Annual Report
2017

BLOCKCHAIN GP
區塊鏈集團有限公司

BLOCKCHAIN GROUP COMPANY LIMITED
區塊鏈集團有限公司

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

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Cai Zhenrong *(Joint Chairman)*
Mr. Li Dongfan *(Joint Chairman)*
Mr. Yan Ximao *(Vice Chairman)*
Mr. Cai Zhenyao
Mr. Cai Zhenying
Mr. Cai Yangbo *(Managing Director)*
Mr. Choi Wing Toon
Mr. Chen Wenfang

Non-executive Director

Mr. Su Yichao

Independent Non-executive Directors

Mr. Lawrence Gonzaga
Mr. Chin Hon Siang
Mr. Wang Qidong
Mr. Liao Haosheng

AUDIT COMMITTEE

Mr. Wang Qidong *(Chairman)*
Mr. Lawrence Gonzaga
Mr. Chin Hon Siang

REMUNERATION COMMITTEE

Mr. Wang Qidong *(Chairman)*
Mr. Lawrence Gonzaga
Mr. Chin Hon Siang

NOMINATION COMMITTEE

Mr. Wang Qidong *(Chairman)*
Mr. Lawrence Gonzaga
Mr. Chin Hon Siang

AUTHORIZED REPRESENTATIVES

Under The Stock Exchange of Hong Kong Limited:
Mr. Cai Yangbo
Mr. Choi Wing Toon

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

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

REGISTRARS

Principal Share Registrar and Transfer Office

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

Hong Kong Branch Share Registrar and Transfer Office

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

AUDITOR

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

LEGAL ADVISER

As to Cayman Islands laws

Conyers Dill & Pearman

PRINCIPAL BANKERS

Bank of Communications Co., Ltd
Hang Seng Bank Limited

WEBSITE

www.blockchaingroup.com.hk

STOCK CODE

364

Five-Year Financial Summary

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

RESULTS

	Year ended 31 December 2017 HK$'000	Year ended 31 December 2016 HK$'000	Year ended 31 December 2015 HK$'000	Year ended 31 December 2014 HK$'000 (restated)	15 months ended 31 December 2013 HK$'000 (restated)
REVENUE	**281,761**	302,250	822,524	479,316	262,329
PROFIT/(LOSS) FROM OPERATIONS	**69,573**	(862,070)	(706,069)	(377,741)	(26,065)
Finance costs	**(212,751)**	(196,711)	(115,694)	(72,742)	(37,081)
Gain on bargain purchase from acquisition of an associate	**–**	99,373	–	–	–
Loss on modifications of convertible bonds					
Share of losses of an associate	**(1,690)**	(224)	(2,894)	(1,913)	–
Loss on disposals of subsidiaries	**–**	(14,665)	–	–	–
LOSS BEFORE TAX	**(144,868)**	(974,297)	(824,657)	(452,396)	(63,146)
Income tax (expense)/credit	**(608)**	693	(2,949)	(1,508)	(4,557)
LOSS FROM CONTINUING OPERATIONS	**(145,476)**	(973,604)	(827,606)	(453,904)	(67,703)
LOSS FROM DISCONTINUED OPERATIONS	**–**	–	–	(402,651)	(1,142)
LOSS BEFORE NON-CONTROLLING INTERESTS	**(145,476)**	(973,604)	(827,606)	(856,555)	(68,845)
Non-controlling interests	**459**	(869)	(933)	(314)	–
LOSS FOR THE YEAR/PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY	**(145,935)**	(972,735)	(826,673)	(856,241)	(68,845)

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	At 31 December 2017 HK$'000	At 31 December 2016 HK$'000	At 31 December 2015 HK$'000	At 31 December 2014 HK$'000 (restated)	At 31 December 2013 HK$'000 (restated)
NON-CURRENT ASSETS	**1,292,548**	1,739,158	2,587,241	3,118,570	3,942,152
CURRENT ASSETS	**3,526,840**	2,204,853	2,125,850	1,848,685	1,576,780
TOTAL ASSETS	**4,819,388**	3,944,011	4,713,091	4,967,255	5,518,932
CURRENT LIABILITIES	**1,175,688**	1,117,703	730,608	873,855	601,062
NON-CURRENT LIABILITIES	**1,462,108**	855,122	1,099,027	544,905	759,166
TOTAL LIABILITIES	**2,637,796**	1,972,825	1,829,635	1,418,760	1,360,228
NET ASSETS	**2,181,592**	1,971,186	2,883,456	3,548,495	4,158,704
NON-CONTROLLING INTERESTS	**2,090**	1,547	2,499	3,544	–

Note 1: The summary of the results, assets, liabilities and non-controlling interests of the Group for 15 months ended 31 December 2013 and year ended 31 December 2014, 2015 and 2016 are extracted from the Company's annual report 2016 prepared in accordance with International Financial Reporting Standards, with restatement as mentioned in note 2(c) to the consolidated financial statements on page 80 of the Company's Annual Report 2015.

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

Chairman's Statement

FINAL RESULTS

On behalf of the board (the "Board") of directors (the "Directors") of the Company, I am pleased to present the Group's audited consolidated results for the year ended 31 December 2017 (the "Year"). The Group's consolidated revenue for the Year decreased by 6.78% to approximately HK$281.8 million (year ended 31 December 2016 ("Year 2016"): approximately HK$302.3 million). Gross profit decreased by 15.2% to approximately HK$114.6 million (Year 2016: approximately HK$135.2 million). Loss attributable to equity shareholders of the Company decreased by 85.0% and amounted to approximately HK$145.9 million (Year 2016: approximately HK$972.7 million). The loss after tax was mainly attributable to finance costs of approximately HK$212.8 million (Year 2016: approximately HK$196.7 million).

BUSINESS REVIEW

During the Year, the Company continued to focus on the expansion of the tea business. However, the consumer market condition, especially the tea products for business gifts, continued to deteriorate which resulted in decrease in revenue by 6.78% from approximately HK$302.3 million for the Year 2016 to approximately HK$281.8 million for the Year. There is a pressure on sales of the Group's tea products. The loss of the Group decreased from approximately HK$973.6 million for the Year 2016 to approximately HK$145.5 million for the Year.

Loss attributable to equity shareholders of the Company for the Year decreased by 85.0% to approximately HK$145.9 million (Year 2016: approximately HK$972.7 million). The loss attributable to equity shareholders of the Company for the Year 2016 was mainly due to impairment loss on goodwill of approximately HK$910.0 million. However, no impairment loss on goodwill is recognised for the Year. Excluding this item, there was loss attributable to equity shareholders of the Company for the Year of approximately HK$145.9 million (Year 2016: approximately HK$62.7 million).

EVENTS AFTER THE REPORTING PERIOD

Apart from the events as disclosed in notes 18(b), 27(a), 30, 32 and 45 to the consolidated financial statements, the Group did not have other material events after the reporting period up to the date of this annual report.

Chairman's Statement

PROSPECTS

The Group has been officially renamed as "Blockchain Group Company Limited". We are dedicated to the development and planning of relevant blockchains. In March 2018, the Group entered into a technological service agreement with an independent third party. It is expected that the development of the application system technologies for the Group's food tracking platform will be completed by 30 May 2018. The whole world will be able to access these technologies once they are ready. Our second leading position among providers of blockchain solutions in terms of food safety will be maintained as well. The Group believes that the development of the aforesaid food tracking technologies is the first step of the Group's exploration in blockchain industry. We will try to cooperate with more third parties in relation to blockchain technologies in all aspects, set up research centres and apply blockchain technologies to all industries, aiming to realize on diversified integration and set up an ecosphere for the application of blockchain technologies.

Meanwhile, the Group will continue to identify opportunities for the expansion, mergers and acquisitions of operations in respect of excellent tea products and other health products. Our goal is to broaden our income source and improve our profitability and to maximize the return for the shareholders of the Company (the "Shareholders").

APPRECIATION

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

Cai Zhenrong
Joint Chairman

Hong Kong, 29 March 2018

Management Discussion and Analysis

BUSINESS REVIEW

The business review of the Group for the year is set out in the section of the "Chairman's Statement" on pages 4 to 5.

FINANCIAL PERFORMANCE

During the Year, the Group's consolidated revenue decreased by 6.8% to approximately HK$281.8 million (Year 2016: approximately HK$302.3 million). The decrease was mainly due to sluggish consumer markets, especially the tea products for business gifts.

During the Year, gross profit of the Group decreased by 15.2% to approximately HK$114.6 million (Year 2016: approximately HK$135.2 million) and gross profit margin decreased by 4 percentage points from 44.7% for the Year 2016 to 40.7% for the Year. The decrease in gross profit margin was due to the sluggish consumer markets, especially the tea products for business gifts. The loss after tax was mainly attributable to the finance costs of approximately HK$212.8 million during the Year.

BUSINESS DEVELOPMENT AND OUTLOOK

The Group has been officially renamed as "Blockchain Group Company Limited". We are dedicated to the development and planning of relevant blockchains. In March 2018, the Group entered into a technological service agreement with an independent third party. It is expected that the development of the application system technologies for the Group's food tracking platform will be completed by 30 May 2018. The whole world will be able to access these technologies once they are ready. Our second leading position among providers of blockchain solutions in terms of food safety will be maintained as well. The Group believes that the development of the aforesaid food tracking technologies is the first step of the Group's exploration in blockchain industry. We will try to cooperate with more third parties in relation to blockchain technologies in all aspects, set up research centres and apply blockchain technologies to all industries, aiming to realize on diversified integration and set up an ecosphere for the application of blockchain technologies.

Meanwhile, the Group will continue to identify opportunities for the expansion, mergers and acquisitions of operations in respect of excellent tea products and other health products. Our goal is to broaden our income source and improve our profitability and to maximize the return for the Shareholders.

ANALYSIS BY CUSTOMER GEOGRAPHICAL REGIONS

Sales to customers located in the China region accounted for 100% (Year 2016: 100%) of total revenue for the Year.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2017, the Group had current assets of approximately HK$3,526.8 million (as at 31 December 2016: approximately HK$2,204.9 million) and current liabilities of approximately HK$1,175.7 million (as at 31 December 2016: approximately HK$1,117.7 million). The current ratio (calculated as current assets to current liabilities) increased from 1.97 as at 31 December 2016 to 3.00 as at 31 December 2017. The gearing ratio (calculated as the total bank borrowings, the convertible bonds, debentures, financial liabilities at fair value through profit or loss and promissory notes to total Shareholders' equity) increased from 0.92 as at 31 December 2016 to 1.11 as at 31 December 2017. These ratios were at reasonably adequate levels as at 31 December 2017 while the Group had sufficient resources in meeting its short-term and long-term obligations.

The Group principally met its funding requirements by cash flows from operations and financing activities. During the Year, the net cash used in (Year 2016: generated from) operating activities and net cash generated from financing activities were approximately HK$1,575 million (Year 2016: approximately HK$430.6 million) and approximately HK$515 million (Year 2016: approximately HK$3.4 million), respectively. The total bank borrowings decreased to approximately HK$20.1 million (as at 31 December 2016: approximately HK$34.3 million). The bank loans were repayable within one year with interest rate at 7.61% (Year 2016: from 5.44% to 7.40%) per annum. The Group's bank borrowings were denominated in RMB.

During the Year, the Group issued unlisted debentures of approximately HK$846.1 million (Year 2016: approximately HK$526.2 million) at face value with issuing costs of approximately HK$215.9 million (Year 2016: approximately HK$134.9 million). The debentures are interest bearing at a rate ranging from 0% to 8% (Year 2016: 0% to 10%) of the face value per annum, unsecured and repayable on the six months to eighth anniversary of the respective date of issue. In addition, the Group redeemed unlisted debentures with principal amounts of HK$39.4 million during the Year (Year 2016: HK$136 million). As at 31 December 2017, the carrying values of the debentures were approximately HK$1,943 million (as at 31 December 2016: HK$1,293 million).

During the Year, the original convertible bonds with principal amount of approximately HK$65.73 million were converted to ordinary shares of the Company. As at 31 December 2017, the carrying values of convertible bonds and convertible notes (included financial liabilities at fair value through profit and loss) amounted to approximately HK$389.5 million (Year 2016: approximately HK$379.0 million) and HK$Nil (Year 2016: approximately HK$9.7 million) respectively. As at 31 December 2017, the carrying value of promissory notes amounted to approximately HK$78.0 million (Year 2016: HK$93.8 million).

The original convertible bonds with principal amounts of approximately HK$212 million has maturity date on 31 December 2015. The Group is currently in the process of negotiating with the bondholders for the extension and/or restructuring of the terms of these convertible bonds. So far the Group entered into a settlement agreement with Great Vantage Investments Limited subsequent to the Year to restructure terms of the convertible bonds.

CAPITAL STRUCTURE

During the Year, there were increases in the issued share capital of the Company through the issuance of 371,776,018 new ordinary shares upon conversion of convertible bonds.

The total number of issued share capital of the Company as at 31 December 2017 comprised 23,696,869,088 ordinary shares.

The above information of capital structure of the Company has not taken into account the effect of share consolidation with details as set out below.

Subsequent to the balance sheet date, on 29 January 2018, the Board put forward to the Shareholders a proposal of share consolidation (the "Share Consolidation") on the basis that every twenty (20) issued and unissued shares of HK$0.01 each in the share capital of the Company be consolidated into one consolidated share of HK$0.2 each.

As at 31 December 2017, the authorised share capital of the Company was HK$800,000,000 divided into 80,000,000,000 shares of par value of HK$0.01 each, of which 23,696,869,088 shares had been allotted and issued as fully paid or credited as fully paid. Pursuant to the resolution passed by the Shareholders on 29 January 2018, the share consolidation became effective on 30 January 2018 and the authorised share capital of the Company remained at HK$800,000,000 dividing into 4,000,000,000 consolidated shares of par value of HK$0.1 each, of which 1,184,843,454 consolidated shares were in issue. All the consolidated shares rank pari passu in all respects with each other in accordance with the articles of association of the Company (the “Articles”). Save for any fractional consolidated shares to which Shareholders may be entitled, the implementation of the Share Consolidation did not alter the underlying assets, business operations, management or financial position of the Company or result in any change in the rights of the Shareholders.

Subscription of Shares

On 5 December 2017, the Company and Mr. Li Dongfan, an executive Director and the joint chairman of the Board (the “Subscriber”) entered into the conditional subscription agreement (the “Subscription Agreement”) in relation to the subscription of 4,600,000,000 new ordinary shares of HK$0.01 each in the share capital of the Company (the “Subscription Shares”) pursuant to which the Subscriber conditionally agreed to subscribe for and the Company conditionally agreed to allot and issue the Subscription Shares at the subscription price of HK$0.03 per Subscription Share.

On 19 December 2017, the Company entered into a deed of termination with the Subscriber (the “Deed of Termination”) to terminate the Subscription Agreement in all respects on amicable terms.

Pursuant to the Deed of Termination, all obligations of the parties under or in respect of the Subscription Agreement shall be fully discharged and no party shall have any claim of any nature whatsoever against the other party arising from or in connection with the Subscription Agreement. Each party shall also bear its own costs arising out of and incidental to the preparation, negotiation and execution of the Subscription Agreement and the Deed of Termination.

The total number of issued share capital of the Company as at the date of this annual report comprised 1,184,843,454 ordinary shares.

CAPITAL EXPENDITURE

During the Year, the total capital expenditure of the Group for the expansion of various plants and erection of new buildings was approximately HK$Nil (Year 2016: approximately HK$0.8 million).

FOREIGN EXCHANGE EXPOSURE

Most assets, liabilities and transactions of the Group are denominated in Renminbi ("RMB"), Hong Kong dollars ("HK$") and United States dollars ("USD"). During the Year, the Group did not hedge any foreign exchange exposure against foreign currency risk. However, the management will continue to monitor foreign currency risks and adopt precedent measures as appropriate.

The closing exchange rate between HK$ and RMB adopted by the Group as at 31 December 2017 was RMB1: HK$1.20 (as at 31 December 2016: RMB1 to HK$1.12). Due to the appreciation of RMB against HK$ during the Year, the Group recorded a comprehensive income (Year 2016: loss) in exchange differences on translating foreign operations of approximately HK$270.2 million (Year 2016: approximately HK$237.4 million) and share of other comprehensive income (Year 2016: loss) of an associate (related to the translation of foreign operations) of approximately HK$19.6 million (Year 2016: HK$19.7 million). In view of continuing appreciation of RMB during the last three months before this report, the Group expects if such trend continues during the coming year, there will be a positive impact to the Group's performance.

CHARGES ON GROUP ASSETS

As at 31 December 2017, the Group did not pledge any non-current assets to secure bank loans.

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 31 December 2017 (as at 31 December 2016: HK$Nil).

EMPLOYMENT INFORMATION

As at 31 December 2017, the total number of employees of the Group in Hong Kong and the PRC was 193 (as at 31 December 2016: 218). The Group's emoluments policies are based on the performance of individual employees and on the basis of the salary trends in various regions, and are reviewed periodically.

For the Year, the total staff costs (including Directors' emoluments) amounted to approximately HK$13.8 million (Year 2016: approximately HK$18.5 million). The Company maintains a share option scheme for the purpose of providing incentives and rewards to the eligible participants for their contributions to the Group.

SIGNIFICANT INVESTMENTS

During the Year, the Group did not have any significant investments (2016: Nil).

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

The Group had no material acquisition or disposals of subsidiaries, associates and joint ventures for the Year.

Report of the Corporate Governance

CORPORATE GOVERNANCE

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

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

The code provision A.6.7 of the CG Code stipulates that independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders; while code provision E.1.2 stipulates that the chairman of the board should attend the annual general meeting. Mr. Cai Zhenrong (the joint chairman of the Board) and three independent non-executive Directors were unable to attend the annual general meeting of the Company held on 28 June 2017 (the "2017 AGM") due to their other business commitments. Mr. Cai Zhenrong and two independent non-executive Directors were unable to attend the extraordinary general meeting of the Company held on 27 October 2017 due to their other business engagement. An executive Director chaired the meetings whereas other attended Board members were already of sufficient calibre and number for answering questions raised by the Shareholders.

Rule 3.10A of the Listing Rules stipulates that the number of independent non-executive directors shall represent at least one-third of the board. Following the re-designation of Mr. Su Yichao from an independent non-executive Director to a non-executive Director with effect from 17 November 2017, the Company was non-compliance with Rule 3.10A of the Listing Rules.

The Company has taken active steps to identify suitable candidates and has appointed Mr. Wang Qidong as an independent non-executive Director on 13 February 2018. However, following the appointment of Mr. Yan Ximao as an executive Director on the same day, the Company was non-compliance with Rule 3.10A of Listing Rules. Also, Mr. Lin Hann Ruey resigned as an independent non-executive Director on 10 April 2018 due to other business commitments; and Mr. Liao Haosheng has been appointed as an independent non-executive Director on the same day. The Company is still remains below the requirements under Rule 3.10A of the Listing Rules. The Company will make its best endeavours to identify suitable candidates to fill the vacanc(ies) of the independent non-executive Director as soon as possible to meet the requirements under the Listing Rules. The Company will make further announcement(s) as and when appropriate.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

Report of the Corporate Governance

BOARD

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

A) Board Composition

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

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

Executive Directors

Mr. Cai Zhenrong *(Joint Chairman)*
Mr. Li Dongfan *(Joint Chairman)* (Appointed as an executive Director and the Vice Chairman on 13 November 2017 and appointed as the Joint Chairman on 13 February 2018)
Mr. Yan Ximao *(Vice Chairman)* (Appointed as an executive Director on 13 February 2018 and was appointed as the Vice Chairman on 12 April 2018)
Mr. Cai Zhenyao
Mr. Cai Zhenying
Mr. Cai Yangbo *(Managing Director)*
Mr. Choi Wing Toon
Mr. Chen Wenfang (Appointed on 13 November 2017)
Mr. Zhang Lu (Resigned on 3 October 2017)
Mr. Zhou Yao Bo (Resigned on 3 October 2017)

Non-executive Director

Mr. Su Yichao (Appointed as an independent non-executive Director on 13 November 2017 and re-designated as a non-executive Director on 17 November 2017)

Independent Non-executive Directors

Mr. Lawrence Gonzaga
Mr. Chin Hon Siang
Mr. Wang Qidong (Appointed on 13 February 2018)
Mr. Liao Haosheng (Appointed on 10 April 2018)
Ms. Choy So Yuk, *BBS, JP* (Resigned on 18 October 2017)
Mr. Lin Hann Ruey (Resigned on 10 April 2018)

The biographical details of the Directors and the relationships among them are set out in "Biographical Details of Directors and Senior Management" on pages 42 to 45 of this annual report. Save as disclosed in the section headed "Biographical Details of Directors and Senior Management", none of the Directors has any financial, business, family or other material or relevant relationships among members of the Board.

B) Role and Function

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

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

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

C) Meeting Records

There were 8 Board meetings held for the Year. The following was an attendance record of the Board meetings held:

Board Members	Attendance at meetings held for the Year
Executive Directors	
Mr. Cai Zhenrong *(Joint Chairman)*	8/8
Mr. Li Dongfan *(Joint Chairman)* (Appointed on 13 November 2017)	2/2
Mr. Yan Ximao *(Vice Chairman)* (Appointed on 13 February 2018)	N/A
Mr. Cai Zhenyao	5/8
Mr. Cai Zhenying	5/8
Mr. Cai Yangbo *(Managing Director)*	8/8
Mr. Choi Wing Toon	4/8
Mr. Chen Wenfang (Appointed on 13 November 2017)	2/2
Mr. Zhang Lu (Resigned on 3 October 2017)	3/3
Mr. Zhou Yao Bo (Resigned on 3 October 2017)	3/3
Non-executive Director	
Mr. Su Yichao (Appointed as an independent non-executive Director on 13 November 2017 and re-designated as a non-executive Director on 17 November 2017)	2/2
Independent Non-executive Directors	
Mr. Lawrence Gonzaga	6/8
Mr. Chin Hon Siang	8/8
Mr. Wang Qidong (Appointed on 13 February 2018)	N/A
Mr. Liao Haosheng (Appointed on 10 April 2018)	N/A
Ms. Choy So Yuk, *BBS, JP* (Resigned on 18 October 2017)	4/4
Mr. Lin Hann Ruey (Resigned on 10 April 2018)	8/8

Report of the Corporate Governance

There was one annual general meeting held on 28 June 2017 and one extraordinary general meeting held on 27 October 2017 during the Year. The attendance record of the general meetings is shown as follows.

Board Members	Attendance at general meetings held for the Year
Executive Directors	
Mr. Cai Zhenrong *(Joint Chairman)*	0/2
Mr. Li Dongfan *(Joint Chairman)* (Appointed on 13 November 2017)	N/A
Mr. Yan Ximao *(Vice Chairman)* (Appointed on 13 February 2018)	N/A
Mr. Cai Zhenyao	0/2
Mr. Cai Zhenying	0/2
Mr. Cai Yangbo *(Managing Director)*	1/2
Mr. Choi Wing Toon	0/2
Mr. Chen Wenfang (Appointed on 13 November 2017)	N/A
Mr. Zhang Lu (Resigned on 3 October 2017)	0/1
Mr. Zhou Yao Bo (Resigned on 3 October 2017)	0/1
Non-executive Director	
Mr. Su Yichao (Appointed as an independent non-executive Director on 13 November 2017 and re-designated as a non-executive Director on 17 November 2017)	N/A
Independent Non-executive Directors	
Mr. Lawrence Gonzaga	0/2
Mr. Chin Hon Siang	0/2
Mr. Wang Qidong (Appointed on 13 February 2018)	N/A
Mr. Liao Haosheng (Appointed on 10 April 2018)	N/A
Ms. Choy So Yuk, *BBS, JP* (Resigned on 18 October 2017)	0/1
Mr. Lin Hann Ruey (Resigned on 10 April 2018)	2/2

D) Independent Non-executive Directors

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

On 17 November 2017, the Company failed to comply with Rule 3.10A of the Listing Rules after the re-designation of Mr. Su Yichao as non-executive Director. The Company has taken active steps to identify suitable candidates and has appointed Mr. Wang Qidong and Mr. Liao Haosheng as the independent non-executive Directors on 13 February 2018 and 10 April 2018 respectively. However, following the appointment of Mr. Yan Ximao and the resignation of Mr. Lin Hann Ruey on 13 February 2018 and 10 April 2018 respectively, the Company is still not in compliance with Rule 3.10A of the Listing Rules. The Company will make its best endeavors to identify suitable candidates to fill the vacancies of the independent non-executive Directors as soon as possible to meet the requirements under the Listing Rules.

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

E) Directors' Training

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

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

A summary of the participation of the Directors in training and continuous professional development for the Year according to the records provided by the Directors is as follows:

Names of Directors	**Training organised by professional organizations**	**Reading materials updating on new rules and regulations**
Executive Directors		
Mr. Cai Zhenrong *(Joint Chairman)*	✓	✓
Mr. Li Dongfan *(Joint Chairman)* (Appointed on 13 November 2017)	✓	✓
Mr. Yan Ximao *(Vice Chairman)* (Appointed on 13 February 2018)	✓	✓
Mr. Cai Zhenyao	✓	✓
Mr. Cai Zhenying	✓	✓
Mr. Cai Yangbo *(Managing Director)*	✓	✓
Mr. Choi Wing Toon	✓	✓
Mr. Chen Wenfang (Appointed on 13 November 2017)	✓	✓
Mr. Zhang Lu (Resigned on 3 October 2017)	✓	✓
Mr. Zhou Yao Bo (Resigned on 3 October 2017)	✓	✓
Non-executive Director		
Mr. Su Yichao (Appointed as an independent non-executive Director on 13 November 2017 and re-designated as a non-executive Director on 17 November 2017)	✓	✓
Independent Non-executive Directors		
Mr. Lawrence Gonzaga	✓	✓
Mr. Chin Hon Siang	✓	✓
Mr. Wang Qidong (Appointed on 13 February 2018)	✓	✓
Mr. Liao Haosheng (Appointed on 10 April 2018)	✓	✓
Ms. Choy So Yuk, *BBS, JP* (Resigned on 18 October 2017)	✓	✓
Mr. Lin Hann Ruey (Resigned on 10 April 2018)	✓	✓

JOINT CHAIRMAN AND MANAGING DIRECTOR

The roles of the joint chairman are performed by Mr. Cai Zhenrong and Mr. Li Dongfan and the role of the managing Director is performed by Mr. Cai Yangbo. This segregation ensures a clear distinction between the joint chairman's and managing Director's responsibilities which allows a balance of power between the Board and the management of the Group, and ensures their independence and accountability.

NON-EXECUTIVE DIRECTORS

Terms of Appointment of Non-executive Directors

All the non-executive Directors, including independent non-executive Directors, are appointed for a specific term. The non-executive Directors, Mr. Su Yichao, has entered into a letter of appointment with the Company and was appointed for an initial term of two years commencing from 13 November 2017.

The independent non-executive Director, Mr. Lawrence Gonzaga entered into a letter of appointment with the Company and was appointed for an initial term of two years commencing from 16 January 2017. The independent non-executive Director, Mr. Chin Hon Siang entered into a letter of appointment with the Company and was appointed for an initial term of two years commencing from 12 July 2016. The independent non-executive Director, Mr. Wang Qidong entered into a letter of appointment with the Company and was appointed for an initial term of one year commencing from 13 February 2018. The independent non-executive Director, Mr. Liao Haosheng entered into a letter of appointment with the Company and was appointed for an initial term of one year commencing from 10 April 2018.

In accordance with articles 84(1) and 84(2) of the Articles, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors shall retire as Directors by rotation at the annual general meeting, and, being eligible, will offer themselves for re-election.

BOARD COMMITTEES

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

- Audit Committee
- Remuneration Committee
- Nomination Committee

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

Report of the Corporate Governance

A) Audit Committee

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

Composition of the Audit Committee

Mr. Wang Qidong *(Chairman)* (Appointed on 10 April 2018)
Mr. Lawrence Gonzaga (Note 1)
Mr. Chin Hon Siang
Mr. Lin Hann Ruey (Appointed on 19 October 2017 and resigned on 10 April 2018)
Ms. Choy So Yuk, *BBS, JP* (Resigned on 18 October 2017)

Role and Function

The Audit Committee is mainly responsible for:

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

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

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

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

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

Note 1: Mr. Lawrence Gonzaga resigned as the chairman of the Audit Committee but remained as a member of the Audit Committee with effect from 10 April 2018.

Meeting Record

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

Audit Committee Members	Attendance at meetings held for the Year
Mr. Wang Qidong *(Chairman)* (Appointed on 10 April 2018)	N/A
Mr. Lawrence Gonzaga (Note 1)	2/2
Mr. Chin Hon Siang	2/2
Mr. Lin Hann Ruey (Appointed on 19 October 2017 and resigned on 10 April 2018)	N/A
Ms. Choy So Yuk, *BBS, JP* (Resigned on 18 October 2017)	2/2

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

B) Remuneration Committee

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

Composition of the Remuneration Committee

Mr. Wang Qidong *(Chairman)* (Appointed on 10 April 2018)
Mr. Lawrence Gonzaga (Note 2)
Mr. Chin Hon Siang
Mr. Lin Hann Ruey (Appointed on 19 October 2017 and resigned on 10 April 2018)
Ms. Choy So Yuk, *BBS, JP* (Resigned on 18 October 2017)

Note 1: Mr. Lawrence Gonzaga resigned as the chairman of the Audit Committee but remained as a member of the Audit Committee with effect from 10 April 2018.

Note 2: Mr. Lawrence Gonzaga resigned as the chairman of the Remuneration Committee but remained as a member of the Remuneration Committee with effect from 10 April 2018.

Role and Function

The Remuneration Committee is mainly responsible for:

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

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

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

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

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

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

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

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

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

Meeting Record

The Remuneration Committee met three times during the Year. The following was an attendance record of the Remuneration Committee meetings for the Year:

Remuneration Committee Members	Attendance at meetings held for the Year
Mr. Wang Qidong *(Chairman)* (Appointed on 10 April 2018)	N/A
Mr. Lawrence Gonzaga (Note 2)	3/3
Mr. Chin Hon Siang	3/3
Mr. Lin Hann Ruey (Appointed on 19 October 2017 and resigned on 10 April 2018)	2/2
Ms. Choy So Yuk, *BBS, JP* (Resigned on 18 October 2017)	1/1

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

The number of senior management of the Group whose remuneration for the year ended 31 December 2017 fell within the following band is as follows:

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

C) Nomination Committee

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

Composition of the Nomination Committee

Mr. Wang Qidong *(Chairman)* (Appointed on 10 April 2018)
Mr. Lawrence Gonzaga (Note 3)
Mr. Chin Hon Siang
Mr. Lin Hann Ruey (Appointed on 19 October 2017 and resigned on 10 April 2018)
Ms. Choy So Yuk, *BBS, JP* (Resigned on 18 October 2017)

Note 2: Mr. Lawrence Gonzaga resigned as the chairman of the Remuneration Committee but remained as a member of the Remuneration Committee with effect from 10 April 2018.

Note 3: Mr. Lawrence Gonzaga resigned as the chairman of the Nomination Committee but remained as a member of the Nomination Committee with effect from 10 April 2018.

Role and Function

The Nomination Committee is mainly responsible for:

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

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

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

Board Diversity Policy

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

Meeting Record

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

Nomination Committee Members	**Attendance at meetings held for the Year**
Mr. Wang Qidong *(Chairman)* (Appointed on 10 April 2018)	N/A
Mr. Lawrence Gonzaga (Note 3)	4/4
Mr. Chin Hon Siang	4/4
Mr. Lin Hann Ruey (Appointed on 19 October 2017 and resigned on 10 April 2018)	2/2
Ms. Choy So Yuk, *BBS, JP* (Resigned on 18 October 2017)	1/1

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

Note 3: Mr. Lawrence Gonzaga resigned as the chairman of the Nomination Committee but remained as a member of the Nomination Committee with effect from 10 April 2018.

D) Corporate Governance Functions

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

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

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

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

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

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

AUDITOR'S REMUNERATION

During the Year, the remuneration paid and payable to the auditor of the Company, PKF Hong Kong Limited ("PKF"), for the provision of the Group's audit services and non-audit services amounted to HK$4,500,000 and HK$892,000 respectively.

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

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

COMPANY SECRETARY

The Company Secretary is responsible for facilitating the Board process, as well as communications among Board members, with Shareholders and management. According to rule 3.29 of the Listing Rules, Mr. Ip Wai Sing ("Mr. Ip") has taken no less than 15 hours of relevant professional training during his tenure of office in the Year. After the resignation of Mr. Ip on 31 August 2017, the Company is in the process of identifying suitable candidate of fill in the vacancy of the Company Secretary. Although the company secretary of the Company has not been appointed yet, the Company has engaged as external service provider to ensure the smooth operation of our secretary work.

SHAREHOLDERS' RIGHTS

Convening an extraordinary general meeting

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

Putting enquiries to the Board

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

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

Putting forward proposals at Shareholders' meeting

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

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

Hotline no.:	2549 0669
By post:	Room 3505, West Tower, Shun Tak Centre, 200 Connaught Road Central, Hong Kong

INVESTOR RELATIONS

To enhance its transparency, the Company encourages dialogue with institutional investors and analysts. Extensive information about the Company's activities is provided in its interim and annual reports, which are sent to Shareholders, analysts and interested parties. The Company also maintains regular communication with the media. The Company's news releases, announcements and publications are circulated timely, to all major news media. The same materials are also available on the Company's website.

CONSTITUTIONAL DOCUMENTS

Pursuant to resolution duly passed by the Shareholders on the extraordinary general meeting held on 27 October 2017, the Articles has been amended to align with the change of the name of the Company and update the authorised share capital of the Company. The amended version of the Articles is available on the websites of the Stock Exchange and the Company.

Save as disclosed above, there were no changes in the constitutional documents of the Company during the Year.

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

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

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

Report of the Directors

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

CHANGE OF COMPANY NAME

Subsequent to the passing of the special resolution approving the change of company name by the Shareholders at the extraordinary general meeting held on 27 October 2017 and the issue of Certificate of Incorporation on Change of Name by the Registrar of Companies in the Cayman Islands on 27 October 2017, the English name of the Company was changed from “Ping Shan Tea Group Limited” to “Blockchain Group Company Limited” and the dual foreign name in Chinese of the Company was changed from “坪山茶業集團有限公司” to “區塊鏈集團有限公司”. The stock short name of the Company for trading in the shares of the Company on the Stock Exchange has been changed from “PING SHAN TEA” to “BLOCKCHAIN GP” in English and from “坪山茶業” to “區塊鏈集團” in Chinese with effect from 23 November 2017. Details of the change of the Company’s name were set out in the announcements of the Company dated 23 December 2016 and 20 November 2017 and the circular of the Company dated 1 September 2017.

PRINCIPAL ACTIVITIES

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

BUSINESS REVIEW

The business review of the Group for the Year is set out in the sections of “Chairman’s Statement”, “Five-Year Financial Summary”, “Management Discussion and Analysis” and the paragraphs below.

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

Key Risk Factors

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

Impact of Local and International Regulations

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

Third-Party Risks

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

Key Relationships with Employees, Customers and Suppliers

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

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

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

SEGMENT INFORMATION

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

RESULTS AND DIVIDENDS

The results of the Group for the Year and the state of affairs of the Group for the Year are set out in the consolidated financial statements on pages 52 to 154.

The Board does not recommend the payment of a final dividend for the Year (Year 2016: HK$Nil).

CLOSURE OF REGISTER OF MEMBERS

In order to determine the entitlement to attend and vote at the forthcoming annual general meeting of the Company to be held on Thursday, 7 June 2018 (the "AGM"), the register of members of the Company will be closed from Friday, 1 June 2018 to Thursday, 7 June 2018, both days inclusive, during which period no transfers of shares shall be effected. The holders of shares whose names appear on the register of members of the Company on Thursday, 7 June 2018 will be entitled to attend and vote at the AGM. In order to qualify for attending and voting at the AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Union Registrars Limited at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong, for registration not later than 4:00 p.m. on Thursday, 31 May 2018.

FIVE-YEAR FINANCIAL SUMMARY

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

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

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

As at 31 December 2017, the authorised share capital of the Company was HK$800,000,000 divided into 80,000,000,000 shares of par value of HK$0.01 each, of which 23,696,869,088 shares had been allotted and issued as fully paid or credited as fully paid.

Pursuant to the resolution passed by the Shareholders on 29 January 2018, the share consolidation became effective on 30 January 2018 and the authorised share capital of the Company remained at HK$800,000,000 dividing into 4,000,000,000 consolidated shares of par value of HK$0.1 each, of which 1,184,843,454 consolidated shares were in issue.

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

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

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the Year, there were increase in the issued share capital of the Company through issuance of 371,776,018 new ordinary shares upon conversion of convertible bonds.

The total number of issued share capital of the Company as at 31 December 2017 comprised 23,696,869,088 ordinary shares.

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

RESERVES

Details of the movements in the reserves of the Company and of the Group during the Year are set out in note 35(b) to the consolidated financial statements and the consolidated statement of changes in equity on page 56 of this annual report.

DISTRIBUTABLE RESERVES

At 31 December 2017, the Company had distributable reserves of approximately HK$1,406.6 million. Under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the share premium account of the Company of approximately HK$4,300.2 million as at 31 December 2017, is distributable to the Shareholders provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

For the Year, the percentage of sales attributable to the Group's five largest customers was approximately 23%, in which sales to the largest customer represented approximately 4% of the total sales for the Year.

The percentage of purchase attributable to the Group's five largest supplier was approximately 79% while total purchase from the largest supplier represented approximately 33% of the total purchase for the Year.

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

Report of the Directors

DIRECTORS

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

Executive Directors

Mr. Cai Zhenrong *(Joint Chairman)*
Mr. Li Dongfan *(Joint Chairman)* (Appointed on 13 November 2017)
Mr. Yan Ximao *(Vice Chairman)* (Appointed on 13 February 2018)
Mr. Cai Zhenyao
Mr. Cai Zhenying
Mr. Cai Yangbo *(Managing Director)*
Mr. Choi Wing Toon
Mr. Chen Wenfang (Appointed on 13 November 2017)
Mr. Zhang Lu (Resigned on 3 October 2017) (Note 1)
Mr. Zhou Yao Bo (Resigned on 3 October 2017) (Note 1)

Non-executive Director

Mr. Su Yichao (Appointed as an independent non-executive Director on 13 November 2017 and re-designated as a non-executive Director on 17 November 2017)

Independent Non-executive Directors

Mr. Lawrence Gonzaga
Mr. Chin Hon Siang
Mr. Wang Qidong (Appointed on 13 February 2018)
Ms. Choy So Yuk, *BBS, JP* (Resigned on 18 October 2017) (Note 2)
Mr. Liao Haosheng (Appointed on 10 April 2018)
Mr. Lin Hann Ruey (Resigned on 10 April 2018) (Note 3)

Notes:

(1) On 3 October 2017, Mr. Zhang Lu and Mr. Zhou Yao Bo resigned as the executive Directors due to other business commitments.

(2) On 19 October 2017, Ms. Choy So Yuk, *BBS, JP* resigned as an independent non-executive Director and ceased to act as a member of the Audit Committee, Remuneration Committee and Nomination Committee due to other business commitments.

(3) On 10 April 2018, Mr. Lin Hann Ruey resigned as an independent non-executive Director and ceased to act as a member of the Audit Committee, the Remuneration Committee and the Nomination Committee due to other business commitments.

Report of the Directors

In accordance with articles 84(1) and 84(2) of the Articles, Mr. Cai Zhenyao, Mr. Cai Yangbo and Mr. Choi Wing Toon will retire by rotation and, being eligible, offer themselves for re-election at the AGM. In accordance with the article 83(3) of the Articles, Mr. Li Dongfan, Mr. Yan Ximao, Mr. Chen Wenfang, Mr. Su Yichao, Mr. Wang Qidong and Mr. Liao Haosheng will hold office until the AGM and, being eligible, offer themselves for re-election at the AGM.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

"Biographical details of the Directors and Senior Management" are set out on pages 42 to 45 of this annual report.

DIRECTORS' SERVICE AGREEMENTS

Each of the executive Directors (except Mr. Li Dongfan, Mr. Yan Ximao and Mr. Chen Wenfang) has entered into a service agreement with the Company for a term of three years commencing from 1 August 2002, which continues thereafter until terminated by either party giving not less than three months' notice in writing to the other party. Mr. Li Dongfan and Mr. Chen Wenfang have entered into a service agreement with the Company for a term of two years commencing from 13 November 2017, which shall be terminated by either party giving not less than one month's notice in writing to the other party. Mr. Yan Ximao has entered into a service agreement with the Company for a term of one year commencing from 13 February 2018, which shall be terminated by either party giving not less than one month's notice in writing to the other party.

The non-executive Director, namely Mr. Su Yichao has entered into a letter of appointment with the Company for a term of two years commencing from 17 November 2017 to 16 November 2019, which shall be terminated by either party giving not less than one month's notice in writing to the other party.

One independent non-executive Director, namely Mr. Lawrence Gonzaga has entered into a letter of appointment with the Company for a term of two years from 16 January 2017 to 15 January 2019, which can be terminated by either party giving not less than one month's notice in writing to the other party.

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

One independent non-executive Director, namely Mr. Wang Qidong has entered into a letter of appointment with the Company for a term of one year from 13 February 2018 to 12 February 2019, which can be terminated by either party giving not less than one month's notice in writing to the other party.

One independent non-executive Director, namely Mr. Liao Haosheng has entered into a letter of appointment with the Company for a term of one year from 10 April 2018 to 9 April 2019, which can be terminated by either party giving not less than one month's notice in writing to the other party.

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

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

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

DISCLOSURE OF INFORMATION ON DIRECTORS

Pursuant to rule 13.51B(1) of the Listing Rules, the changes of information on the Directors are as follows:

The monthly salaries of Mr. Li Dongfan and Mr. Chen Wenfang, the executive Directors, have been adjusted to HK$40,000 per month with effect from 1 February 2018.

Mr. LI Dongfan has been appointed as the joint chairman of the Board on 13 February 2018. He has been appointed as an executive director and the chairman of the board of directors of Wang Tai Holdings Limited (Stock Code: 1400) with effect from 17 April 2018. He was also appointed as the director of a few subsidiaries of the Company.

Mr. Mr. Yan Ximao has been appointed as the vice chairman of the Board on 13 February 2018.

Mr. Su Yichao has been re-designated as a non-executive Director on 17 November 2017.

Mr. Lawrence Gonzaga resigned as the chairman of each of the Audit Committee, the Remuneration Committee and the Nomination Committee but remained as a member of the Audit Committee, the Remuneration Committee and the Nomination Committee on 10 April 2018.

Mr. Wang Qidong has been appointed as the chairman of each of the Audit Committee, the Remuneration Committee and the Nomination Committee on 10 April 2018.

INDEMNITY OF DIRECTORS

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

CONTRACT OF SIGNIFICANCE

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

MANAGEMENT CONTRACTS

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

RELATED PARTY TRANSACTIONS

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

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

As at 31 December 2017, the interests and short positions of the Directors and Chief Executives or their respective associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or as recorded in the register of interests required to be maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company or the Stock Exchange pursuant to the Model Code as set out in Appendix 10 of the Listing Rules were as follows:

Long Positions

Ordinary shares of HK$0.01 each of the Company

Name of Director	Capacity	Type of interest	Number of shares held	Approximate percentage of shareholding in the Company (Note 7)
Mr. Cai Zhenrong	Beneficial owner	Personal	470,541,000 (Note 1, 7)	1.99%
	Corporate owner	Corporate	5,487,376,080 (Note 2, 7)	23.16%
Mr. Cai Zhenyao	Beneficial owner	Personal	52,752,000 (Note 3, 7)	0.22%
	Corporate owner	Corporate	701,500,378	2.96%
Mr. Cai Zhenying	Beneficial owner	Personal	5,000,000 (Note 4, 7)	0.02%
Mr. Cai Yangbo	Beneficial owner	Personal	21,770,000 (Note 5, 7)	0.09%
Mr. Choi Wing Toon	Beneficial owner	Personal	4,000,000 (Note 6, 7)	0.02%
Mr. Lawrence Gonzaga	Beneficial owner	Personal	6,000,000 (Note 4, 7)	0.03%

Notes:

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

2. These shares are held and beneficially owned by Smart Fujian Group Limited upon completion of the acquisition of the entire issued share capital of China Natural Tea Holdings Company Limited (the "Acquisition").

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

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

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

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

7. As at 31 December 2017, the total number of the issued shares of the Company was 23,696,869,088 ordinary shares of HK$0.01 each. The number of shares or underlying shares held by the Director and Chief Executive is not adjusted for the effect of the share consolidation after the Year.

Save as disclosed above, as at 31 December 2017, none of the Directors and Chief Executive or their respective associates had any interest or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or as recorded in the register of interests required to be maintained pursuant to Section 352 of the SFO, or as otherwise to be notified to the Company or the Stock Exchange pursuant to the Model Code in the Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

DEBENTURES ISSUED

The Company issued debentures in the principal amounts of HK$846.1 million, raising the net proceeds of HK$630.2 million during the Year. The purpose of the issue is for the expansion of current production capacities, working capital and potential acquisition and repayment of the existing debts.

EQUITY-LINKED AGREEMENTS

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

Share Option Schemes

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

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

There are no outstanding shares available for issue under the Terminated Scheme. The total number of shares available for issue under the New Scheme is 175,117,665, representing approximately 14.78% of the issued shares of the Company as at the date of this annual report.

There is no minimum period for which an option must be held before it can be exercised, and the period during which an option may be exercised will be determined by the Board in its absolute discretion, however, no options shall be exercised 10 years after they have been granted. The subscription price of a share in respect of a particular option shall be not less than the highest of (a) the closing price of the shares on the daily quotation sheet of the Stock Exchange; (b) the average official closing price of the shares on the daily quotation sheet of the Stock Exchange for the five business days immediately preceding the date of grant; and (c) the nominal value of a share. Each grantee shall pay HK$1.00 to the Company at the time the option is granted. The New Scheme shall take effect from the date it is adopted and shall remain effective within a period of 10 years from that date. The remaining life of the New Scheme is 4 years.

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

				Number of share option					
Name or category of participant	Date of grant	Exercise period	Exercise price (HK$)	Outstanding as at 1.1.2017	Granted during the Year	Lapsed during the Year	Cancelled during the Year	Exercised during the Year	Outstanding as at 31.12.2017
Mr. Cai Zhenrong	24.10.2013	24.10.2013 – 23.10.2018	0.2538	3,000,000	–	–	–	–	3,000,000
	20.5.2014	20.5.2014 – 19.5.2019	0.1036	1,500,000	–	–	–	–	1,500,000
	30.04.2015	30.4.2015 – 29.4.2020	0.0990	3,000,000	–	–	–	–	3,000,000
Mr. Cai Zhenyao	24.10.2013	24.10.2013 – 23.10.2018	0.2538	3,000,000	–	–	–	–	3,000,000
	20.5.2014	20.5.2014 – 19.5.2019	0.1036	1,500,000	–	–	–	–	1,500,000
	30.04.2015	30.4.2015 – 29.4.2020	0.0990	3,000,000	–	–	–	–	3,000,000
Mr. Cai Zhenying	24.10.2013	24.10.2013 – 23.10.2018	0.2538	1,000,000	–	–	–	–	1,000,000
	20.5.2014	20.5.2014 – 19.5.2019	0.1036	1,000,000	–	–	–	–	1,000,000
	30.04.2015	30.4.2015 – 29.4.2020	0.0990	3,000,000	–	–	–	–	3,000,000
Mr. Cai Yangbo	24.10.2013	24.10.2013 – 23.10.2018	0.2538 (Note)	3,000,000	–	–	–	–	3,000,000 (Note)
	20.5.2014	20.5.2014 – 19.5.2019	0.1036 (Note)	1,500,000	–	–	–	–	1,500,000 (Note)
	30.04.2015	30.4.2015 – 29.4.2020	0.0990 (Note)	3,000,000	–	–	–	–	3,000,000 (Note)
Mr. Choi Wing Toon	24.10.2013	24.10.2013 – 23.10.2018	0.2538 (Note)	1,000,000	–	–	–	–	1,000,000 (Note)
Mr. Lawrence Gonzaga	24.10.2013	24.10.2013 – 23.10.2018	0.2538 (Note)	2,000,000	–	–	–	–	2,000,000 (Note)
	20.5.2014	20.5.2014 – 19.5.2019	0.1036 (Note)	1,000,000	–	–	–	–	1,000,000 (Note)
	30.4.2015	30.4.2015 – 29.4.2020	0.0990 (Note)	3,000,000	–	–	–	–	3,000,000 (Note)
Ms. Choy So Yuk, *BBS, JP* (resigned on 19 October 2017)	24.10.2013	24.10.2013 – 23.10.2018	0.2538 (Note)	2,000,000	–	(2,000,000)	–	–	–
	20.5.2014	20.5.2014 – 19.5.2019	0.1036 (Note)	1,500,000	–	(1,500,000)	–	–	–
	30.4.2015	30.4.2015 – 29.4.2020	0.0990 (Note)	3,000,000	–	(3,000,000)	–	–	–
Subtotal				41,000,000	–	(6,500,000)	–	–	34,500,000

Name or category of participant	Date of grant	Exercise period	Exercise price (HK$)	Number of share option: Outstanding as at 1.1.2017	Granted during the Year	Lapsed during the Year	Cancelled during the Year	Exercised during the Year	Outstanding as at 31.12.2017
Employees	24.10.2013	24.10.2013 – 23.10.2018	0.2538 (Note)	838,500,000	–	(44,000,000)	–	–	794,500,000 (Note)
Other participants	24.10.2013	24.10.2017 – 23.10.2018	0.2538 (Note)	320,500,000	–	–	–	–	320,500,000 (Note)
Employees	20.5.2014	20.5.2014 – 19.5.2019	0.1036 (Note)	12,316,000	–	(9,972,000)	–	–	2,344,000 (Note)
Employees	30.4.2015	30.4.2015 – 29.4.2020	0.0990 (Note)	42,000,000	–	(24,000,000)	–	–	18,000,000 (Note)
Sub total				1,213,316,000	–	(77,972,000)	–	–	1,135,344,000
Total				**1,254,316,000**	**-**	**(84,472,000)**	**-**	**-**	**1,169,844,000**

During the Year, 84,472,000 share options were lapsed and no share options were granted, exercised or cancelled under the Terminated Scheme; while no share options were granted, exercised, lapsed or cancelled under the New Scheme.

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

Year	**Date of grant**	**Exercise period**	**Exercise price** HK$
2013	24.10.2013	24.10.2013 – 23.10.2018	0.2538 (Note)
2014	20.5.2014	20.5.2014 – 19.5.2019	0.1036 (Note)
2015	30.4.2015	30.4.2015 – 29.4.2020	0.0990 (Note)

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

The above tables on the number of outstanding share options and exercise prices are not adjusted for the effect of the share consolidation after the Year.

On 30 January 2018, the exercise price of and the number of shares entitled to be subscribed for under the outstanding share options have been adjusted in the following manner with the completion of the share consolidation of the Company:

Name or category of participant	Number of Outstanding Share Options before the Share Consolidation	Exercise price per share options prior to the Share Consolidation	Adjusted Number of Outstanding Share Options before the Share Consolidation	Adjusted Exercise price per share options after the Share Consolidation
Mr. Cai Zhenrong	3,000,000	0.2538	150,000	5.0760
	1,500,000	0.1036	75,000	2.0720
	3,000,000	0.0990	150,000	1.9800
Mr. Cai Zhenyao	3,000,000	0.2538	150,000	5.0760
	1,500,000	0.1036	75,000	2.0720
	3,000,000	0.0990	150,000	1.9800
Mr. Cai Zhenying	1,000,000	0.2538	50,000	5.0760
	1,000,000	0.1036	50,000	2.0720
	3,000,000	0.0990	150,000	1.9800
Mr. Cai Yangbo	3,000,000	0.2538	150,000	5.0760
	1,500,000	0.1036	75,000	2.0720
	3,000,000	0.0990	150,000	1.9800
Mr. Choi Wing Toon	1,000,000	0.2538	50,000	5.0760
Mr. Lawrence Gonzaga	2,000,000	0.2538	100,000	5.0760
	1,000,000	0.1036	50,000	2.0720
	3,000,000	0.0990	150,000	1.9800
Employees	794,500,000	0.2538	39,725,000	5.0760
Other Participants	320,500,000	0.2538	16,025,000	5.0760
Employees	2,344,000	0.1036	117,200	2.0720
Employees	18,000,000	0.0990	900,000	1.9800
Total	1,169,844,000		58,492,200	

Convertible bonds

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

Convertible notes and Unlisted warrants

As at 31 December 2017, based on the outstanding unlisted warrants in the aggregate principal amount of HK$131,560,000, there were listed warrants of the Company convertible into 545,995,010 shares at the exercise price of HK$0.099.

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

On 30 January 2018, the number of shares to be allotted and issued to the respective holders of the outstanding warrants upon exercise of the subscription rights attaching to the warrants would be adjusted from 545,995,010 shares to 27,299,750 consolidated shares with the exercise price of HK$1.980 per consolidated share with the completion of the share consolidation.

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

As at 31 December 2017, to the best knowledge of the Directors, the following person (other than a Director and Chief Executives) who had interests or short positions in the shares or underlying of the Company which would fall to be disclosed to the Company under the provision of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long Positions

Ordinary Shares of HK$0.01 each of the Company

Name of Shareholder	Capacity	Long Position/ short position	Number of shares held	Approximate percentage of shareholding in the Company
Ms. Su Li Yuan	Spousal interest	Long Position	5,957,917,080 (Note 1, 4)	25.14%
Smart Fujian Group Limited	Beneficial interest	Long Position	5,487,376,080 (Note 2, 4)	23.16%
Asia Equity Value Ltd.	Beneficial interest	Long Position	1,328,888,889	5.61%
	Beneficial interest	Short Position	600,000,000 (Note 4)	2.53%
Central Huijin Investment Ltd.	Corporate interest	Long Position	1,630,525,473 (Note 3, 4)	6.88%
China Construction Bank Corporation	Corporate interest	Long Position	1,630,525,473 (Note 3, 4)	6.88%

Notes:

1. These shares comprise 470,541,000 shares held and beneficially owned by Mr. Cai Zhenrong, an executive Director. The remaining shares of 5,487,376,080 held and beneficially owned by Smart Fujian Group Limited upon completion of the Acquisition. Ms. Su Li Yuan, as the spouse of Mr. Cai Zhenrong, is deemed to be interested in these 5,957,917,080 shares under the SFO.

2. These shares have been held and beneficially owned by Smart Fujian Group Limited upon completion of the Acquisition.

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

4. As at 31 December 2017, the total number of the issued shares of the Company was 23,696,869,088 ordinary shares of HK$0.01 each. The number of shares or underlying shares held by the substantial shareholders is not adjusted for the effect of the share consolidation after the Year.

Save as disclosed above, as at 31 December 2017, no person, other than the Directors and Chief Executives whose interests are set out in the section “Directors’ and chief executives’ interests and short positions in shares, underlying shares and debentures” above, had any interest or short positions in the shares or underlying shares of the Company which are required to be notified to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

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

CONNECTED TRANSACTIONS

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

PUBLIC FLOAT

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

INDEPENDENT AUDITOR

PKF (大信梁學濂(香港)會計師事務所) retired as the independent auditor of the Company with effect from the conclusion of the 2017 AGM due to its reorganisation and its subsequent change in entity status from a partnership to a limited company. At the 2017 AGM, PKF Hong Kong Limited (大信梁學濂(香港)會計師事務所有限公司) was appointed as the new auditor of the Company.

The consolidated financial statements of the Group for the Year have been audited by PKF Hong Kong Limited, who will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting (the "2018 AGM"). A resolution for their re-appointment as the auditor of the Company will be proposed at the 2018 AGM.

ON BEHALF OF THE BOARD

Cai Zhenrong
Joint Chairman

Hong Kong, 29 March 2018

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Cai Zhenrong, aged 70, is the founder, the joint chairman and an executive Director of the Group. He is also a director of the subsidiaries of the Company. Mr. Cai Zhenrong is responsible for the overall strategic planning, business development and strategic investments of the Group. Mr. Cai Zhenrong has devoted a significant amount of time in the Philippines for the Group's business management and development. Mr. Cai Zhenrong is the brother of Mr. Cai Zhenyao and Mr. Cai Zhenying; the father of Mr. Cai Yangbo; and the cousin of Mr. Choi Wing Toon.

Mr. Li Dongfan, aged 31, is an executive Director and the joint chairman of the Company. Mr. Li Dongfan was an entrepreneur in his early days. He started running industrial factories after 2003 and founded Ming and Hang Mechanics and Electrics*（明恒機電）and Minggao Automation*（明高自動化）, both were the earliest research, development and production of robotics and artificial intelligence companies in the PRC. He then actively involved in the financial sector through development and exploration. Mr. Li Dongfan has been engaging in financial sector for years with strong systematic philosophy, innovative mind, ample financial experiences and practical capability gained from work, in addition to his astute insight and analytical skills. Mr. Li Dongfan has successively planned various major domestic acquisition and restructuring deals that gained him a wealth of guiding experiences in corporate restructuring, mergers, innovation and development. Mr. Li Dongfan founded Moody Group in 2007 and joined Defu Group as a founder in 2013 serving as the president of investment banking headquarters. Mr. Li Dongfan has been appointed as an executive director and the chairman of the board of directors of Wang Tai Holdings Limited (Stock Code: 1400) with effect from 17 April 2018. He was also appointed as the director of a few subsidiaries of the Company.

Mr. Yan Ximao, aged 39, is an executive Director and the vice chairman of the Company. Mr. Yan Ximao has been engaged in the electronic technology industry for many years. Mr. Yan Ximao was the general manager of Shenzhen Haotian Electronics Development Co. Ltd.（深圳市浩天電子開發有限公司）from 2000 to 2007. Subsequently, he served as the chairman of Shenzhen Mingke Century Technology Co. Ltd.（明科世紀（深圳）科技有限公司）in 2008 and the general manager of Shenzhen Haotian Electronic Technology Co. Ltd.（深圳市浩天電子技術有限公司）in 2010, respectively. In 2011, Mr. Yan Ximao obtained a master's degree in business administration from University College Sedaya International in Malaysia（馬來西亞思特雅大學）. Mr. Yan Ximao has extensive experience in investment and fund management. During the recent years, he has also participated in the applications of public blockchains and digital assets. He has extensive experience in the fields of fundamental blockchains and public blockchains. He is currently a Commercial Structure Consultant and Venture Capitalist of Zhengjia Commercial Co. Ltd.（正家商業顧問有限公司）. At the same time, he founded Ling Qi WuWu Fund (Shenzhen) Co. Ltd.（零柒伍伍基金（深圳）有限公司）in 2016. Mr. Yan has been a partner of Sequoia Capital (Hong Kong) Fund Management Limited（紅杉資本（香港）基金管理有限公司）and the president of Hong Yi Capital Holdings Group（弘壹資本控股集團）since January and October 2017, respectively.

Mr. Cai Zhenyao, aged 63, is an executive Director and the finance director of the Group. He is also a director of one of the subsidiaries of the Company. Mr. Cai Zhenyao has been responsible for the Group's overall organisational and finance systems management since joining the Group in 1993, including the establishment of employees benefits system, production management system, accounting and treasury system and internal control system. Mr. Cai Zhenyao is the brother of Mr. Cai Zhenrong and Mr. Cai Zhenying; the uncle of Mr. Cai Yangbo; and the cousin of Mr. Choi Wing Toon.

Biographical Details of Directors and Senior Management

Mr. Cai Zhenying, aged 61, is an executive Director and the marketing director of the Group. He is also a director of one of the subsidiaries of the Company. Mr. Cai Zhenying has been responsible for the Group's sales, marketing and promotion functions since joining the Group in 1993. Mr. Cai Zhenying is principally responsible for the formulation and administration of the marketing and promotion activities of the Group as well as customers' liaison for the Group. Mr. Cai Zhenying is the brother of Mr. Cai Zhenrong and Mr. Cai Zhenyao; the uncle of Mr. Cai Yangbo; and the cousin of Mr. Choi Wing Toon.

Mr. Cai Yangbo, aged 43, is a managing and executive Director. Mr. Cai Yangbo was appointed as the managing Director on 16 January 2010. He is also a director of the subsidiaries of the Company. Mr. Cai Yangbo has been responsible for the overall production and human resources of the Group since joining the Group in 1996. Mr. Cai Yangbo is the son of Mr. Cai Zhenrong; the nephew of Mr. Cai Zhenyao and Mr. Cai Zhenying.

Mr. Choi Wing Toon, aged 67, is an executive Director and the marketing and promotion manager of the Group. He is also a director of the subsidiaries of the Company. Mr. Choi Wing Toon has been responsible for the overseas sales and marketing activities of the Group since joining the Group in 1997. Mr. Choi Wing Toon is the cousin of Mr. Cai Zhenrong, Mr. Cai Zhenyao and Mr. Cai Zhenying.

Mr. Chen Wenfang, aged 57, is an executive Director. Mr. Chen Wenfang has been committed to investing in the real economy. He has engaged in trade and tea industries for years and founded a number of tea companies. Mr. Chen Wenfang dedicated to the development of the real industries in his early years by engaging in the trade and tea industries for more than three decades, during which he established several tea companies that earned him high prestige in Fujian tea industry. Meanwhile, he has extensive experiences in market planning and strategic deployment as he actively promoted the tea culture in Fujian where tea industry and capital were integrated in recent years. In early days, Mr. Chen Wenfang engaged in trade and tea and other real industries, in which he has accumulated a wealth of theoretical knowledge and hands-on experiences. In the process of subsequent establishment of certain tea companies, Mr. Chen Wenfang has cooperated with Mr. Li Dongfan to realize the integration between the real industry and capital that enabled the tea companies to accelerate and reinforce their development speed and strengths. In addition, Mr. Chen Wenfang participated in the operation of Moody Group and was responsible for the market development and formulation of marketing strategies of the group. Mr. Chen Wenfang is currently the vice president of Moody Group where he is mainly responsible for the market development and formulation of marketing strategies of the group.

Biographical Details of Directors and Senior Management

NON-EXECUTIVE DIRECTOR

Mr. Su Yichao, aged 26, was appointed as an independent non-executive Director on 13 November 2017 and was re-designated as a non-executive Director on 17 November 2017. Mr. Su Yichao was an angel investor in his early days by investing in the Internet industry and education sector. He possesses extensive experiences in project planning, operation and management in relation to angel investment. Mr. Su Yichao joined investment banking division at Defu Group in 2015 and was promoted to be vice president in 2017 where he was responsible for mergers and acquisitions of corporate projects and refinancing of listed companies. He currently serves as the vice president and executive director of Moody Group where he is in charge of auditing on mergers and acquisitions projects of corporates.

Mr. Su Yichao has been engaging in financial securities for years with strong systematic philosophy, innovative mind, ample financial securities experiences and practical capability gained from work, in addition to his astute insight and analytical skills. He has rich experiences in banking, investment banks, funds, private equity investment and other fields and is capable of offering unique and effective solutions to various situations arising in the course of business management, mergers and acquisitions, and financing investments. Mr. Su Yichao joined Zhuhai City Moody Industrial Co., Ltd.*（珠海市滿地實業有限公司）in 2013. During this period, Mr. Su Yichao held a concurrent position as the deputy director of corporate finance division of Shenzhen Defu Group. He has been serving as the executive director, group vice president, head of fund management division at Moody Group since 2017. Mr. Su Yichao obtained a diploma in mould design and manufacturing from Hunan University.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lawrence Gonzaga, aged 44, was appointed as independent non-executive Director in August 2002. He is also the chairman of the Audit Committee, the Remuneration Committee and the Nomination Committee. Mr. Lawrence Gonzaga graduated from De La Salle University in the Philippines in 1993 with a bachelor of science degree in commerce majoring in business management. Mr. Lawrence Gonzaga has worked in a securities company in the Philippines for over 14 years. Mr. Lawrence Gonzaga is a member of the Market Technicians Association and holds the Chartered Market Technician designation.

Mr. Chin Hon Siang, aged 48, was appointed as an independent non-executive Director in July 2016. Mr. Chin Hon Siang holds a bachelor of commerce degree majoring in accounting and econometrics awarded by Monash University in 1995. Mr. Chin Hon Siang is a member of CPA Australia. Mr. Chin Hon Siang has over 10 years experiences in the fields of corporate finance, financial reporting and financial management and audit experience in the United States, Singapore, Taiwan and Malaysia. Mr. Chin Hon Siang was the chief financial officer of Asia Green Agriculture Group Limited, a company listed in the OTCBB Stock Exchange in the United States, from 2012 to 2015; the chief finance manager of Dukang Distillers Holdings Limited, a company listed in Singapore Stock Exchange and Taiwan Stock Exchange, from 2010 to 2012; and the chief financial officer of United Food Holdings Limited, a company listed in the Singapore Stock Exchange, from 2002 to 2010.

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

Biographical Details of Directors and Senior Management

Mr. Wang Qidong, aged 44, was appointed as an independent non-executive Director in February 2018. He has been appointed as the chairman of each of the Audit Committee, Remuneration Committee and the Nomination Committee on 10 April 2018. He obtained a bachelor's degree from Xiamen University in July 1995 and a master's degree in business administration from School of Management, Xiamen University in 2005. He had been serving as various positions, including senior manager in Xiamen Power Capital Investment Consulting Co., Ltd. (Power Capital)(廈門高能投資諮詢有限公司(高能資本)), director of business development in Shanghai Suning Investment Management Co., Ltd.(上海蘇寧投資管理有限公司), a partner in Xiamen Huashang Venture Capital Management Co., Ltd.(廈門華商創業投資管理有限公司)/Fujian Huating Investment Management Co., Ltd.(福建華廷投資管理有限公司)and secretary of the board of directors in Zhejiang Green Map Agricultural Science and Technology Co., Ltd.(浙江綠脈農業科技股份有限公司).

Mr. Liao Haosheng, aged 36, was appointed as an independent non-executive Director on 10 April 2018. He was an angel investor in his early days. He was a founding partner of Zengge Venture Investment (Shenzhen) Company Ltd*(真格創業投資(深圳)有限公司), a broker's representative of Guiyang Crowdfunding Financial Exchange*(貴陽眾籌金融交易所)and a member of Financial Innovation and Investment Development Committee of Crowdfunding Financial Exchange*(眾籌金融交易所金融創新投資發展委員會). Mr. Liao Haosheng was the president of the Shenzhen Branch of Hong Kong Crowdfunding Association and an executive council member of Shenzhen Enterprise Confederation(深圳市企業聯合會), Shenzhen Chaoshan Junior Chamber of Commerce(深圳市潮汕青年商會)and Shenzhen Chawnese Overseas Economy Promoting Committee(深圳潮人海外經濟促進會). From April 2010 to June 2015, Mr. Liao was appointed as the general manager of Shenzhen Jiacheng Wealth Management Ltd.*(深圳佳成財富管理有限公司). Subsequently, Mr. Liao Haosheng served as a founding partner of Lingqiwuwu Fund Management (Shenzhen) Ltd.*(零柒伍伍基金管理(深圳)有限公司)from June 2015 until now.

SENIOR MANAGEMENT

Mr. Cai Yanghang, aged 32, was the general manager of Fujian Nature Tea Science and Technology Co., Ltd, the principal subsidiary of the Group. He studied computer science in Huaqiao University(國立華僑大學)from September 2001 to July 2002. Mr. Cai Yanghang has over 7 years of experience in tea industry. Mr. Cai Yanghang is the son of Mr. Cai Zhenrong; the brother of Mr. Cai Yangbo; the nephew of Mr. Cai Zhenyao and Mr. Cai Zhenying.

* *For identification purpose only*

Independent Auditor's Report

大信梁學濂(香港)會計師事務所有限公司

PKF
Accountants &
business advisers

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

To the members of Blockchain Group Company Limited
(formerly known as "Ping Shan Tea Group Limited")
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Blockchain Group Company Limited (formerly known as "Ping Shan Tea Group Limited") (the "Company") and its subsidiaries (collectively referred as to the "Group") set out on pages 52 to 154, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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

Key audit matters	How our audit addressed the key audit matters
	– Re-calculate the estimation made by the management; – Review outcome of estimation made in prior period; – Challenge the adequacy of the sensitivity calculations over the estimation; – Review subsequent events relevant to the estimation; – Determine whether indication of possible management bias exist; and – Evaluate the recognition and measurement criteria used and disclosure made by management.

Key audit matters	How our audit addressed the key audit matters
Valuation of inventories	
The Group's inventories and its impairment loss are disclosed in note 22 to the consolidated financial statements. We identified the valuation of inventories as a key audit matter due to the significance of the balance to the consolidated financial statements as a whole, combined with the judgements associated with determining the amount of allowance of inventories. In estimating the amount of allowance for inventories, it is the Group's policy to review the net realisable value of inventories periodically with reference to the condition of the items and the market condition. The management reviews regularly the suitability of the allowance policy and the amount of allowance for inventories that are based on the estimation by considering factors as detailed in the note 4(e) to the consolidated financial statements in relation to the allowance for inventories.	Our major procedures performed to address the matter included, amongst others: – Obtain an understanding of how the management estimated the net realisable values ("NRV") of inventories and evaluating the historical sufficiency of the allowance estimation by the management, assess the management's process for estimating NRV with reference to market conditions and selling prices trend; – Assess, on a sample basis, whether items in the inventory ageing report prepared by the management were classified within the appropriate ageing bracket by comparing items in the report with the underlying supporting documents and records; – Attend inventory counts and assess inventory conditions together with independent tea expert engaged by us; – Check the cost of inventories, on a sample basis, to the underlying supporting documents; – Assess, on a sample basis, whether the subsequent sales of inventories are materially consistent with the underlying supporting documents and records; and – Assess the sufficiency of allowance where the estimated NRV is lower than the cost.

OTHER INFORMATION

The directors of the Company are responsible for the other information which comprises the information included in the Company's annual report for the year ended 31 December 2017 ("Annual Report") other than the consolidated financial statements and our auditor's report thereon.

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

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

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

PKF Hong Kong Limited
Certified Public Accountants
Hong Kong
Tsui Kar Lam, Karen
Practising Certificate number: P06426

29 March 2018

Consolidated Statement of Profit or Loss

For the year ended 31 December 2017

	Note	2017 HK$'000	2016 HK$'000
REVENUE	6	**281,761**	302,250
Cost of sales		**(167,162)**	(167,065)
GROSS PROFIT		**114,599**	135,185
Changes in fair value of agricultural produce less costs to sell during the year	16	**(21,428)**	(35,204)
Other income	7	**12,086**	8,099
Selling and distribution expenses		**(7,618)**	(14,966)
Administrative expenses		**(39,681)**	(44,293)
Impairment loss on goodwill	17	**–**	(910,000)
Changes in fair value of financial liabilities at fair value through profit or loss	29	**9,714**	(1,183)
Surplus on revaluation of property, plant and equipment		**1,901**	292
PROFIT/(LOSS) FROM OPERATIONS		**69,573**	(862,070)
Finance costs	10	**(212,751)**	(196,711)
Gain on bargain purchase from acquisition of an associate	18	**–**	99,373
Share of losses of associates		**(1,690)**	(224)
Loss on disposals of subsidiaries	37	**–**	(14,665)
LOSS BEFORE TAX		**(144,868)**	(974,297)
Income tax (expense)/credit	11	**(608)**	693
LOSS FOR THE YEAR	12	**(145,476)**	(973,604)
ATTRIBUTABLE TO:			
Equity shareholders of the Company		**(145,935)**	(972,735)
Non-controlling interests		**459**	(869)
LOSS FOR THE YEAR		**(145,476)**	(973,604)
LOSS PER SHARE	14		(Restated)
– Basic		**(HK12.47 cents)**	(HK97.22 cents)
– Diluted		**N/A**	N/A

The notes on pages 59 to 154 form part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2017

	Note	2017 HK$'000	2016 HK$'000
LOSS FOR THE YEAR		**(145,476)**	(973,604)
Other comprehensive income/(loss):–			
Items that will not be reclassified to profit or loss:–			
Surplus on properties revaluation		**303**	71
Deferred tax relating to deficit on property revaluation	31	**(76)**	(18)
		227	53
Items that may be subsequently reclassified to profit or loss:–			
Exchange differences on translating foreign operations		**270,253**	(237,426)
Exchange differences reclassified to profit or loss upon disposals of subsidiaries	37	**–**	13,592
Share of other comprehensive income/(losses) of associates		**19,672**	(19,715)
		289,925	(243,549)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX		**290,152**	(243,496)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		**144,676**	(1,217,100)
ATTRIBUTABLE TO:–			
Equity shareholders of the Company		**144,133**	(1,216,148)
Non-controlling interests		**543**	(952)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		**144,676**	(1,217,100)

The notes on pages 59 to 154 form part of these consolidated financial statements.

Consolidated Statement of Financial Position

At 31 December 2017

	Note	2017 HK$'000	2016 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**806,059**	847,608
Intangible assets	17	**15,195**	19,340
Interests in associates	18	**293,994**	276,012
Available-for-sale financial assets	19	**171,400**	164,640
Deposits paid	20	**–**	425,600
Other receivables and prepayments	21	**1,996**	1,871
Deferred tax assets	31	**3,904**	4,087
		1,292,548	1,739,158
CURRENT ASSETS			
Inventories	22	**1,701,312**	11,374
Trade receivables	23	**15,235**	110
Prepayments, deposits and other receivables	21	**46,609**	102,201
Cash and bank balances	24	**1,763,684**	2,091,168
		3,526,840	2,204,853
CURRENT LIABILITIES			
Bank loans	25	**20,100**	34,283
Trade payables	26	**9,777**	7,844
Receipts in advance, other payables and accruals	26	**167,619**	127,352
Amount due to a related party	26	**1,357**	1,591
Convertible bonds	27	**389,461**	379,048
Debentures	28	**491,755**	448,849
Financial liabilities at fair value through profit or loss	29	**–**	9,714
Promissory notes	30	**78,033**	93,813
Current tax liabilities		**17,586**	15,209
		1,175,688	1,117,703
NET CURRENT ASSETS		**2,351,152**	1,087,150

Consolidated Statement of Financial Position

At 31 December 2017

	Note	2017 HK$'000	2016 HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,643,700**	2,826,308
NON-CURRENT LIABILITIES			
Debentures	28	**1,451,422**	844,131
Deferred tax liabilities	31	**10,686**	10,991
		1,462,108	855,122
NET ASSETS		**2,181,592**	1,971,186
CAPITAL AND RESERVES			
Share capital	32	**236,969**	233,251
Reserves	35	**1,942,533**	1,736,388
TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY		**2,179,502**	1,969,639
NON-CONTROLLING INTERESTS	38	**2,090**	1,547
TOTAL EQUITY		**2,181,592**	1,971,186

Approved and authorised for issue by the Board of Directors on 29 March 2018.

Cai Zhenyao
Director

Choi Wing Toon
Director

The notes on pages 59 to 154 form part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

		Attributable to equity shareholder of the Company										
	Note	Share capital HK$'000	Share premium HK$'000	Properties revaluation reserve HK$'000	Share-based payment reserve HK$'000	Convertible bonds reserve HK$'000	Translation reserve HK$'000	Statutory reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2016		181,343	3,793,302	91	114,208	153,922	(152,766)	597	(1,209,740)	2,880,957	2,499	2,883,456
Comprehensive loss												
Loss for the year		–	–	–	–	–	–	–	(972,735)	(972,735)	(869)	(973,604)
Other comprehensive loss												
Properties revaluation deficit, net of tax		–	–	53	–	–	–	–	–	53	–	53
Exchange differences on translation of foreign operations		–	–	–	–	–	(237,343)	–	–	(237,343)	(83)	(237,426)
Exchange differences reclassified to profit or loss upon disposals of subsidiaries		–	–	–	–	–	13,592	–	–	13,592	–	13,592
Share of other comprehensive losses of associates		–	–	–	–	–	(19,715)	–	–	(19,715)	–	(19,715)
Total comprehensive loss for the year		–	–	53	–	–	(243,466)	–	(972,735)	(1,216,148)	(952)	(1,217,100)
Conversion of convertible bonds	27(b)	3,708	87,683	–	–	(30,201)	–	–	–	61,190	–	61,190
Issue of shares for acquisition of available-for-sale financial assets		28,200	111,440	–	–	–	–	–	–	139,640	–	139,640
Issue of shares for acquisition of an associate		20,000	84,000	–	–	–	–	–	–	104,000	–	104,000
Lapse of share options granted in prior years	33	–	–	–	(22,046)	–	–	–	22,046	–	–	–
Appropriation		–	–	–	–	–	–	25	(25)	–	–	–
At 31 December 2016 and 1 January 2017		233,251	4,076,425	144	92,162	123,721	(396,232)	622	(2,160,454)	1,969,639	1,547	1,971,186
Comprehensive loss												
Loss for the year		–	–	–	–	–	–	–	(145,935)	(145,935)	459	(145,476)
Other comprehensive income												
Properties revaluation deficit, net of tax		–	–	227	–	–	–	–	–	227	–	227
Exchange differences on translation of foreign operations		–	–	–	–	–	270,169	–	–	270,169	84	270,253
Share of other comprehensive income of associates		–	–	–	–	–	19,672	–	–	19,672	–	19,672
Total comprehensive income for the year		–	–	227	–	–	289,841	–	(145,935)	144,133	543	144,676
Conversion of convertible bonds	27(b)	3,718	91,270	–	–	(29,258)	–	–	–	65,730	–	65,730
Lapse of share options granted in prior years	33	–	–	–	(4,951)	–	–	–	4,951	–	–	–
At 31 December 2017		236,969	4,167,695	371	87,211	94,463	(106,391)	622	(2,301,438)	2,179,502	2,090	2,181,592

Note:

The share premium account of the Group includes:–

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

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	2017 HK$'000	2016 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before tax	**(144,868)**	(974,297)
Adjustments for:–		
Bank interest income	**(9,207)**	(7,083)
Actual interest on convertible bonds	**74,877**	76,067
Imputed interest on convertible bonds	**–**	2,847
Interest on cash consideration payable for business combination	**1,227**	1,324
Interest on debentures	**63,000**	60,854
Amortisation of issuing costs of debentures	**59,434**	35,498
Interest on promissory notes	**10,720**	17,649
Bank loan interest expenses	**3,493**	2,472
Depreciation of property, plant and equipment	**30,992**	35,223
Amortisation of intangible assets	**5,387**	8,359
Gain on disposal of property, plant and equipment	**(2,071)**	–
Surplus on revaluation of property, plant and equipment	**(1,901)**	(292)
Loss on disposal of subsidiaries	**–**	14,665
Impairment loss on goodwill	**–**	910,000
Impairment loss on trade receivables	**110**	–
Impairment loss on other receivables	**–**	46
Impairment loss on inventories	**3,459**	4,754
Share of losses of an associate	**1,690**	224
Gain on bargain purchase from acquisition of an associate	**–**	(99,373)
Changes in fair value of financial liabilities at fair value through profit or loss	**(9,714)**	1,183
Operating profit before working capital changes	**86,628**	90,120
Changes in working capital:–		
Inventories	**(1,650,356)**	1,640
Trade receivables	**(14,849)**	338,067
Prepayments, deposits and other receivables	**463**	215
Trade payables	**1,338**	(639)
Receipts in advance, other payables and accruals	**2,161**	5,556
Amount due to a related party	**(341)**	(152)
Cash generated (used in)/from operations	**(1,574,956)**	434,807
Income tax paid	**(107)**	(4,159)
Net cash generated (used in)/from operating activities	**(1,575,063)**	430,648

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	Note	2017 HK$'000	2016 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments to acquire and deposits for acquisition of property, plant and equipment		**–**	(829)
Proceeds from disposals of property, plant and equipment		**58,127**	–
Net cash inflow from disposals of subsidiaries	21 & 37	**72,000**	21,308
Refund of deposits paid		**444,600**	96,000
Interest received		**9,207**	7,083
Cash consideration paid for business combination in 2013		**–**	(10,000)
Net cash generated from/(used in) investing activities		**583,934**	113,562
CASH FLOWS FROM FINANCING ACTIVITIES			
Redemption of promissory notes	48	**(26,500)**	(68,400)
Net proceeds from issue of debentures	48	**630,171**	391,230
Redemption of debentures	48	**(39,408)**	(136,000)
Payment of issuing costs of existing debentures on modification of terms		**–**	(105,482)
New bank loans raised	48	**19,598**	35,814
Repayment of bank loans	48	**(35,814)**	(35,814)
Interest paid on debentures	48	**(28,395)**	(75,842)
Interest paid on cash consideration payable for business combination		**–**	(517)
Bank loan interest paid	48	**(4,409)**	(1,595)
Net cash generated from financing activities		**515,243**	3,394
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(475,886)**	547,604
Effect of foreign exchange rate changes		**148,402**	(144,881)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR		**2,091,168**	1,688,445
CASH AND CASH EQUIVALENTS AT THE END OF YEAR		**1,763,684**	2,091,168
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**1,763,684**	2,091,168

1. GENERAL INFORMATION

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

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

2. BASIS OF PREPARATION

(a) Statement of compliance

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

(b) Initial application of IFRSs

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

Amendments to IAS 7	Disclosure Initiative
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Annual Improvements to IFRSs (2014-2016)	Amendments to IFRS 12

Except for the amendments included in the IAS 12 and Annual Improvements to IFRSs (2014-2016), which are not relevant to the preparation of the Group's consolidated financial statements, the nature and impact of the amendments are described below.

The Group has applied Amendments to IAS 7 for the first year 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 changes arising from cash flows and non-cash changes.

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

2. BASIS OF PREPARATION (continued)

(c) IFRSs in issue but not yet effective

The following new and revised IFRSs in issue at 31 December 2017 have not been applied in the preparation of the Group's consolidated financial statements for the year then ended since they were not yet effective for the annual period beginning on 1 January 2017:

IFRS 9	Financial Instruments[1]
IFRS 15	Revenue from Contracts with Customers[1]
IFRS 16	Leases[2]
IFRS 17	Insurance Contracts[4]
IFRIC 22	Foreign Currency Transactions and Advance Consideration[1]
IFRIC 23	Uncertainty over Income Tax Treatments[2]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 40	Transfers of Investment Property[1]
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts[1]
Amendments to IFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement[2]
Amendments to IAS 28	Long-term interests in Associates and Joint Ventures[2]
Annual Improvements to IFRSs (2014-2016)	Amendments to IFRS 1 and IAS 28[1]

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

2. BASIS OF PREPARATION (continued)

(c) IFRSs in issue but not yet effective (continued)

IFRS 9 "Financial Instruments"

IFRS 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 IFRS 9 which are relevant to the Group are:

- all recognised financial assets that are within the scope of IFRS 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 that 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 debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods and their fair value changes are recognised in profit or loss. In addition, under IFRS 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.

- with regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39 "Financial Instruments: Recognition and Measurement", the entire amount of the change in the fair value of the financial liability designated at fair value through profit or loss is presented in profit or loss.

2. BASIS OF PREPARATION (continued)

(c) IFRSs in issue but not yet effective (continued)

IFRS 9 "Financial Instruments" (continued)

- in relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 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 that the following potential impact on initial application of IFRS 9:

Classification and measurement

Equity securities classified as available-for-sale financial assets carried at cost less impairment: these investments qualified for designation as FVTOCI under IFRS 9 and the Group will measure these investments at fair value at the end of subsequent accounting periods with fair value gains and losses to be recognised as other comprehensive income and accumulated in the investments revaluation reserve. Upon initial recognition of IFRS 9, the difference between the previous carrying amount and the fair value relating to these investments would be adjusted to investment revaluation reserve as at 1 January 2018.

All other financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under IAS 39.

Impairment

In general, the directors of the Company anticipate that the application of the expected credit loss model of IFRS 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 IFRS 9 by the Group. However, the directors of the Company expects the effect would not be significant.

2. BASIS OF PREPARATION (continued)

(c) IFRSs in issue but not yet effective (continued)

IFRS 15 "Revenue from Contracts with Customers"

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

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

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

Under IFRS 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 IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In 2016, the IASB issued Clarifications to IFRS 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 IFRS 15 in the future may result in more disclosures, however, they do not anticipate that the application of IFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

2. BASIS OF PREPARATION (continued)

(c) IFRSs in issue but not yet effective (continued)

IFRS 16 "Leases"

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for Group's operating leases. As at the end of the reporting period, the Group has non-cancellable operating lease commitments of approximately HK$3,448,000 (Note 43(a)). The Group estimates those related to payments for short-term and low value lease which will be recognised on straight-line basis as an expense in profit or loss are insignificant.

The Group has not yet assessed what other adjustments, if any, are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and how this may affect the Group's profit or loss and classification of cash flows going forward.

The adoption of this standard is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

Save as discussed above, all other new standards, amendments to standards and interpretations issued but not yet effective are not likely to have significant impact on the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

(a) Basis of consolidation

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of consolidation (continued)

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Business combination and goodwill

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Business combination and goodwill (continued)

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

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

(c) Associates

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Associates (continued)

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

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

(d) Foreign currency translation

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Property, plant and equipment

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

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

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

A bearer plant is a living plant that:

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Property, plant and equipment (continued)

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Agricultural produce

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

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

(g) Leases

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

(i) Classification of assets leased to the Group

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Leases (continued)

(ii) Assets acquired under finance leases

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

(iii) Operating lease charges

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

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

(h) Trademarks

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Inventories

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

(j) Recognition and derecognition of financial instruments

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

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

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

(k) Available-for-sale financial assets

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

(l) Derivative financial instruments

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Trade and other receivables

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

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

(n) Cash and cash equivalents

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

(o) Financial liabilities and equity instruments

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

Borrowings

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Financial liabilities and equity instruments (continued)

Financial guarantee contract liabilities

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

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

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

Convertible bonds

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Financial liabilities and equity instruments (continued)

Convertible bonds (continued)

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

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

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

Trade and other payables

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

Equity instruments

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

Debentures

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Financial liabilities and equity instruments (continued)

Debentures (continued)

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

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

Promissory notes

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

(p) Revenue recognition

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

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

(q) Employee benefits

(i) Employee leave entitlements

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Employee benefits (continued)

(ii) Pension obligations

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

(iii) Termination benefits

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

(r) Share-based payments

The Group issues equity-settled share-based payments to certain directors, employees and business consultants. Equity-settled share-based payments are measured at the fair value (excluding the effect of non market-based vesting conditions) of the equity instruments at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Borrowing costs

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

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

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

(t) Government grants

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

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

(u) Taxation

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Taxation (continued)

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

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

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

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

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

(v) Related parties

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

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

   (ii) has significant influence over the Group; or

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Related parties (continued)

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

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

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

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

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

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

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

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

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

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

(w) Impairment of assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets except goodwill, investments, inventories and receivables to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Impairment of assets (continued)

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

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(x) Provisions and contingent liabilities

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

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

(y) Segment reporting

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(y) Segment reporting (continued)

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

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

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

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

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

(z) Events after the reporting period

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

4. CRITICAL JUDGEMENTS AND KEY ESTIMATES

Critical judgements in applying accounting policies

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

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

As stated in note 15 to the consolidated financial statements, the ownership certificates of certain buildings and leasehold land located in the PRC were not issued to the Group as at 31 December 2017. Despite the fact that the Group has not obtained the relevant ownership certificates, the directors determine to recognise those buildings and leasehold land located in the PRC as property, plant and equipment on the grounds that they expect the transfer of legal titles in future should have no major difficulties and the Group is in substance controlling those buildings and leasehold land located in the PRC.

Key sources of estimation uncertainty

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

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

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

4. CRITICAL JUDGEMENTS AND KEY ESTIMATES (continued)

Key sources of estimation uncertainty (continued)

(b) Impairment of goodwill

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

(c) Impairment of property, plant and equipment

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

(d) Impairment of trade and other receivables

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

(e) Allowance for inventories

The management of the Company reviews regularly the suitability of allowance policy and estimates the net realisable value of inventories based primarily on condition of the inventories, historical and current sales information, as well as the ageing of inventories to identify slow-moving items to ascertain the amount of inventory allowance.

4. CRITICAL JUDGEMENTS AND KEY ESTIMATES (continued)

Key sources of estimation uncertainty (continued)

(f) Fair values of buildings

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

(g) Deferred tax assets

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

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

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

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

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

5. FINANCIAL RISK MANAGEMENT

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

(a) Currency risk

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

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

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

At 31 December 2016 and 2017, the Group did not have significant currency risk exposure as the major recognised financial assets and liabilities denominated in RMB were held by its subsidiaries of which their functional currencies are RMB.

(b) Credit risk

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

5. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

The carrying amounts of financial assets as at 31 December 2016 and 2017, which represented the Group's significant exposure to credit risk, are as follows:–

	2017 HK$'000	2016 HK$'000
Trade receivables	15,235	110
Deposits and other receivables	37,323	94,179
Bank balances	1,762,805	2,090,525
	1,815,363	2,184,814

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

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

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

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

The default risk of the industry and country in which customers operate also has an influence on credit risk but to lesser extent. At 31 December 2017, the Group has a certain concentration of credit risk, that 23.85% (2016: 27.61%) and 99.96% (2016: 80.38%) of total trade receivables was due from the largest trade debtor and five largest trade debtor respectively.

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

5. FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity risk

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

Maturities of the financial liabilities of the Group as at 31 December 2016 and 2017 were as follows:–

	At 31 December 2017					
	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within 1 year or on demand HK$'000	1 to 2 years HK$'000	2 to 5 years HK$'000	Over 5 years HK$'000
Bank loans	20,100	20,100	20,100	–	–	–
Trade payables	9,777	9,777	9,777	–	–	–
Other payables and accruals	165,885	165,885	165,885	–	–	–
Amount due to a related party	1,357	1,357	1,357	–	–	–
Convertible bonds	389,461	389,461	389,461	–	–	–
Debentures	1,943,177	2,580,551	583,900	173,952	278,436	1,544,263
Promissory notes	78,033	78,033	78,033	–	–	–
	2,607,790	3,245,164	1,248,513	173,952	278,436	1,544,263

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

As disclosed in Notes 26, 27, 28 and 30, certain financial liabilities were interest bearing and overdue. The analysis in the above tables includes the relevant interests accrued up to the end of each reporting period, it does not include interests and overdue interests payable in the future, based on the assumption that the Group is required to pay on the earliest period.

5. FINANCIAL RISK MANAGEMENT (continued)

(d) Interest rate risk

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

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates as at 31 December 2016 and 2017:–

	2017		2016	
	Effective interest rate % per annum	**HK$'000**	Effective interest rate % per annum	HK$'000
Fixed rate financial liabilities				
Debentures	**3.00% – 28.75%**	**(1,943,177)**	3.00% – 22.26%	(1,292,980)
Consideration payable included in other payables and accruals	**4%**	**(30,265)**	4%	(30,265)
Convertible bonds – liability component	**25%**	**(389,461)**	25%	(379,048)
Promissory notes	**10.179% -18%**	**(78,033)**	10.179% -18%	(93,813)
Variable rate financial assets				
Bank balances	**0.01% – 0.35%**	**1,762,805**	0.01% – 0.35%	2,090,525
Variable rate financial liabilities				
Bank loans	**7.61%**	**(20,100)**	7.40% – 8.10%	(34,283)
		(698,231)		260,136

It is estimated that a general increase of 25 basis points in interest rates, with all other variables held constant, the Group's loss for the year ended 31 December 2017 would be decreased and respective retained profits would be increased by approximately HK$4,357,000 (2016: HK$5,141,000).

5. FINANCIAL RISK MANAGEMENT (continued)

(d) Interest rate risk (continued)

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

(e) Fair value

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

- Level 1 valuations: Fair value measured using only Level 1 inputs, i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs, i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

		Fair value measurements as at 31 December 2017 categorised into		
	Fair value at 31 December 2017 HK$'000	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000
The Group				
Recurring fair value measurement				
Financial liabilities at fair value through profit or loss	–	–	–	–

5. FINANCIAL RISK MANAGEMENT (continued)

(e) Fair value (continued)

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

During the years ended 31 December 2016 and 2017, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

The fair values of the financial liabilities at fair value through profit or loss, which includes the warrant ("Warrant") as disclosed in note 29, were estimated using binomial option pricing model and the inputs into the model at 31 December 2016 and 2017 were as follows:

	2017	2016
Quoted market price	**0.011**	0.062
Expected volatility	**31.21%**	40.57%
Expected life	**1.57 years**	2.57 years
Risk-free interest rate	**1.23%**	1.239%
Expected dividend yield	**Nil**	Nil

5. FINANCIAL RISK MANAGEMENT (continued)

(e) Fair value (continued)

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

	Key unobservable inputs	Range	Inter-relationship between key unobservable inputs and fair value measurements
Financial liability at fair value through profit or loss	Expected volatility	31.21% (2016: 40.57%)	The estimated fair value increases when expected volatility increases

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

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

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

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

5. FINANCIAL RISK MANAGEMENT (continued)

(f) Equity price risk

The Group is exposed to market price changes arising from the financial liabilities at fair value through profit or loss of HK$Nil (2016: HK$9,714,000). The Group is required to estimate the fair value of the financial liabilities at fair value through profit or loss at the end of the reporting period with changes in fair value to be recognised in the profit or loss. The fair value adjustment would be affected either positively or negatively, amongst others, by the changes in the Company's share market price. At the end of the reporting period, the Group is exposed to the equity price risk through the change in fair values of the Warrant.

If the Company's share price at 31 December 2017 had been 5% higher and all other variables were held constant, the Group's carrying amount of the financial liabilities at fair value through profit or loss would increase by approximately HK$Nil (2016: approximately HK$1,586,000). Hence, the Group's loss after tax for the year and accumulated losses would increase by the same amount.

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

6. REVENUE

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

	2017 **HK$'000**	2016 HK$'000
Sales of raw teas, refined teas and other related products	**281,761**	301,258
Sales of ginseng products	**–**	992
	281,761	302,250

7. OTHER INCOME

	2017 HK$'000	2016 HK$'000
Bank interest income	**9,207**	7,083
Gain on disposal of property, plant and equipment, net	**2,071**	–
Government grants (note)	**807**	772
Others	**1**	244
	12,086	8,099

Note: The Group obtained funding supports from various departments of the PRC Government. The purpose of the fundings is mainly to encourage agricultural development by granting financial assistance to commercial entities whose meet certain criterias.

8. SEGMENT INFORMATION

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

Geographical information

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

Revenue from major customers

There are no major customers individually contributing over 10% of the Group's revenue for the years ended 31 December 2016 and 2017.

9. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID EMPLOYEES

Details of emoluments of the directors of the Company are as follows:–

For the year ended 31 December 2017

Name of director	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Total emoluments HK$'000
Executive directors			
Mr. Cai Zhenrong	–	330	330
Mr. Cai Zhenyao	–	304	304
Mr. Cai Zhenying	–	304	304
Mr. Cai Yangbo	–	683	683
Mr. Choi Wing Toon	–	351	351
Mr. Li Dongfan (appointed on 13 November 2017)	–	–	–
Mr. Zhang Lu (appointed on 25 August 2016 and resigned on 3 October 2017)	–	–	–
Mr. Zhou Yao Bo (appointed on 25 August 2016 and resigned on 3 October 2017)	–	–	–
	–	1,972	1,972
Non-executive directors			
Mr. Su Yichao (appointed as independent non-executive director on 13 November 2017 and re-designated to non-executive director on 17 November 2017)	–	–	–
Independent non-executive directors			
Ms. Choy So Yuk, *BBS, JP* (resigned on 18 October 2017)	–	96	96
Mr. Lawrence Gonzaga	–	120	120
Mr. Chin Hon Siang (appointed on 12 July 2016)	–	120	120
Mr. Lin Hann Ruey (appointed on 23 November 2016)	–	120	120
	–	456	456
Total	–	2,428	2,428

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

For the year ended 31 December 2016

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

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

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

The five highest paid individuals in the Group during the year included four (2016: two) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining one (2016: three) individuals are set out below:–

	2017 **HK$'000**	2016 HK$'000
Basic salaries, housing benefits, other allowances and benefits in kind	**520**	1,912
Retirement benefits scheme contributions	**18**	48
	538	1,960

The emoluments fell within the following bands:–

	Number of individuals	
	2017	2016
Nil to HK$1,000,000	**1**	3

During the years ended 31 December 2016 and 2017, no emoluments were paid or payable by the Group to any of the directors or five highest paid individuals as an inducement to join, or upon joining the Group, or as compensation for loss of office.

10. FINANCE COSTS

	2017 **HK$'000**	2016 HK$'000
Actual interest on convertible bonds	**74,877**	76,067
Imputed interest on convertible bonds	**–**	2,847
Interest on cash consideration payable for business combination	**1,227**	1,324
Interest on debentures	**63,000**	60,854
Amortisation of issuing costs for debentures	**59,434**	35,498
Interest on promissory notes	**10,720**	17,649
Bank loan interest expenses	**3,493**	2,472
	212,751	196,711

11. INCOME TAX EXPENSE/(CREDIT)

	2017 **HK$'000**	2016 HK$'000
Current tax – the PRC enterprise income tax – provision for the year	**1,365**	2,970
Deferred tax (Note 31)	**(757)**	(3,663)
	608	(693)

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

No Hong Kong profits tax has been provided as there was no assessable profit earned in or derived from Hong Kong for the years ended 31 December 2016 and 2017.

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

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

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

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

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

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

	2017 **HK$'000**	2016 HK$'000
Loss before tax	**(144,868)**	(974,297)
Tax at the PRC enterprise income tax rate of 25%	**(36,217)**	(243,574)
Tax effect of income that is not taxable	**(797)**	(26,374)
Tax effect of expenses that are not deductible	**56,208**	288,027
Tax effect of unrecognised tax loss	**1,998**	–
Tax effect of preferential tax rates for tea plantation in the PRC	**(20,584)**	(18,772)
Income tax expense/(credit)	**608**	(693)

Deductible temporary difference arising from unutilised tax loss of HK$7,992,000 (2016: HK$ Nil) has not been recognised in these consolidated financial statements owing to the absence of objective evidence in respect of the availability of sufficient taxable profit that are expected to arise to offset against deductible temporary difference. Such tax loss will expire within five years from the date of incurrence.

12. LOSS FOR THE YEAR

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

	2017 HK$'000	2016 HK$'000
Amortisation of intangible assets	**5,387**	8,359
Auditor's remuneration for:–		
Annual audit	**3,000**	2,200
Audit in relation to a proposed acquisition	**1,500**	–
Others	**892**	688
	5,392	2,888
Cost of inventories sold	**167,162**	167,065
Depreciation of property, plant and equipment	**30,992**	35,223
Exchange gain, net	**–**	(2)
Gain on disposal of property, plant and equipment, net	**(2,071)**	–
Impairment loss on:		
– Trade receivables	**110**	–
– Other receivables	**–**	46
– Inventories (included in cost of sales)	**3,459**	4,754
Operating lease charges on land and buildings	**1,063**	1,251
Staff costs (excluding directors' remuneration (Note 9)):		
Salaries, bonus and allowances	**10,504**	15,157
Retirement benefits scheme contributions	**852**	766
	11,356	15,923

The cost of inventories sold includes staff costs, depreciation and operating leases charges of approximately HK$18,824,000 (2016: HK$20,244,000) which are included in the amounts disclosed separately above.

Note:–

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

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

13. DIVIDENDS

No dividend has been paid or declared by the Company for the years ended 31 December 2016 and 2017.

14. LOSS PER SHARE

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

	2017	2016
	HK$'000	HK$'000
Loss		
Loss attributable to equity shareholders of the Company for the purpose of calculating basic loss per share	**(145,935)**	(972,735)
		(Restated)
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic loss per share	**1,170,023,342**	1,000,586,932

Weighted average number of ordinary shares

	2017	2016 (Restated)
Issued ordinary shares at the beginning of the year	**23,325,093,070**	18,134,323,704
Effect of issue of shares for acquisitions of an associate and available-for-sale financial assets	**–**	1,740,655,738
Effect of conversion of convertible bonds	**75,373,768**	136,759,192
Weighted average number of ordinary shares in issue during the year used in basic loss per share calculation	**23,400,466,838**	20,011,738,634
Effect of share consolidation subsequent to the end of the reporting period	**(22,230,443,496)**	(19,011,151,702)
Weighted average number of ordinary shares of the year	**1,170,023,342**	1,000,586,932

The calculations of basic loss per share have taken into account the effect of share consolidation, which became effective after the end of the reporting period but before these consolidated financial statements were authorised for issue, retrospectively. Accordingly, the calculations of weighted average numbers of ordinary shares for the purpose of calculating basic loss per share were on the basis that every twenty issued shares of HK$0.01 each in the share capital of the Company be consolidated into one consolidated share of HK$0.2 each.

Diluted loss per share has not been disclosed as the effects of all potential ordinary shares are anti-dilutive for the years ended 31 December 2016 and 2017.

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land HK$'000	Buildings HK$'000	Plant and machinery HK$'000	Furniture, fixtures, office equipment and motor vehicles HK$'000	Construction in progress HK$'000	Bearer plants HK$'000	Total HK$'000
Cost or valuation							
At 1 January 2016	29,519	33,361	9,275	84,765	63,991	783,600	1,004,511
Additions	–	–	828	1	–	–	829
Disposals of subsidiaries (Note 37)	–	–	(5,709)	(4,208)	–	–	(9,917)
Deficit on revaluation	–	(1,109)	–	–	–	–	(1,109)
Exchange differences	(1,967)	(2,224)	(654)	(5,583)	(4,265)	(52,240)	(66,933)
At 31 December 2016 and 1 January 2017	27,552	30,028	3,740	74,975	59,726	731,360	927,381
Disposals	(8,389)	–	(494)	(4,125)	(62,021)	–	(75,029)
Surplus on revaluation	–	804	–	–	–	–	804
Exchange differences	1,753	2,145	253	5,177	2,675	52,240	64,243
At 31 December 2017	**20,916**	**32,977**	**3,499**	**76,027**	**380**	**783,600**	**917,399**

15. PROPERTY, PLANT AND EQUIPMENT (continued)

	Leasehold land HK$'000	Buildings HK$'000	Plant and machinery HK$'000	Furniture, fixtures, office equipment and motor vehicles HK$'000	Construction in progress HK$'000	Bearer plants HK$'000	Total HK$'000
Accumulated depreciation							
At 1 January 2016	1,566	–	1,603	10,365	–	42,145	55,679
Charge for the year	740	1,537	2,963	8,656	–	21,327	35,223
Disposals of subsidiaries (Note 37)	–	–	(3,147)	(1,342)	–	–	(4,489)
Write-back on revaluation	–	(1,472)	–	–	–	–	(1,472)
Exchange differences	(136)	(65)	(233)	(1,013)	–	(3,721)	(5,168)
At 31 December 2016 and 1 January 2017	2,170	–	1,186	16,666	–	59,751	79,773
Charge for the year	667	1,365	369	7,264	–	21,327	30,992
Written back on disposals	(1,095)	–	(463)	(2,790)	–	–	(4,348)
Write-back on revaluation	–	(1,400)	–	–	–	–	(1,400)
Exchange differences	144	35	82	1,248	–	4,814	6,323
At 31 December 2017	**1,886**	**–**	**1,174**	**22,388**	**–**	**85,892**	**111,340**
Net book value							
At 31 December 2017	**19,030**	**32,977**	**2,325**	**53,639**	**380**	**697,708**	**806,059**
At 31 December 2016	25,382	30,028	2,554	58,309	59,726	671,609	847,608

15. PROPERTY, PLANT AND EQUIPMENT (continued)

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

	Leasehold land HK$'000	Buildings HK$'000	Plant and machinery HK$'000	Furniture, fixtures, office equipment and motor vehicles HK$'000	Construction in progress HK$'000	Bearer plants HK$'000	Total HK$'000
At cost	27,552	–	3,740	74,975	59,726	731,360	897,353
At valuation	–	30,028	–	–	–	–	30,028
At 31 December 2016	27,552	30,028	3,740	74,975	59,726	731,360	927,381
At cost	20,916	–	3,499	76,027	380	783,600	884,422
At valuation	–	32,977	–	–	–	–	32,977
At 31 December 2017	**20,916**	**32,977**	**3,499**	**76,027**	**380**	**783,600**	**917,399**

At 31 December 2017, the Group's buildings were revalued by BMI, an independent firm of professional valuers, at open market value of approximately HK$32,977,000 (2016: HK$30,028,000). The resulting revaluation surplus of approximately HK$303,000 (2016: HK$71,000) has been credited to the properties revaluation reserve, and the resulting revaluation surplus of approximately HK$1,901,000 (2016: HK$292,000) has been credited to profit or loss.

Had the Group's buildings been stated at cost less accumulated depreciation and impairment losses, their carrying amounts as at 31 December 2017 would have been approximately HK$47,805,000 (2016: HK$45,773,000).

There were certain buildings of approximately HK$26,832,000 (2016: HK$24,326,000) for which the Group are in the process of obtaining the relevant building ownership certificates. The directors do not foresee any major obstacles to issuing the certificates of the above-mentioned buildings to the Group.

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

At 31 December 2017, the Group's leasehold land with net book value of approximately HK$19,029,000 (2016: HK$25,382,000) represent payments for land use rights in the PRC.

15. PROPERTY, PLANT AND EQUIPMENT (continued)

At 31 December 2017, the Group's leasehold land included certain leasehold land of approximately HK$18,723,000 (2016: HK$17,861,000) for which the Group were in the process of obtaining the relevant land use rights certificates. The directors do not foresee any major obstacles to complete the transfer of the legal title of the above-mentioned land use rights to the Group.

At 31 December 2017, the Group's leasehold land with net book value of HK$Nil (2016: HK$7,219,000) was pledged to banks to secure bank loans of HK$Nil (2016: HK$34,283,000) (Note 25).

(a) Fair value measurement of buildings

(i) Fair value hierarchy

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

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

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

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

	Fair value at 31 December 2017 HK$'000	Fair value measurements as at 31 December 2017 categorised into Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000
The Group				
Recurring fair value measurement				
Buildings in the PRC	**32,977**	**–**	**–**	**32,977**

15. PROPERTY, PLANT AND EQUIPMENT (continued)

(a) Fair value measurement of buildings (continued)

(i) Fair value hierarchy (continued)

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

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

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

Buildings in the PRC	**2017 HK$'000**	2016 HK$'000
At the beginning of the year	**30,028**	33,361
Depreciation charge for the year	**(1,365)**	(1,537)
Surplus on revaluation	**2,204**	363
Exchange adjustment	**2,110**	(2,159)
At the end of the year	**32,977**	30,028

15. PROPERTY, PLANT AND EQUIPMENT (continued)

(a) Fair value measurement of buildings (continued)

(i) Fair value hierarchy (continued)

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

(ii) Information about Level 3 fair value measurements

All of the Group's buildings in the PRC were revalued as at 31 December 2016 and 2017. The valuations were carried out by an independent firm of surveyors, BMI, who has among their staff Members of The Hong Kong Institute of Surveyors with relevant experience in the location and category of properties being valued as well as wide experience in valuing different types of properties, including but not limited to, residential, commercial, industrial, retail, agricultural, hotel and developing properties. For all buildings, their current usages are considered as the highest and best use. The Group's management has discussion with the surveyors on the valuation assumptions and valuation results when the valuations are performed at each annual reporting date.

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

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

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

15. PROPERTY, PLANT AND EQUIPMENT (continued)

(a) Fair value measurement of buildings (continued)

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

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

– Verified the physical existence of the buildings;

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

– Assessed the quality and useful lives of the buildings;

– Evaluated the operation of the Group's business.

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

	Key unobservable inputs	**Range**	**Inter-relationship between key unobservable inputs and fair value measurements**
Buildings	Construction cost per square metre	RMB2,947 to RMB4,223 (2016: RMB2,930 to RMB4,102)	The estimated fair value increases when the construction cost per square metre increases
	Useful lives of buildings	20 years to 50 years (2016: 20 years to 50 years)	The estimated fair value increases when the useful life of the building increases

15. PROPERTY, PLANT AND EQUIPMENT (continued)

(b) Bearer plants

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

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

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

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

According to the Forestry Right Certificates issued by the relevant PRC authority, the Group is granted a right to perform tea plantation and harvest within the cultivable area of 70,912.7 Mu (2016: 70,912.7 Mu) for 28 to 45 years.

At 31 December 2017, certain Tea Forest of approximately HK$Nil (2016: approximately HK$113,516,000) with total cultivable area of Nil Mu (2016: 12,631 Mu) was pledged to secure bank loans of HK$Nil (2016: HK$34,283,000) (Note 25).

15. PROPERTY, PLANT AND EQUIPMENT (continued)

(b) Bearer plants (continued)

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

(i) Regulatory and environmental risks

The Group is subject to laws and regulations in the PRC in which it operates. The Group has established environmental policies and procedures aimed at compliance with local environmental and other laws. Management performs regular reviews to identify environmental risks and to ensure that the systems in place are adequate to manage those risks. The directors are not aware of any environmental liabilities as at 31 December 2016 and 2017.

(ii) Supply and demand risks

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

(iii) Climate and other risks

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

16. AGRICULTURAL PRODUCE

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

	2017 **HK$'000**	2016 HK$'000
Estimated fair value less costs to sell	**91,486**	73,222
Estimated quantity ('000 kg)	**17,881**	16,012

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

17. INTANGIBLE ASSETS

	Trademark HK$'000	Goodwill HK$'000 (Note)	Total HK$'000
Cost			
At 1 January 2016	54,840	2,358,511	2,413,351
Disposals of subsidiaries (Note 37)	(14,224)	(252,013)	(266,237)
Exchange differences	(3,656)	–	(3,656)
At 31 December 2016 and 1 January 2017	36,960	2,106,498	2,143,458
Exchange differences	2,640	–	2,640
At 31 December 2017	**39,600**	**2,106,498**	**2,146,098**
Accumulated amortisation			
At 1 January 2016	15,639	–	15,639
Charge for the year	8,359	–	8,359
Disposals of subsidiaries (Note 37)	(4,978)	–	(4,978)
Exchange differences	(1,400)	–	(1,400)
At 31 December 2016 and 1 January 2017	17,620	–	17,620
Charge for the year	5,387	–	5,387
Exchange differences	1,398	–	1,398
At 31 December 2017	**24,405**	–	**24,405**
Accumulated impairment			
At 1 January 2016	–	1,410,511	1,410,511
Disposals of subsidiaries (Note 37)	–	(214,013)	(214,013)
Impairment loss	–	910,000	910,000
As 31 December 2016, 1 January 2017 and 31 December 2017	**–**	**2,106,498**	**2,106,498**
Carrying amount			
At 31 December 2017	**15,195**	**–**	**15,195**
At 31 December 2016	19,340	–	19,340

17. INTANGIBLE ASSETS (continued)

Note:–

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

	2017 **HK$'000**	2016 HK$'000
Raw teas, refined teas and other related products:–		
China Natural Tea Holdings Company Ltd	**–**	–

Impairment assessment of raw teas, refined teas and other related products for the year ended 31 December 2016

The recoverable amount of the CGUs of the above company was determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a ten-year period.

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

Cash flows beyond the five-year period were extrapolated using an estimated long term growth rate of 3%. The growth rates used do not exceed the long-term average growth rates for the business in which the CGU operates. The cash flows were discounted using the discount rate of 17.86%.

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

The recoverable amount of the CGU of the above company at 31 December 2016 was HK$405,100,000 and impairment loss of HK$910,000,000 was recognised during the year ended 31 December 2016.

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

18. INTERESTS IN AN ASSOCIATE

	2017 HK$'000	2016 HK$'000
Share of net assets of associates:		
Beijing Mao Yong Daping Investment Center (Limited Partnership) ("Mao Yong Daping")	**86,076**	83,796
Plenty Partner Limited ("Plenty Partner") (Note (a))	**207,918**	192,216
	293,994	276,012

(a) Acquisition of interest in Plenty Partner

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

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

Gain on bargain purchase arising from the acquisition of an Plenty Partner of HK$99,373,000 during the year ended 31 December 2016 was primarily attributable to the excess of the consideration transferred by allotment of consideration shares over fair value of consideration shares.

18. INTERESTS IN AN ASSOCIATE (continued)

(b) Summarised financial information

(i) Plenty Partner

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

	2017 HK$'000	2016 HK$'000
Gross amounts of the associate		
Current assets	**130,813**	63,422
Non-current assets	**753,088**	756,995
Current liabilities	**(8,871)**	(7,999)
Non-current liabilities	**(43,360)**	(43,554)
Net assets	**831,670**	768,864

	Year ended 31 December 2017 HK$'000	For the period from 4 April 2016 to 31 December 2016 HK$'000
Revenue	**101,734**	82,448
Profit for the year	**7,691**	10,007
Other comprehensive income/(loss) for the year	**55,115**	(54,636)
Total comprehensive income/(loss) for the year	**62,806**	(44,629)

18. INTERESTS IN AN ASSOCIATE (continued)

(b) Summarised financial information (continued)

(i) Plenty Partner (continued)

	2017 **HK$'000**	2016 HK$'000
Reconciliation of the summarised financial information presented to the carrying amounts of the Group's interests in an associate		
Gross amounts of net assets of the associate	**831,670**	768,864
Group's effective interest	**25%**	25%
Group's share of net assets of the associate	**207,918**	192,216

(ii) Mao Yong Daping

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

	2017 **HK$'000**	2016 HK$'000
Gross amounts of the associate		
Current assets	**143**	1,702
Non-current assets	**304,904**	293,331
Current liabilities	**(9,093)**	(6,919)
Net assets	**295,954**	288,114

18. INTERESTS IN AN ASSOCIATE (continued)

(b) Summarised financial information (continued)

(ii) Mao Yong Daping (continued)

	2017 HK$'000	2016 HK$'000
Revenue	**–**	–
Loss for the year	**(12,421)**	(9,373)
Other comprehensive income/(loss) for the year	**20,261**	(20,820)
Total comprehensive income/(loss) for the year	**7,840**	(30,193)

	2017 HK$'000	2016 HK$'000
Reconciliation of the summarised financial information presented to the carrying amounts of the Group's interests in an associate		
Gross amounts of net assets of the associate	**295,954**	288,114
Group's effective interest	**29.08%**	29.08%
Group's share of net assets of the associate	**86,076**	83,796

On 15 January 2018, the Group entered into a memorandum of understanding with a purchaser that the Group intended to dispose and the purchaser intended to acquire the Group's entire equity interest in Mao Yong Daping at a consideration of approximately RMB83,000,000 (equivalent to approximately HK$99,600,000). On 23 March 2018 and 28 March 2018, the Group received deposits in total of HK$90,000,000 from the purchaser.

19. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2017 HK$'000	2016 HK$'000
Unlisted equity securities, at cost (Note (c)):		
Shenzhen Fenghui International Caibao Co., Limited (Note (a))	**101,400**	94,640
Perfect Partner International Corporation (Note (b))	**70,000**	70,000
	171,400	164,640

Notes:

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

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

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

20. DEPOSITS PAID

	For potential business combination HK$'000 (Note (a))	Property, plant and equipment HK$'000 (Note (b))	Total HK$'000
At 1 January 2016	528,000	24,000	552,000
Refund	(96,000)	–	(96,000)
Exchange differences	(28,800)	(1,600)	(30,400)
At 31 December 2016 and 1 January 2017	403,200	22,400	425,600
Refund	(421,200)	(23,400)	(444,600)
Exchange differences	18,000	1,000	19,000
At 31 December 2017	**–**	**–**	**–**

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

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

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

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

20. DEPOSITS PAID (continued)

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

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

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

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

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

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

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

20. DEPOSITS PAID (continued)

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

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

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

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

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

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

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2017 HK$'000	2016 HK$'000
Consideration receivable for disposal of subsidiaries (Note 37)	**20,000**	92,000
Receivable from disposal of property, plant and equipment	**15,000**	–
Prepayments for subcontracting charges for cultivation	**1,996**	1,871
Deposits and other receivables	**2,323**	2,179
Prepayments	**9,286**	8,022
	48,605	104,072
Analysed as:–		
Non-current assets	**1,996**	1,871
Current assets	**46,609**	102,201
	48,605	104,072

22. INVENTORIES

	2017 HK$'000	2016 HK$'000
Raw materials	**15,388**	14,763
Finished goods	**1,694,347**	1,161
	1,709,735	15,924
Less: Impairment loss	**(8,423)**	(4,550)
	1,701,312	11,374

Movements of impairment loss on inventories are as follows:

	2017 HK$'000	2016 HK$'000
At 1 January	**4,550**	–
Impairment loss for the year	**3,459**	4,754
Exchange adjustments	**414**	(204)
At 31 December	**8,423**	4,550

23. TRADE RECEIVABLES

	2017 HK$'000	2016 HK$'000
Trade debtors	**15,345**	110
Less: allowance for doubtful debts	**(110)**	–
	15,235	110

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

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

	2017 HK$'000	2016 HK$'000
0 – 30 days	**2,244**	–
31 – 60 days	**2,459**	–
61 – 90 days	**4,695**	–
91 – 120 days	**5,831**	–
Over 120 days	**6**	110
	15,235	110

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly.

23. TRADE RECEIVABLES (continued)

Movements of the allowance for impairment during the year were as follows:-

	2017 HK$'000	2016 HK$'000
At 1 January	**–**	–
Impairment loss for the year	**110**	–
31 December	**110**	–

At 31 December 2017, trade receivables of HK$110,000 (2016: HK$Nil) was individually determined to be impaired. The directors assessed that none of the impaired receivable is expected to be recovered. Consequently, specific allowances for doubtful debts of HK$110,000 (2016: HK$Nil) were recognised.

At 31 December 2017, trade receivables of approximately HK$12,991,000 (2016: HK$110,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The aging analysis of these trade receivables is as follows:–

	2017 HK$'000	2016 HK$'000
Nether past due nor impaired	**2,244**	–
Less than 1 month past due but not impaired	**2,459**	–
1 to 2 months past due but not impaired	**4,695**	–
2 to 3 months past due but not impaired	**5,831**	–
Over 3 months past due but not impaired	**6**	110
	15,235	110

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

24. CASH AND BANK BALANCES

At 31 December 2017, the cash and bank balances of the Group denominated in RMB amounted to approximately HK$1,758,908,000 (2016: approximately HK$2,090,210,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

25. BANK LOANS

	2017 **HK$'000**	2016 HK$'000
Secured short-term loans (Note (ii))	**–**	34,283
Unsecured short-term loans (Note (iii))	**20,100**	–
	20,100	34,283

Notes:–

(i) The applicable interest rate per annum as at 31 December 2017 was 7.61% (2016: 5.44% to 7.40%) per annum.

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

(iii) The above bank loans were guaranteed by Mr. Cai Zhenyao and Mr. Cai Rongxu (Note 43).

At 31 December 2017, the Group's bank loans of HK$Nil (2016: HK$34,283,000) are subject to the fulfillment of the following financial covenant: to maintain a maximum adjusted debt to assets ratio of a subsidiary of the Tea Group of 70%. If the Group was to breach the above covenant, the bank loans would become payable on demand. The Group regularly monitors the compliance with this financial covenant.

In the opinion of the directors, none of the financial covenants had been breached as at 31 December 2016 and 2017.

26. TRADE AND OTHER PAYABLES

	2017 HK$'000	2016 HK$'000
Trade payables	**9,777**	7,844
Interest payable on bank borrowings	**–**	877
Receipts in advance, other payables and accruals – Note (iii)	**167,619**	126,475
	167,619	127,352
Amount due to a related party – Note (i)	**1,357**	1,591
	178,753	136,787

Notes:

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

(ii) As at 31 December 2016, included in other payables was interest payable on convertible bonds of HK$1,266,000, which was reclassified to convertible bonds as at 31 December 2017 (Note 27(b)).

(iii) As at 31 December 2017, included in other payables was consideration payables arising from business combination in prior years of HK$30,265,000 (2016: HK$30,265,000), the amount is interest-bearing at 4% (2016: 4%) per annum, unsecured and repayable on demand.

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

Aging of trade payables

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

	2017 HK$'000	2016 HK$'000
0 – 30 days	**120**	–
31 – 60 days	**98**	–
61 – 90 days	**466**	–
Over 90 days	**9,093**	7,844
	9,777	7,844

27. CONVERTIBLE BONDS

(a) First and Second tranche convertible bonds

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

First Tranche Bonds

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

Second Tranche Bonds

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

27. CONVERTIBLE BONDS (continued)

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

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

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

Date of conversion	**Principal amount converted** HK$'000	**No. of shares allotted and converted**
First Tranche Bonds		
28 July 2014	65,010	367,703,620
8 August 2014	47,778	270,237,420
25 September 2014	45,150	255,373,303
1 June 2015	113,330	641,006,787
18 August 2016	65,552	370,769,366
	336,820	1,905,090,496
Second Tranche Bonds		
19 October 2017	65,730	371,776,018
	402,550	2,276,866,514

As at 31 December 2017, the Second Tranche Bonds with principal amount of HK$212,220,000 have been outstanding and overdue. The Group was in the process of negotiating with the bondholders for the extension and/or restructuring of the Second Tranche Bonds. Based on the information available as of the date of this report, the Group entered into agreement or memorandum of understanding with Ample Gold and Great Vantage to restructure the payment terms, of which HK$137,669,000 will be repayable by 31 December 2018.

27. CONVERTIBLE BONDS (continued)

(b) Liability and equity components of convertible bonds

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

Liability component

	First Tranche Bonds HK$'000	Second Tranche Bonds HK$'000	Total Bonds HK$'000
At 1 January 2016	58,343	302,981	361,324
Imputed interest	2,847	–	2,847
Actual interest	–	76,067	76,067
Conversion of convertible bonds	(61,190)	–	(61,190)
At 31 December 2016 and 1 January 2017	–	379,048	379,048
Reclassified from other payables (Note 26(ii))	–	1,266	1,266
Actual interest	–	74,877	74,877
Conversion of convertible bonds	–	(65,730)	(65,730)
At 31 December 2017	**–**	**389,461**	**389,461**

	2017 HK$'000	2016 HK$'000
Analysed as:		
Current liabilities	**389,461**	379,048

27. CONVERTIBLE BONDS (continued)

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

Equity component

	First Tranche Bonds HK$'000	Second Tranche Bonds HK$'000	Total Bonds HK$'000
At 1 January 2016	30,201	123,721	153,922
Conversion of convertible bonds	(30,201)	–	(30,201)
At 31 December 2016 and 1 January 2017	–	123,721	123,721
Conversion of convertible bonds	–	(29,258)	(29,258)
At 31 December 2017	**–**	**94,463**	**94,463**

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

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

The interest charged of overdue amount is calculated by 25% per annum to overdue principal and interest.

28. DEBENTURES

At 31 December 2017, the Company issued unlisted debentures of approximately HK$2,345,878,000 (2016: HK$1,543,186,000) at face value with issuing costs of approximately HK$497,462,000 (2016: HK$281,533,000).

Details of debentures issued and outstanding as at 31 December 2016 and 2017 are as follows:

At 31 December 2017

Tranche	Principal amount HK$'000	Issuing cost HK$'000	Duration (years)	Coupon interest rate per annum	Effective interest rate per annum	Carrying amount HK$'000
2	45,000	2,600	8	5%	5.79-5.95%	43,423
3	50,000	7,775	4	0-6%	5.46-7.77%	44,354
5	10,000	100	8	5%	5.15%	9,939
6	28,000	1,200	8	6%	6.00-6.99%	27,193
7	20,000	5,610	8	0%	5.13%	15,590
9	11,000	–	2-8	5-6%	5.00-6.00%	11,000
10	60,000	8,140	2-8	0-8%	5.16-9.43%	58,011
11	155,400	38,946	2-8	0-8%	4.43-9.81%	121,686
12	182,400	47,918	2-8	0-7%	5.74-7.00%	142,051
13	35,000	5,150	8	5%	7.35-7.53%	31,176
14	293,026	29,172	2	7-8%	12.65-12.96%	293,026
15	1,000	–	2	6%	6.00%	1,000
16	423,652	126,730	2-8	0-8%	5.70-8.00%	315,832
17	11,300	150	0.5-8	3-10%	3.00-22.26%	11,300
18	90,000	8,042	2	0%	4.78-4.79%	87,210
19	643,400	215,929	1-8	3-8%	4.82-28.75%	443,686
20	13,200	–	0.5-2	5-8%	5.00-8.00%	13,200
21	273,500	–	4-8	6%	6%	273,500
	2,345,878	497,462				1,943,177

28. DEBENTURES (continued)

At 31 December 2016

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

	At 31 December 2017 HK$'000	At 31 December 2016 HK$'000
Analysed as:		
Current liabilities	**491,755**	448,849
Non-current liabilities	**1,451,422**	844,131
	1,943,177	1,292,980

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

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

28. DEBENTURES (continued)

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

At 31 December 2017, carrying amount of debentures of HK$339,475,000 (2016: HK$Nil) were overdue in accordance with the relevant terms. Accordingly, the carrying amount of debentures were classified as current liabilities in the consolidated statement of financial position.

29. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

During the repurchase of the CN during the year ended 31 December 2015, the Company issued 35,767,776 ordinary shares at a price of HK$0.08 per ordinary share to the Holder for settlement of part of the interest accrued on the CN.

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

	Warrant HK$'000
At 1 January 2016	8,531
Fair value loss during the year	1,183
At 31 December 2016 and 1 January 2017	9,714
Fair value gain during the year	(9,714)
At 31 December 2017	**–**

	2017 **HK$'000**	2016 HK$'000
Analysed as:–		
Current liabilities	–	9,714

30. PROMISSORY NOTES

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

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

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

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

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

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

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

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

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

The movements of the promissory notes during the years ended 31 December 2016 and 2017 are as follows:

	HK$'000
At 1 January 2016	144,564
Interest on promissory notes	17,649
Principal paid	(68,400)
At 31 December 2016 and 1 January 2017	93,813
Interest on promissory notes	10,720
Principal paid	(26,500)
At 31 December 2017	**78,033**

As at 31 December 2016 and 2017, the promissory notes were overdue in accordance with the relevant terms. Accordingly, the carrying amounts of promissory notes were classified as current liabilities in the consolidated statement of financial position. The interest charged of overdue amount is calculated by 18% per annum to overdue principal and interest.

Subsequent to the year ended 31 December 2017, the Group has entered into a memorandum of understanding with the promissory notes holder to restructure the terms of the promissory notes. The negotiation of the terms is in progress.

31. DEFERRED TAX LIABILITIES

(a) An analysis of deferred tax in the consolidated statement of financial position is as follows:–

	2017 HK$'000	2016 HK$'000
Deferred tax assets	**3,904**	4,087
Deferred tax liabilities	**(10,686)**	(10,991)
	(6,782)	(6,904)

(b) The following are the major deferred tax liabilities/(assets) recognised by the Group:

	Fair value adjustments of bearer plant under business combination HK$'000	**Decelerated/ (accelerated) tax allowance** HK$'000	**Revaluating of buildings** HK$'000	**Others** HK$'000	**Total** HK$'000
At 31 December 2015 and 1 January 2016	12,636	4,344	(4,355)	(955)	11,670
Charge to other comprehensive loss for the year	–	–	18	–	18
(Credit)/charge to profit or loss for the year (Note 11)	–	(3,736)	73	–	(3,663)
Disposals of subsidiaries (Note 37)	–	(1,524)	–	1,022	(502)
Exchange differences	(842)	(130)	291	62	(619)
At 31 December 2016 and 1 January 2017	11,794	(1,046)	(3,973)	129	6,904
Charge to other comprehensive loss for the year	–	–	76	–	76
(Credit)/charge to profit or loss for the year (Note 11)	–	(1,751)	994	–	(757)
Exchange differences	842	(119)	(173)	9	559
At 31 December 2016	**12,636**	**(2,916)**	**(3,076)**	**138**	**6,782**

(c) At the end of reporting period, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised is HK$1,573,893,000 (2016: HK$1,390,845,000). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

32. SHARE CAPITAL AND CAPITAL MANAGEMENT

	2017		2016	
	No. of shares	**HK$'000**	No. of shares	HK$'000
Authorised:				
Ordinary shares of HK$0.01 each	**80,000,000,000**	**800,000**	80,000,000,000	800,000

	2017		2016	
	No. of shares	**HK$'000**	No. of shares	HK$'000
Ordinary shares, issued and fully paid:				
At the beginning of year	**23,325,093,070**	**233,251**	18,134,323,704	181,343
Issue of shares for acquisition of interest in an associate (Note 18)	**–**	**–**	2,000,000,000	20,000
Issue of shares for acquisitions of available-for-sale financial assets	**–**	**–**	2,820,000,000	28,200
Conversion of convertible bonds (Note 27)	**371,776,018**	**3,718**	370,769,366	3,708
At the end of year	**23,696,869,088**	**236,969**	23,325,093,070	233,251

Subsequent to the end of the reporting period, on 30 January 2018, every twenty issued and unissued shares of HK$0.01 each in the share capital of the Company was consolidated into one consolidated share (the "Consolidated Share") of HK$0.2. The board lot size for trading was changed to 8,000 Consolidated Shares upon the share consolidation becoming effective.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maximise the return to the shareholders through the optimisation of the debt and equity balance.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets.

The Group monitors capital on the basis of the debt-to-adjusted capital ratio. This ratio is calculated as net debt divided by adjusted capital. Net debt is calculated as total debts less cash and cash equivalents. Adjusted capital comprises all components of equity (i.e. share capital, share premium, retained profits and other reserves).

It is the Group's strategy to keep the net debt-to-adjusted capital ratio as low as feasible. In order to maintain or adjust the capital structure, the Group may adjust the payment of dividends, issue new shares, buy-back shares, raise new debts, redeem existing debts or sell assets to reduce debts.

The only externally imposed capital requirement is that for the Company to maintain its listing on the Stock Exchange it has to have a public float of at least 25% of the shares.

33. SHARE-BASED PAYMENTS

Equity-settled share option schemes

On 24 February 2012, the Company has passed the resolutions in a shareholders' meeting for the termination of the share option scheme adopted on 30 August 2002 and the adoption of an new share option scheme (the "Scheme"). Outstanding share options granted under the Terminated Scheme prior to such termination shall continue to be valid and, subject to the vesting schedule, exercisable in accordance with the Terminated Scheme.

The Company operates the Scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants include the Company's directors (including independent non-executive directors), employees of the Group, suppliers of goods or services, customers, persons or entities providing research, development or other technological support to the Group, and any non-controlling shareholders in the Company's subsidiaries. The Scheme, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

33. SHARE-BASED PAYMENTS (continued)

Equity-settled share option schemes (continued)

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of the grant of the share options or the expiry date of the Scheme, if earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet on the date of the offer of grant, which must be a trading day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of the offer of the grant; and (iii) the nominal value of the Company's shares on the date of the offer of the grant.

Details of the options granted are as follows:–

Options granted to directors

			Number of options		
Date of grant	**Vesting date**	**Exercise period**	**2017**	**2016**	**Exercise price** HK$
24 October 2013	24 October 2013	24 October 2013 to 23 October 2018	**13,000,000**	15,000,000	0.2538
20 May 2014	20 May 2014	20 May 2014 to 19 May 2019	**6,500,000**	8,000,000	0.1036
30 April 2015	30 April 2015	30 April 2015 to 29 April 2020	**15,000,000**	18,000,000	0.099
			34,500,000	41,000,000	

If the options remain unexercised after an exercise period from the date of grant, the options expire.

33. SHARE-BASED PAYMENTS (continued)

Options granted to employees and other participants

Date of grant	Vesting date	Exercise period	Number of options 2017	Number of options 2016	Exercise price HK$
24 October 2013	24 October 2013	24 October 2013 to 23 October 2018	**1,115,000,000**	1,159,000,000	0.2538
20 May 2014	20 May 2014	20 May 2014 to 19 May 2019	**2,344,000**	12,316,000	0.1036
30 April 2015	30 April 2015	30 April 2015 to 29 April 2020	**18,000,000**	42,000,000	0.099
			1,135,344,000	1,213,316,000	

33. SHARE-BASED PAYMENTS (continued)

Equity-settled share option schemes (continued)

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

	Year ended 31 December 2017		Year ended 31 December 2016	
	Number of share options	**Weighted Average Exercise price HK$**	Number of share options	Weighted Average Exercise price HK$
Outstanding at the beginning of the year	**1,254,316,000**	**0.244**	1,400,716,000	0.2581
Lapsed during the year	**(84,472,000)**	**0.1839**	(146,400,000)	0.3938
Outstanding at the end of the year	**1,169,844,000**	**0.2483**	1,254,316,000	0.244
Exercisable at the end of the year	**1,169,844,000**	**0.2483**	1,254,316,000	0.244

At 31 December 2017, the options outstanding have a weighted average remaining contractual life of 0.86 years (2016: 1.89 years) and the exercise prices range from HK$0.099 to HK$0.2538 (2016: HK$0.099 to HK$0.438).

34. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Note	At 31 December 2017 HK$'000	At 31 December 2016 HK$'000
Investments in subsidiaries		**133,905**	133,905
Due from subsidiaries (note)		**3,977,460**	3,459,608
Other current assets		**6,340**	4,834
Convertible bonds		**(389,461)**	(379,048)
Financial liabilities of fair value through profit or loss		**–**	(9,714)
Promissory notes		**(78,033)**	(93,813)
Debentures		**(1,943,177)**	(1,296,506)
Other current liabilities		**(63,511)**	(25,886)
NET ASSETS		**1,643,523**	1,793,380
Capital and reserves			
Share capital	32	**236,969**	233,251
Reserves	35(b)	**1,406,554**	1,560,129
TOTAL EQUITY		**1,643,523**	1,793,380

Note:–

The amounts due from subsidiaries are unsecured, interest-free and repayable on demand.

35. RESERVES

(a) Group

The amounts of the Group's reserves and movements therein are presented in the consolidated statement of changes in equity.

35. RESERVES (continued)

(b) Company

	Share premium HK$'000 (Note 35(b)(i))	Share-based payment reserve HK$'000 (Note 35(b)(iii))	Convertible bonds reserve HK$'000 (Note 27)	Accumulated losses HK$'000	Total HK$'000
At 1 January 2016	3,925,849	114,208	153,922	(1,767,700)	2,426,279
Total comprehensive loss for the year	–	–	–	(1,119,072)	(1,119,072)
Conversion of convertible bonds (Note 27(b))	87,683	–	(30,201)	–	57,482
Lapsed of share options granted in prior years	–	(22,046)	–	22,046	–
Issue of shares for acquisition of available-for-sale financial assets by subsidiaries	111,440	–	–	–	111,440
Issue of shares for acquisition of an associate by a subsidiary	84,000	–	–	–	84,000
At 31 December 2016 and 1 January 2017	4,208,972	92,162	123,721	(2,864,726)	1,560,129
Total comprehensive loss for the year	–	–	–	(215,587)	(215,587)
Conversion of convertible bonds (Note 27(b))	91,270	–	(29,258)	–	62,012
Lapsed of share options granted in prior years	–	(4,951)	–	4,951	–
At 31 December 2017	**4,300,242**	**87,211**	**94,463**	**(3,075,362)**	**1,406,554**

35. RESERVES (continued)

(c) Nature and purpose of reserves

(i) Share premium

The share premium account of the Company includes: (i) the premium arising from the new issue of shares; and (ii) the difference between the then combined net asset value of the subsidiaries acquired pursuant to the Group Reorganisation, over the nominal value of the share capital of the Company issued in exchange therefor.

In accordance with the Companies Law of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

(ii) Properties revaluation reserve

The properties revaluation reserve has been set up and are dealt with in accordance with the accounting policies adopted for buildings in note 3(e) to the consolidated financial statements.

(iii) Share-based payment reserve

The share-based payment reserve of the Company and the Group arise on the grant of share options to the directors, employees and other business associates under the Schemes. Further information about share-based payments to the directors, employees and other business associates was set out in note 33 to the consolidated financial statements. The fair value of the actual or estimated number of unexercised share options granted to the directors and employees of the Company recognised in accordance with the accounting policy adopted for share-based payments in note 3(r) to the consolidated financial statements.

(iv) Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the consolidated financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 3(d) to the consolidated financial statements.

36. PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries as at 31 December 2017 are as follows:–

Name	Place of incorporation/ registration and operation	Issued and paid-up capital	Percentage of ownership interest/ voting power/ profit sharing	Principal activities
Directly held				
Treasure Wealth Assets Limited	BVI	600 ordinary shares of US$1 each	100%	Investment holding
Wide Lucky Asia Pacific Limited	BVI	600 ordinary shares of US$1 each	100%	Investment holding
Ping Shan Health	BVI	1 ordinary share of US$1 each	100%	Investment holding
Indirectly held				
Powerful China Development Limited	Hong Kong	100 ordinary shares	100%	Provision of administrative services to group companies
Fujian Daping	PRC	Registered capital and paid-up capital of RMB1,200,000	100%	Sales of raw teas in the PRC
Fujian Nature Tea Science and Technology Co., Ltd	PRC	Registered capital and paid-up capital of HK$193,663,000	100%	Sales of refined teas and/or other related products in the PRC
Quanzhou Pingshan Tea Co., Ltd	PRC	Registered capital and paid-up capital of RMB1,000,000	100%	Sales of refined teas and/or other related products in the PRC
Xiamen Pingshan Tea Co., Ltd	PRC	Registered capital and paid-up capital of RMB1,000,000	100%	Sales of refined teas and/or other related products in the PRC
Fujian Huidian Packing Co., Ltd	PRC	Registered capital and paid-up capital of RMB5,000,000	100%	Sales of refined teas and/or other related products in the PRC
Liaoning Pingshan Tea Co., Ltd	PRC	Registered capital and paid-up capital of RMB5,000,000	100%	Sales of refined teas and/or other related products in the PRC
Shaanxi Pingshan Tea Co., Ltd	PRC	Registered capital and paid-up capital of RMB5,000,000	100%	Sales of refined teas and/or other related products in the PRC

36. PRINCIPAL SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operation	Issued and paid-up capital	Percentage of ownership interest/ voting power/ profit sharing	Principal activities
Chongqing Shengfang Tea Co., Ltd	PRC	Registered capital and paid-up capital of RMB5,000,000	100%	Sales of refined teas and/or other related products in the PRC
Anhui Ji Gong Tea Limited	PRC	Registered capital and paid-up capital of RMB3,000,000	90%	Sales of raw teas, refined teas and/or other related products in the PRC
Shishi Guochuan	PRC	Registered capital and paid-up capital of RMB1,000,000	90%	Investment holding

The above list contains the particulars of subsidiaries, in the opinion of the directors, principally affected the results, assets or liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

37. DISPOSALS OF SUBSIDIARIES

On 16 December 2016, the Group disposed of the entire interest in Greenpost Investments Limited and its subsidiaries (collectively referred as to the "Huidian Design Group") at a consideration of HK$60,000,000, satisfied by cash.

On 15 December 2016, the Group disposed of the entire interest in Goodsign International Limited and its subsidiaries (collectively referred as to the "Jinxiang Tea Group") at a consideration of HK$55,000,000, satisfied by cash.

The net assets of the above subsidiaries being disposed of were as follows:

	Note	**Huidian Design Group** HK$'000	**Jinxiang Tea Group** HK$'000	**Total** HK$'000
Property, plant and equipment	15	1,208	4,220	5,428
Intangible assets	17	18,096	29,150	47,246
Deferred tax assets		540	–	540
Inventories		28,756	1,825	30,581
Trade receivables		18,404	17,576	35,980
Prepayments, deposits and other receivables		–	1,042	1,042
Amounts due from Group companies		–	42,094	42,094
Cash and bank balances		835	857	1,692
Trade payables		(3,257)	(244)	(3,501)
Other payables and accruals		(1,583)	(310)	(1,893)
Amounts due to Group companies		(2)	(2)	(4)
Deferred tax liabilities		–	(1,042)	(1,042)
Net assets disposed of		62,997	95,166	158,163
Release of foreign currency translation reserve		5,649	7,943	13,592
Waive of payables to the disposal group		–	(42,094)	(42,094)
Waive of receivables from the disposal group		2	2	4
Loss on disposals of subsidiaries		(8,648)	(6,017)	(14,665)
Total consideration		60,000	55,000	115,000
Total consideration, satisfied by:				
– Cash		12,000	11,000	23,000
– Consideration receivable (Note 21)		48,000	44,000	92,000
		60,000	55,000	115,000
Net cash inflow arising on disposal:				
– Cash consideration received		12,000	11,000	23,000
– Cash and cash equivalents disposed of		(835)	(857)	(1,692)
		11,165	10,143	21,308

38. NON-CONTROLLING INTERESTS

The summarised financial information of Ever Reliance Asia Limited that has non-controlling interests that are material to the Group are set out below. The summarised financial information presented below represents the amounts before any inter-company elimination.

Summarised statements of financial position

	2017 HK$'000	2016 HK$'000
Non-current assets	**525,844**	500,296
Current assets	**15,443**	–
Current liabilities	**(515,627)**	(483,172)
Non-current liabilities	**(2,266)**	(2,115)
Net assets	**23,394**	15,009

Summarised statements of profit or loss and other comprehensive income

	2017 HK$'000	2016 HK$'000
Revenue	**36,077**	–
Profit/(loss) for the year	**4,589**	(8,692)
Other comprehensive income/(loss) for the year	**3,796**	(1,294)
Total comprehensive loss for the year	**8,385**	(9,986)
Profit/(loss) allocated to the non-controlling interests	**459**	(869)
Other comprehensive income/(loss) allocated to the non-controlling interests	**84**	(83)
Total comprehensive income/(loss) allocated to the non-controlling interests	**543**	(952)

38. NON-CONTROLLING INTERESTS (continued)

Summarised statements of cash flows

	2017 HK$'000	2016 HK$'000
Cash flows from operating activities	209	–
Effect of foreign exchange rate changes	5	–

39. MAJOR NON-CASH TRANSACTIONS

(a) As disclosed in Note 27(a), during the year ended 31 December 2016, the First Tranche Bonds with principal amounts of HK$65,552,000 were converted into 370,769,366 ordinary shares of the Company. During the year ended 31 December 2017, the Second Tranch Bonds with principal amounts of HK$65,730,000 were converted into 371,776,018 ordinary shares of the Company.

(b) As disclosed in Note 18, the Group acquired interest in Plenty Partner by allotment and issue of 2,000,000,000 consideration shares of the Company during the year ended 31 December 2016.

(c) As disclosed in Note 19, the Group acquired two available-for-sale financial assets by allotment and issue of in aggregate of 2,820,000,000 consideration shares of the Company during the year ended 31 December 2016.

40. CONTINGENT LIABILITIES

At 31 December 2016 and 2017, neither the Group nor the Company had any significant contingent liabilities.

41. COMMITMENTS

(a) Operating lease arrangements

As lessee

At the end of reporting period, the Group had total future minimum lease payments under non-cancellable operating leases for leasehold land and buildings payable as follows:

	2017 **HK$'000**	2016 HK$'000
Within one year	**1,274**	802
In the second to fifth years, inclusive	**2,174**	–
	3,448	802

Operating lease payments represent rentals payable by the Group for certain of its offices, factory and warehouse. Leases are negotiated for terms ranging from 2 to 3 years (2016: 2 to 3 years) and rentals are fixed over the lease terms and do not include contingent rentals.

(b) Capital commitments

At the end of reporting period, the Group had the following capital commitments:–

	2017 **HK$'000**	2016 HK$'000
Contracted but not provided for:–		
Construction of buildings	**–**	24,884

42. RELATED PARTY TRANSACTIONS

The Group had the following transactions with related parties during the years ended 31 December 2017 and 2016:

(a) At 31 December 2017, the Group's bank loans of HK$20,100,000 (2016: HK$34,283,000) were guaranteed by Mr. Cai Zhenyao, director of the Company and Mr. Cai Rongxu, the director of a subsidiary.

(b) During the year ended 31 December 2016, Mr. Cai Rongxu acquired the Company's debentures with aggregate principal amount of HK$10,000,000, with terms of eight years.

(c) As disclosed in note 26, at 31 December 2017, the Group had amount due to Mr. Cai Yanghang, of HK$1,357,000 (2016: HK$1,591,000) which is unsecured, interest free and repayable on demand.

Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the directors as disclosed in note 9 is as follows:–

	2017 **HK$'000**	2016 HK$'000
Salaries, allowances and other benefits in kind	**2,528**	3,892
Contributions to defined contribution plan	**12**	30
	2,540	3,922

43. PENDING LITIGATION

On 29 August 2017, the Company received a writ of summons in relation to the High Court Action No. 2020 of 2017 issued by Teya, as the plaintiff, against Wide Lucky Asia Pacific Limited, the Company's subsidiary (the first defendant), and the Company (the second defendant), for the claim of the outstanding consideration under the Sale and Purchase Agreement dated 17 January 2013, the outstanding principal under the convertible bond issued to Teya, and reimbursements of legal costs to be incurred by the plaintiff.

Upon the joint application of the parties, all further proceedings in this action against the Company were stayed pending the dismissal of the winding up petition pursuant to the Court Order dated 20 December 2017.

The Group has sought preliminary opinion on the litigation from its legal counsel, who, based on the information available as of the date of this report, is of the opinion that, it is premature to predict the outcome and the ultimate liability due to the fact that the action is still at its early stage.

Pending the outcome of the litigation, as at 31 December 2017, the Group accrued for the outstanding amounts payable, including the principal amount of the convertible bond and consideration payable for business combination plus interests of approximately HK$235,093,000 in the consolidated financial statements. Details of such payables to Teya are disclosed in Notes 26 and 27.

44. SUBSEQUENT EVENTS AFTER THE REPORTING PERIOD

Dismissal of winding up petition against the Company

On 15 September 2017, the Company received a petition from PC Securities Limited (the "Petitioner") in High Court Companies Winding-up Proceedings No.283 of 2017.

Subsequent to the year ended 31 December 2017, upon the agreement between the Company and the Petitioner, the parties have made a joint application by way of consent summons to the court for the dismissal of the winding up petition of the Company, and the High Court made an order on 26 March 2018 that the winding up petition be dismissed.

Apart from the events as disclosed above and in Notes 18(b), 27(a), 30, and 32 the Group did not have other material subsequent events after the reporting period up to the date of this report.

45. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 29 March 2018.

46. IMMEDIATE AND ULTIMATE HOLDING COMPANY

At 31 December 2017, the directors consider the immediate and ultimate holding company of the Group to be Smart Fujian Group Limited, a company incorporated in the BVI.

47. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Promissory notes HK$'000	Debentures HK$'000	Bank loans HK$'000	Debenture interests payable included in other payables and accruals HK$'000	Prepaid debenture interests included in prepayments HK$'000	Interest payable included in other payables and accruals HK$'000	Total HK$'000
At 1 January 2017	93,813	1,292,980	34,283	19,648	(4,684)	877	1,436,917
Changes from financing cash flows:							
– Redemption of promissory notes	(26,500)	–	–	–	–	–	(26,500)
– Net proceeds from issue of debentures	–	630,171	–	–	–	–	630,171
– Redemption of debentures	–	(39,408)	–	–	–	–	(39,408)
– New bank loans raised	–	–	19,598	–	–	–	19,598
– Repayment of bank loans	–	–	(35,814)	–	–	–	(35,814)
– Interest paid on debentures	–	–	–	(26,890)	(1,505)	–	(28,395)
– Bank loan interest paid	–	–	–	–	–	(4,409)	(4,409)
Total changes from financing cash flows	(26,500)	590,763	(16,216)	(26,890)	(1,505)	(4,409)	515,243
Exchange adjustments	–	–	2,033	–	–	39	2,072
Other changes:							
– Interest on promissory notes	10,720	–	–	–	–	–	10,720
– Amortisation of issuing costs for debentures	–	59,434	–	–	–	–	59,434
– Interest on debentures	–	–	–	63,000	–	–	63,000
– Bank loan interest expenses	–	–	–	–	–	3,493	3,493
Total other changes	10,720	59,434	–	63,000	–	3,493	136,647
At 31 December 2017	**78,033**	**1,943,177**	**20,100**	**55,758**	**(6,189)**	**-**	**2,090,879**