**	29,311
Loans receivables	**16,159**	48,403
Financial assets included in deposits and other receivables	**61,208**	50,014
Pledged bank deposits	**21,474**	2,570
Cash and cash equivalents	**131,523**	78,497
	372,643	243,390
Financial liabilities		
Financial liabilities measured at amortised cost		
Trade and bills payables	**171,375**	51,187
Financial liabilities included in other payables and accruals	**34,225**	21,611
Borrowings	**184,662**	164,569
	390,262	237,367

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Credit risk

The Group trades only with recognised and creditworthy third parties. The Group's sales for the Toys Segment are made to several major customers and there is concentration of credit risk. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer having similar characteristics. The Group defines customers as having similar characteristics if they are related entities. Most of the customers are multi-national corporations with well known brands for their toy products and have satisfactory credit rating. At the end of the reporting period, the Group had certain concentrations of credit risk as 87.8% (2016: 66.5%) and 93.6% (2016: 88.7%) of the Group's trade receivables were due from the Group's largest customer and the five largest customers, respectively, in the Toys Segment.

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

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

At 31 December 2017, the Group had loan receivables and interest receivables of HK$16,159,000 (2016: HK$48,403,000) and HK$593,000 (2016: HK$2,701,000) respectively. Before entering into the loan agreements, the Group assesses the credit quality of borrowers and defines the terms of the loans. In addition, the Group reviews the recoverable amount of each individual loan at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. The Group has concentration of credit risk on the loan receivables as the loans are made to two (2016: five) borrowers. In order to minimise the credit risk, the management of the Group has delegated a team responsible for monitoring procedures to ensure that follow-up action is taken to recover overdue loans. As at 31 December 2016, HK$35,043,000 of the loan receivables were past due but not impaired. Such amounts have been recovered in full in the current year. For a loan amount of HK$8,359,000 (2016: HK$13,000,000), it is secured by certain assets of the borrower. In view of the subsequent settlement, interest repayment by the borrowers during the year, collateral of certain loan and the monitoring procedures adopted by the management, in the opinion of the directors, the credit risk in respect of the loan receivables could be monitored.

At 31 December 2017, the Group had certain concentration of credit risk on bank balances as 40.7% (2016: 68.6%) of the total cash and cash equivalents was deposited with one financial institution in Hong Kong with high credit rating. The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Group also had concentration of credit risk in its other receivable due from the Vendor B of approximately HK$44,905,000 (2016: HK$40,483,000). The management closely monitors the creditworthiness of the Vendor B in order to mitigate the concentration of credit risk. In addition, during the year ended 31 December 2017, the Group has recognised an impairment loss of HK$12,500,000 (2016: nil) on certain other receivable due from the Equipment Supplier due to its default in payment.

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

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk

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

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

	Weighted average effective interest	On demand	Less than 3 months	3 to less than 12 months	More than 1 year but within 2 years	Contractual undiscounted cash flows	Carrying amount
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2017							
Borrowings	3.26	–	71,490	119,180	–	190,670	184,662
Trade and bills payables	–	20,793	150,582	–	–	171,375	171,375
Other payables	–	34,225	–	–	–	34,225	34,225
		55,018	222,072	119,180	–	396,270	390,262
2016							
Borrowings	4.73	–	51,895	75,917	47,700	175,512	164,569
Trade and bills payables	–	13,130	38,057	–	–	51,187	51,187
Other payables	–	21,611	–	–	–	21,611	21,611
		34,741	89,952	75,917	47,700	248,310	237,367

Interest rate risk

The Group's cash flow interest rate risk arises primarily from the Group's variable-rate bank balances and pledged deposits. The Group's fair value interest rate risk arises primarily from the Group's fixed rate borrowings.

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

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Interest rate risk (Continued)

Sensitivity analysis

At 31 December 2017, it is estimated that a general increase/decrease of 100 basis point in interest rate, with all other variables held constant, would decrease/increase the Group's loss for the year and accumulated losses by approximately HK$1,530,000 (2016: HK$811,000).

The sensitivity analysis has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for the variable financial instruments in existence at that date. The 100 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the end of the next reporting period. The analysis was performed on the same basis for year ended 31 December 2016.

Foreign currency risk

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

As HK$ is pegged to USD, the Group does not have material exchange rate risk on such currency.

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42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Foreign currency risk (Continued)

Exposure to currency risk

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

	2017			2016		
	USD	**HK$**	**RMB**	USD	HK$	RMB
	HK$'000	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*
Cash and cash equivalents	**96**	**251**	**5**	1,476	95	1
Borrowings	**–**	**(83,950)**	**–**	–	(50,500)	–
Other payables	**–**	**(284)**	**–**	–	(189)	–
Overall exposure to currency risk	**96**	**(83,983)**	**5**	1,476	(50,594)	1

As at 31 December 2017, the directors considered that the Group's exposure to foreign currency risk arose from intra-group balances due to foreign operations of HK$340,675,000 (2016: HK$270,600,000), which were not denominated in the functional currency of the respective group entities, do not form part of the Group's net investment in foreign operations.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Foreign currency risk (Continued)

Sensitivity analysis

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

	%	Increase (decrease) in loss for the year and accumulated losses *HK$'000*
2017		
If HK$ weakens against RMB	**5**	**4,760**
If HK$ strengthens against RMB	**(5)**	**(4,760)**
2016		
If HK$ weakens against RMB	5	6,081
If HK$ strengthens against RMB	(5)	(6,081)

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

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group, including intra-group balances with foreign operations within the Group denominated in a currency other than the functional currency of the foreign operations, which expose the Group to foreign currency risk at the end of the reporting period. The analysis is performed on the same basis for year ended 31 December 2016.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Equity price risk

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

If the price of the respective trading securities had been 10% higher/lower (2016: 10%), with all other variables held constant, loss for the year would decrease/increase by approximately HK$2,758,000 (2016: HK$3,460,000).

The sensitivity analysis indicates the instantaneous change in the Group's loss for the year that would arise assuming that the changes in the price of the respective trading securities had occurred at the end of the reporting period and had been applied to remeasure those financial instruments held by the Group which expose the Group to equity price risk at the end of the reporting period. The analysis is performed on the same basis for year ended 31 December 2016.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Fair value measurements

Financial assets and liabilities measured at fair value

Fair value hierarchy

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

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

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

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

	Level 1 *HK$'000*	**Level 2** *HK$'000*	**Level 3** *HK$'000*	**Total** *HK$'000*
Financial assets at fair value through profit or loss – Trading securities:				
2017	**27,579**	**–**	**–**	**27,579**
2016	34,595	–	–	34,595

During the years ended 31 December 2017 and 2016, there have been no significant transfers between Level 1 and 2 or transfers into or out of Level 3.

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43. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration	Registered capital paid up	2017 Percentage of equity attributable to the Company		2016 Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	Direct	Indirect	
Alliance Credit Services Limited	Hong Kong	Ordinary HK$10,000	–	100%	–	100%	Provision of credit finance services
Big Crown Investments Limited	Hong Kong	Ordinary HK$1	–	100%	–	100%	Trading of securities
Billion Pride Group Limited	British Virgin Islands	Ordinary US$1	100%	–	100%	–	Investment holding
Central Information Limited	Hong Kong	Ordinary HK$100	–	100%	–	100%	Trading of securities and provision of management services
Chongxin Co., Limited	Hong Kong	Ordinary HK$1	–	100%	–	100%	Investment holding
Luxtone HK Limited	Hong Kong	Ordinary HK$1	–	100%	–	100%	Investment holding
Sewco (B.V.I.) Limited	British Virgin Islands	Ordinary US$401	100%	–	100%	–	Investment holding
Sewco Toys & Novelty Limited	Hong Kong	Ordinary HK$200 Non-voting deferred HK$420,000	–	100%	–	100%	Investment holding and trading of toys products
Talent Management Services Limited	Hong Kong	Ordinary HK$1	–	100%	–	100%	Provision of management services
中山崇高玩具製品廠有限公司 (Zhongshan Sewco Toys & Novelty Limited*)#	The PRC	Paid-up capital HK$124,300,000	–	100%	–	100%	Manufacturing and sales of toys products
北京琉石網絡技術有限公司#	The PRC	Paid-up capital US$1,750,000	–	100%	–	100%	Investment holding
宜諾科技(蘇州)有限公司# (Yi Nuo Technology (Suzhou) Company Limited)#	The PRC	Paid-up capital US$22,349,950	–	100%	–	100%	Lease of properties
海南瀛晟科技產業投資有限公司#	The PRC	Paid-up capital US$200,000	–	100%	–	100%	Investment holding
海南中置實業有限公司#	The PRC	Paid-up capital US$5,800,000	–	100%	–	–	Investment holding

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

\# A wholly foreign-owned enterprise registered in the PRC.

* For identification purpose only.

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

FIVE YEARS FINANCIAL SUMMARY

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

	Year ended 31 December				
	2017	2016	2015	2014	2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
RESULTS				(Restated)	(Restated)
Continuing operations					
Revenue	**589,933**	236,174	247,732	422,953	330,158
Cost of sales	**(502,364)**	(220,750)	(220,459)	(412,261)	(286,209)
Gross profit	**87,569**	15,424	27,273	10,692	43,949
Other income gains and losses	**(7,027)**	23,871	11,100	7,629	12,093
Selling and distribution costs	**(9,441)**	(5,063)	(8,025)	(13,045)	(5,932)
Administrative expenses	**(101,277)**	(75,763)	(123,604)	(87,280)	(51,079)
Research and development expenses	**(6,389)**	(20,690)	–	–	–
Changes in fair value of trading securities	**(7,016)**	(150,802)	(18,238)	(17,553)	(29,320)
Other operating expenses	**(12,436)**	(4,208)	(12,954)	(11,323)	(524)
Finance costs	**(11,808)**	(6,993)	(5,971)	(5,643)	(4,579)
Loss before taxation from continuing operations	**(67,825)**	(224,224)	(130,419)	(116,523)	(35,392)
Income tax expense	**(9,908)**	(3,072)	(2,842)	(1,873)	(1,128)
Loss for the year from continuing operations	**(77,733)**	(227,296)	(133,261)	(118,396)	(36,520)
Discontinued operation					
Loss for the year from discontinued operation	**–**	–	–	(3,622)	(10,303)
Loss for the year	**(77,733)**	(227,296)	(133,261)	(122,018)	(46,823)

	As at 31 December				
	2017	2016	2015	2014	2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS AND LIABILITIES					
Total assets	**752,852**	512,545	575,714	533,167	523,107
Total liabilities	**(419,684)**	(256,981)	(186,817)	(227,358)	(185,207)
Total equity	**333,168**	255,564	388,897	305,809	337,900