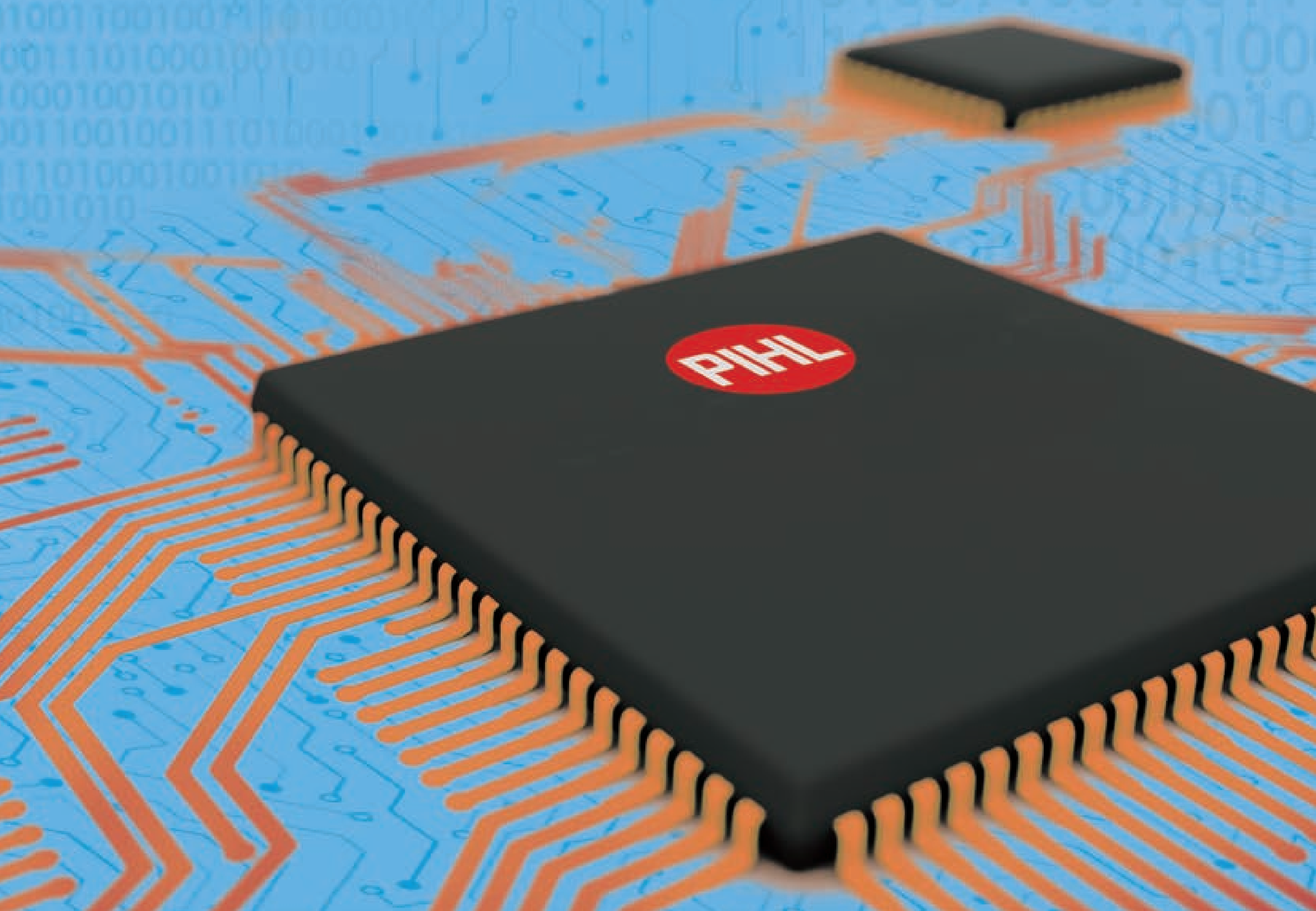
太睿國際控股有限公司

# PacRay International Holdings Limited

(Incorporated in Bermuda with limited liability)

**Stock Code: 1010**

# 2017
## Annual Report



# CONTENTS



Printed on environmentally friendly paper

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

Mr. Liew Fui Kiang *(Chairman)*
Mr. Leung Pok Man
Ms. Lau Mei Ying

### Non-executive Director

Mr. Zhou Danqing[Note 3]

### Independent Non-executive Directors

Mr. Lee Man To[Note 2]
Ms. Choi Yee Man[Note 2]
Ms. Chow Chui Ying[Note 1]
Mr. Zhou Danqing[Note 3]
Dr. Yang Yung-Ming

## BOARD COMMITTEES

### Audit Committee

Mr. Lee Man To *(Chairman)*[Note 2]
Ms. Choi Yee Man[Note 2]
Ms. Chow Chui Ying *(Chairman)*[Note 1]
Mr. Zhou Danqing[Note 1]
Dr. Yang Yung-Ming

### Remuneration Committee

Ms. Choi Yee Man *(Chairman)*[Note 2]
Mr. Lee Man To[Note 2]
Mr. Zhou Danqing *(Chairman)*[Note 1]
Ms. Chow Chui Ying[Note 1]

### Nomination Committee

Ms. Choi Yee Man *(Chairman)*[Note 2]
Mr. Lee Man To[Note 2]
Mr. Zhou Danqing *(Chairman)*[Note 1]
Ms. Chow Chui Ying[Note 1]

## COMPANY SECRETARY

Ms. Wong Po Ling, Pauline

Notes:

1. Resigned on 15 April 2018
2. Appointed on 15 April 2018
3. Re-designated on 15 April 2018

## STOCK CODE

1010

## WEBSITE

http://pacray.com.hk

## AUDITOR

Zenith CPA Limited
*Certified Public Accountants*

## LEGAL ADVISOR

Michael Li & Co.

## PRINCIPAL BANKERS

Bank of Communications
China Construction Bank (Asia) Corporation Limited
Dah Sing Bank, Limited
The Hongkong & Shanghai Banking Corporation Limited

## REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 902, Unicorn Trade Centre
127-131 Des Voeux Road Central
Hong Kong

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM 08
Bermuda

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

## EXECUTIVE DIRECTORS

**Mr. Liew Fui Kiang** ("**Mr. Liew**"), aged 51, has been appointed as an executive director and elected as Chairman of PacRay International Holdings Limited (the "Company") since 31 August 2017. Mr. Liew received tertiary education in England where he obtained a degree of Bachelor of Laws (Tetley & Lupton Scholar) from Leeds University in 1989 and a degree of Master of Business Administration from the Hull University Business School in 1996. He is a Fellow of the Hong Kong Institute of Directors since 2011 and a solicitor of England & Wales and Hong Kong. Mr. Liew has over two decades of extensive experience in business management, corporate development and planning, banking and finance, mergers and acquisitions, corporate finance, board-level management and strategic decision-making with directorships in both listed and unlisted companies as well as partnerships with international law firms.

Mr. Liew is currently an independent non-executive director of Henry Group Holdings Limited (stock code 859), its shares listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Mr. Liew served as an independent non-executive director with Baoshan Iron & Steel Company Limited, a Fortune Global 500 company with its shares listed on the Shanghai Stock Exchange in People's Republic of China (the "PRC") (stock code: SHA: 600019), from 2000 to 2006. Mr. Liew served as an independent non-executive director with CSSC Offshore & Marine Engineering (Group) Company Limited, a company with its shares listed on the Shanghai Stock Exchange in the PRC (stock code: SHA:600685) and the Main Board of the Stock Exchange (stock code: 317) in 2015.

**Mr. Leung Pok Man** ("**Mr. Leung**"), aged 49, has been appointed as an executive director of the Company since 31 August 2017. Mr. Leung was graduated from York University in Toronto, Canada with a bachelor's degree in business studies. He has over 15 years' experience in sales management & business development in the industry relating to information technology and audio visual systems. He is currently the sales and business development consultant of a trading company of information technology and network products and mobile accessories.

Mr. Leung is currently an independent non-executive director of China Healthcare Enterprise Group Limited (stock code: 1143) which is listed on the Main Board of the Stock Exchange.

**Ms. Lau Mei Ying** ("**Ms. Lau**"), aged 36, has been appointed as an executive director of the Company since 31 August 2017. Ms. Lau graduated from The Chinese University of Hong Kong with a Bachelor of Social Science degree in Economics. Ms. Lau has extensive experiences in the financial market and insurance underwriting. She has been a fellow member of Life Management Institute issued by Life Office Management Association since November 2008. She is current an independent non-executive director of Cornerstone Financial Holdings Limited (formerly known as "Focus Media Network Limited") (stock code: 8112) which is listed on GEM of the Stock Exchange. She was an independent non-executive director of Boill Healthcare Holdings Limited (formerly known as "Ngai Shun Holdings Limited") (stock code: 1246) which is listed on the Main Board of the Stock Exchange from 15 July 2015 to 17 July 2017.

## NON-EXECUTIVE DIRECTOR

**Mr. Zhou Danqing** ("**Mr. Zhou**"), aged 30, has been appointed as an independent non-executive director of the Company since 31 August 2017 and re-designated as a non-executive director of the Company on 15 April 2018. Mr. Zhou obtained a bachelor's degree in business administration from The Chinese University of Hong Kong. Mr. Zhou is a Chartered Financial Analyst and Financial Risk Manager charter-holder. Mr. Zhou has over 7 years of experience in finance.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Ms. Chow Chui Ying** ("**Ms. Chow**"), aged 30, has been appointed as an independent non-executive director of the Company since 31 August 2017. Ms. Chow obtained a Bachelor of Business Administration degree with honours in accounting in 2010 and has been a certified public accountant of the Hong Kong Institute of Certified Public Accountants. She has over 7 years of experience in financial accounting and auditing. Ms. Chow resigned as an independent non-executive director of the Company on 15 April 2018.

**Mr. Lee Man To** ("**Mr. Lee**"), aged 44, has been appointed as an independent non-executive director of the Company on 15 April 2018. Mr. Lee graduated in the Hong Kong Polytechnic University with Bachelor degree in accountancy in 1995. Mr. Lee is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Mr. Lee has over 22 years of experience in auditing, accounting and finance.

Mr. Lee is currently an executive director, the financial controller, qualified accountant and company secretary of Combest Holdings Limited, a company listed on the GEM of the Stock Exchange (stock code: 8190). He is also currently an independent non-executive director, the chairman of the audit committee and a member of each of the remuneration committee and nomination committee of Sino Harbour Holdings Group Limited, a company listed on Main Board of the Stock Exchange (stock code: 1663).

**Ms. Choi Yee Man** ("**Ms. Choi**"), aged 28, has been appointed as an independent non-executive director of the Company on 15 April 2018. Ms. Choi graduated in The City University of Hong Kong with Bachelor degree in Business Administration. She is a fellow member of the Hong Kong Institute of Certified Public Accountants. She is currently a company secretary of Teamway International Group Holdings Limited (formerly known as Jin Bao Bao Holdings Limited), a company listed on the Main Board of the Stock Exchange (stock code: 1239). She has extensive experience in the area of accounting, finance, auditing and corporate secretarial matters.

**Dr. Yang Yung-Ming** ("**Dr. Yang**"), aged 53, has been appointed as an independent non-executive director of the Company since 31 August 2017. Dr. Yang was graduated from the University of Virginia in the United States with a Ph.D. degree from the Department of Government and Foreign Affairs. He has extensive experience in political science education. Dr. Yang is currently the President of Taiwan Association of International Relations. He was an adjunct professor at the Department of Political Science of the National Taiwan University.

## SENIOR MANAGEMENT

### CHIEF EXECUTIVE OFFICER

**Ms. Chu Yung-Yi ("Ms. Chu")**, aged 43, has been appointed as the chief executive officer of the Company on 31 August 2017. Obtained a Bachelor of Laws degree from the National Taiwan University in 1997 and a Master of Laws degree from Duke University School of Law in 2003. Ms. Chu had worked in several law firms since 1997 and has extensive experience in areas of mergers and acquisitions, capital markets, direct investment and general and securities consultation. In addition, Ms. Chu was a director of the foundation that manages the Grand Hotel (Taipei and Kaohsiung) (圓山大飯店(台北暨高雄)) from 2014 to 2016. At present, Ms. Chu is (i) a special counsel in Baker & McKenzie's Taipei office; (ii) a director of Cayenne's Ark Mobile Co., Ltd., of which the shares are listed in Emerging Stock Board in the Taipei Exchange (6611: TT); and (iii) a shareholder interested in 5% of the total issued share capital of Glory Genius International Holdings Limited, a substantial shareholder of the Company.

### COMPANY SECRETARY

**Ms. Wong Po Ling, Pauline** ("**Ms. Wong**"), aged 40, has been appointed as the Company Secretary of the Company on 31 August 2017. She obtained a bachelor's degree in accountancy and a master degree in corporate governance from The Hong Kong Polytechnic University. She is a fellow member of the Hong Kong Institute of Certified Public Accountants and an associate member of the Institute of Chartered Accountants in England and Wales. She is also a member of the Institute of Chartered Secretaries and Administrator, the Hong Kong Institute of Chartered Secretaries and the Taxation Institute of Hong Kong. Ms. Wong has over 15 years of experience in financial management, mergers and acquisitions and corporate governance matters.

# FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and total equity of the Group for the last five financial years, as extracted from the audited financial statements and the annual report of the Company for the year ended 31 December, is set out below:

## RESULTS

| | **2017 HK$'000** | 2016 HK$'000 | 2015 HK$'000 | 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|---|---|---|
| Revenue | **36,580** | 17,337 | 13,614 | 13,646 | 12,218 |
| (Loss)/profit before tax | **(2,637)** | (4,895) | (25,798) | 17,268 | 46,015 |
| Income tax (expense)/credit | **(49)** | (99) | 545 | – | – |
| (Loss)/profit for the year | **(2,686)** | (4,994) | (25,253) | 17,268 | 46,015 |
| **Attributable to ordinary equity holders of the Company** | **(2,686)** | (4,994) | (25,253) | 17,268 | 46,015 |

## ASSETS AND LIABILITIES

| | **31 December 2017 HK$'000** | 31 December 2016 HK$'000 | 31 December 2015 HK$'000 | 31 December 2014 HK$'000 | 31 December 2013 HK$'000 |
|---|---|---|---|---|---|
| Non-current assets | **44,300** | 49,932 | 3,618 | 3,294 | 3,454 |
| Net current assets | **116,803** | 103,297 | 163,824 | 190,240 | 173,208 |
| Total assets less current liabilities | **161,103** | 153,229 | 167,442 | 193,534 | 176,662 |
| Non-current liabilities | **–** | – | – | (269) | (522) |
| Net assets | **161,103** | 153,229 | 167,442 | 193,265 | 176,140 |
| Shareholders' equity | | | | | |
| Share capital | **134,922** | 134,922 | 134,922 | 134,922 | 134,922 |
| Reserves | **26,181** | 18,307 | 32,520 | 58,343 | 41,218 |
| | **161,103** | 153,229 | 167,442 | 193,265 | 176,140 |

On behalf of the board of directors (the "Board") (the "Directors") of PacRay International Holdings Limited (the "Company"), I hereby report on the financial results and operations of the Company and its subsidiaries (the "Group") for the year ended 31 December 2017.

## FINANCIAL REVIEW

For the year ended 31 December 2017, the Group achieved revenue of HK$36.6 million, representing an increase of approximately HK$19.3 million which was principally contributed by (i) increase of sales orders from customers and (ii) development of new product lines and sales and distribution channels from the Group's design and distribution of integrated circuit and semi-conductor parts business operations. Loss attributable to owners of the Company for the year ended 31 December 2017 is HK$2.7 million, as compared to HK$5.0 million last year. The reduction of loss, similar to increase in revenue, was mainly attributable to increase in sales orders from customers during the year. Basic loss per share attributable to owners of the Company is HK0.80 cents, as compared to loss per share of HK1.48 cents last year.

## FINAL DIVIDEND

No dividend for the year ended 31 December 2017 (2016: Nil) is recommended by the Board.

## APPRECIATION

I would like to take this opportunity to thank our employees for their efforts taken in the past year and our shareholders for the continued support to our Group.

For and on behalf of the Board
**PacRay International Holdings Limited**

**Liew Fui Kiang**
*Chairman and Executive Director*

Hong Kong, 21 March 2018

## BUSINESS REVIEW

The Group is principally engaged in the design and distribution of integrated circuits and semi-conductor parts in the People's Republic of China (the "**PRC**") and Hong Kong and Taiwan and investments holding.

In 2017, the global macro-economic environment was uncertain and volatile, but the PRC continues to be under the world's spotlight and maintains a moderate growth. 2017 was overall a challenging year, but nevertheless the Group performed better than last year.

### Design and distribution of integrated circuit and semi-conductor parts

Design and distribution of integrated circuit and semi-conductor parts is our core business of the Group. The Group acquired raw material integrated circuit ("**IC**") and semi-conductor related parts from external suppliers and rely on internet technology and related equipment for design of IC related products before sourcing out to external sub-contractors for production and do not involve in any internal manufacturing processes in the course of business.

The Group's IC products are used in industrial and house measuring tools and electronic bicycles battery charger market. In particular, our core research and development team in our Shanghai operations provide the design of the products and the products are then sourced out to certain external suppliers or sub-contractors for subsequent productions. After conducting successful testing of the sub-contracted products in our Shanghai operations, the Group then sold the products to our customers, which are usually end-product manufacturers/producers.

In 2017, our operations recorded a revenue of approximately HK$36.4 million, an increase of HK$19.1 million as compared to last year. In 2017, IC design revenues in the PRC grows in approximately 28%, which is mainly due to memory price hikes. Our operations in Shanghai outperformed the PRC IC market due to the management's continuous effort on (i) improving the competitiveness of the products; and (ii) developing new product lines and sales and distribution channels.

There are mainly two types of products in our operation: caliper and microcontroller unit ("**MCU**"), each of the products has approximately 10 different models. The total product mix between caliper and MCU during the year remains stable, approximately 70% (2016: 73%) and 30% (2016: 27%) of the revenue was generated from the caliper and MCU respectively. Our caliper sales remains stably grow while MCU sales grows significantly in 2017. These organic growths were mainly due to the satisfactory feedbacks from customers on the stability of our products compared with our competitors.

In addition to our operations in Shanghai, by the effort of the new management team subsequent to the change of controlling shareholder on 31 August 2017 (details of which please refer to the sub-heading "Change of Controlling Shareholder" in the Report of the Directors of this Annual Report), the Group established two new sales and distribution channels in Hong Kong and Taiwan and commenced sales and distribution of new IC related products during the last quarter of the year. Approximately HK$12.0 million of revenue (representing 32.4% of total revenue for the year) were contributed from these two new sales and distribution channels (2016: Nil) during the year.

### Investment holding

As at 31 December 2016, the Group held 430,027 ChipMOS Technologies Inc. ("**ChipMOS Taiwan**") American depositary shares ("**ChipMOS Taiwan ADS**"), which is listed on the NASDAQ Global Select Market (ticker symbol "IMOS"). ChipMOS Taiwan was incorporated in Taiwan whose shares are listed on the Taiwan Stock Exchange as "8150" and is a leading provider of semi-conductor testing and assembly services to customers in Taiwan, Japan and the United States of America.

On 13 July 2017, ChipMOS Taiwan announced a cash dividend of approximately United States Dollars ("**US$**") 0.596 per ChipMOS Taiwan ADS (net of the Taiwan withholding tax and depositary fees) payable on 19 July 2017 to all ChipMOS Taiwan ADS holders. The Company received approximately US$0.3 million (equivalent to approximately HK$2.0 million) cash dividend in total.

In the second half of the year, the Company disposed of 299,665 ChipMOS Taiwan ADS. Details of the disposal have been disclosed in the announcements of the Company dated 9 November 2017, 16 November 2017, 28 November 2017 and 7 December 2017 respectively.

As at 31 December 2017, the Company held 130,362 ChipMOS Taiwan ADS and the quoted market price of ChipMOS Taiwan ADS was approximately US$17.65 per ADS. Consequently, a fair value gain of approximately HK$9.6 million was credited to investment reserve due to mark-to-market valuation of such ChipMOS Taiwan ADS held for the year.

## BUSINESS OUTLOOK

Facing economic uncertainties and cost inflation, the Group will continue with its prudent business approach.

### Design and distribution of integrated circuit and semi-conductor parts

Whilst economic development in China continues to slowdown, the business growth has become increasingly challenging for our operation. The two main issues of our operation are: scalability and diversification. We shall carry on our effort to improve the existing products over our competitors both in terms of performance as well as price. Meanwhile, we are diligently diversifying into other product lines and exploring new sales and distribution channels in order to diversify our revenue source.

### Investment holding

On 24 January 2018, the Company proposed a possible disposal of an aggregate of 130,362 ChipMOS Taiwan ADS, representing all of its current holding of ChipMOS Taiwan ADS (the "**Possible Disposals**"). As disclosed in the circular of the Company dated 14 February 2018, the management of the Company considered that the Possible Disposals represent a good opportunity for the Company to realise a gain in its investment in ChipMOS Taiwan.

On 12 March 2018, a special general meeting was held and an ordinary resolution was passed by the shareholders for approving the Possible Disposals. It is expected that the net proceeds of the Possible Disposals will be used as additional working capital for the expenditure of and funding for any future acquisition or investment in the business operation of Wit Sky Limited and when suitable opportunities arise.

The quoted market price of ChipMOS Taiwan ADS as at 20 March 2018 was approximately US$16.93 per ADS.

## Financial leasing in the PRC

On 13 November 2017, the Company entered into a sale and purchase agreement for the acquisition (the "Acquisition") of the entire equity interest in Wit Sky Limited (the "Target Company") together with its subsidiaries. The Target Company is the holding company of Solomon International Leasing (Tianjin) Company Limited* which is principally engaged in industrial equipment, medical equipment, transportation equipment (aircraft, ships, vehicles, etc.), household products, product upstream and downstream supply chain and various types of financial leasing such as direct leasing, sublease, hire purchase, leveraged leasing, entrusted leasing and joint leasing the sale and dealing of the residual value of lease items and leasing consultation business.

On 28 February 2018, all conditions to the sale and purchase agreement for the Acquisition have been fulfilled and the Acquisition was completed. Upon the completion of the Acquisition, the Group expands into the finance leasing business in the PRC and will diversify the Group's business and broaden its revenue base.

* *For identification purposes only*

## Other Business and Investment opportunities

The Group will continue to exercise prudence and to look for new business and investment opportunities, with the aim of improving the Group's value in order to benefit our shareholders.

# FINANCIAL REVIEW

For the year ended 31 December 2017, the Group achieved a revenue of HK$36.6 million, representing an increase of approximately HK$19.3 million which was principally contributed by (i) increase of sales orders from customers and (ii) development of new product lines and sales and distributions channels from the Group's design and distribution of integrated circuit and semi-conductor parts business operations. Loss attributable to owners of the Company for the year ended 31 December 2017 is HK$2.7 million, as compared to HK$5.0 million last year. The reduction of loss, similar to increase in revenue, was mainly attributable to increase in sales orders from customers during the year. Basic loss per share attributable to owners of the Company is HK0.80 cents, as compared to loss per share of HK1.48 cents in last year.

## Revenue

Revenue of the Group increased by approximately HK$19.3 million to HK$36.6 million in 2017 (2016: HK$17.3 million) and such is principally contributed by the (i) the management's continuous efforts on improving the competitiveness of the products which resulted in increases in sales orders from customers; and (ii) the development of new sales and distribution channels of IC related products during the year.

In particular, the Group's new management team has established two sales and distribution channels in Hong Kong and Taiwan respectively since October 2017 for the sales and distribution of new IC related products in these two locations and such new revenue stream has delivered approximately HK$12.0 million (2016: Nil) of new revenue to the Group in 2017.

## Cost of sales

Cost of sales for the year increased by HK$16.0 million when compared with that of last year. Increase for the year was mainly attributed by the abovementioned increase in sales orders from customers given management's extended efforts to boost sales during the year. In addition, the development of new sales and distribution channels in Hong Kong and Taiwan respectively also contributed to increase in cost of sales in 2017.

### Other income

Other income mainly comprised of interest income and dividend income received by the Company during the year. Decrease was mainly due to decrease in dividend income received by the Company's available-for-sale investments during the year.

### Other gains/(losses), net

Other gains in 2017 mainly represented realised gains of approximately US$0.6 million (equivalent to approximately HK$4.4 million) (2016: HK$Nil) received from the Company's disposals of available-for-sale investments during the year.

Other losses in 2016 represented realised losses of approximately US$0.2 million (equivalent to approximately HK$1.8 million) (2017: gains of HK$0.2 million) on investments at fair value through profit or loss.

### Operating expenses

Operating expenses increase to HK$23.5 million in 2017 (2016: HK$16.8 million) which were mainly comprised of increase to employee benefit expenses (including Directors' emoluments) and legal and professional fees amounted to HK$11.0 million (2016: HK$8.2 million) and HK$4.4 million (2016: HK$2.3 million) respectively as a result of increase in the Company's business operations and the Company's completion of the voluntary conditional cash offer made by Kingston Securities Limited for and on behalf of Glory Genius International Holdings Limited to acquire all of the offer shares (the "Offer") on 31 August 2017 during the year.

## LIQUIDITY AND FINANCIAL RESOURCES

During the year under review, the Company had no fund raising activities.

As at 31 December 2017, the cash and cash equivalents of the Group amounted to approximately HK$43.3 million as compared to approximately HK$81.7 million as at 31 December 2016, which included short-term bank deposits of approximately HK$1.3 million (2016: HK$76.0 million).

As at 31 December 2017, the Group had no outstanding bank loan and no financing cost was incurred for the year (2016: Nil).

## GEARING RATIO

The gearing ratio of the Group, defined as total liabilities expressed as a percentage of the total of equity and liabilities, was approximately 1.9% as at 31 December 2017 (2016: approximately 1.7%). The Group did not have any debt financing during the year, and no finance cost was incurred.

## FOREIGN CURRENCY EXPOSURE

The Group's results were exposed to exchange fluctuations of Renminbi as the Group had operations in the PRC. The Board considers that the Group was not exposed to significant foreign exchange risk, and had not employed any financial instrument for hedging. The Board will review the Group's foreign exchange risk and exposure from time to time and will apply hedging where necessary.

## CAPITAL STRUCTURE

During the year, there was no change to the authorised share capital of the Company.

As at 31 December 2017, the Group had no bank borrowings (2016: Nil). As at 31 December 2017, the shareholders' fund amounted to approximately HK$161.1 million (2016: approximately HK$153.2 million).

## INVESTMENTS AND CAPITAL ASSETS

The Group acquired property, plant and equipment of approximately HK$0.6 million for the year ended 31 December 2017 (2016: approximately HK$0.5 million).

As at 31 December 2017, the Group held 130,362 ChipMOS Taiwan ADS and its quoted market price was US$17.65 per ADS. On 20 March 2018, the quoted market price of ChipMOS Taiwan ADS was US$16.93 per ADS.

As at 31 December 2016, the Group also held shares of a Hong Kong listed company amounted to approximately HK$0.7 million. All the shares were disposed during the year.

## PLEDGE OF ASSETS

As at 31 December 2017, the Group did not have any pledge of assets (2016: Nil).

## MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

### Disposal of ChipMOS Taiwan ADS

The Group is principally engaged in design and distribution of integrated circuits and semiconductor parts and investment holding.

On 9 November 2017, the Company disposed of an aggregate of 63,000 ChipMOS Taiwan ADS for a total consideration of US$1.2 million (equivalent to approximately HK$9.7 million) during the period from 8 November 2017 to 9 November 2017 (both dates inclusive) ("First Batch Disposals").The First Batch Disposals are collectively a disclosable transaction of the Company under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

On 16 November 2017, the Company disposed of an aggregate of 77,381 ChipMOS Taiwan ADS for a total consideration of US$1.4 million (equivalent to approximately HK$10.7 million) during the period from 10 November 2017 to 16 November 2017 (both dates inclusive) ("Second Batch Disposals"). The Second Batch Disposals are collectively a disclosable transaction of the Company under the Listing Rules.

On 28 November 2017, the Company disposed of an aggregate of 80,349 ChipMOS Taiwan ADS for a total consideration of US$1.5 million (equivalent to approximately HK$11.4 million) during the period from 17 November 2017 to 28 November 2017 (both dates inclusive) ("Third Batch Disposals"). The Third Batch Disposals are collectively a disclosable transaction of the Company under the Listing Rules.

On 7 December 2017, the Company disposed of an aggregate of 63,950 ChipMOS Taiwan ADS for a total consideration of US$1.2 million (equivalent to approximately HK$9.1 million) during the period from 29 November 2017 to 7 December 2017 (both dates inclusive) ("Fourth Batch Disposals"). The Fourth Batch Disposals are collectively a disclosable transaction of the Company under the Listing Rules.

On 12 December 2017, the Company disposed of an aggregate of 14,985 ChipMOS Taiwan ADS for a total consideration of US$0.3 million (equivalent to approximately HK$2.1 million) during the period from 9 December 2017 to 12 December 2017 (both dates inclusive).

Having regard to the share market conditions and the trading price of ChipMOS Taiwan ADS, the management of the Company considered the possible disposals represent good opportunities for the Company to realize a gain in its investment in ChipMOS Taiwan. The Company intended to dispose of an aggregate of 130,362 ChipMOS Taiwan ADS ("Possible Disposals Shares").

The Possible Disposals would constitute a major transaction for the Company under the Listing Rules, for which shareholders' approval was required. No shareholder was required to abstain from voting on the approval of the Possible Disposals.

As the highest applicable percentage ratio calculated under Rule 14.07 of the Listing Rules in respect of the Possible Disposals aggregated with the Previous Disposals was more than 25% but less than 75%, the aggregate disposals constituted a major transaction for the Company, which was subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

On 12 March 2018, a special general meeting was held and an ordinary resolution was passed by the shareholders for approving the Possible Disposals.

## Acquisition of the Entire Issued Share Capital in Wit Sky Limited

On 13 November 2017, Sunny Fast International Investment Limited, a wholly-owned subsidiary of the Company, (the "Purchaser") and Fortune Favour International Limited (the "Vendor") entered into the sale and purchase agreement (the "Sale and Purchase Agreement"), pursuant to which the Vendor conditionally agreed to sell and the Purchaser conditionally agreed to purchase the entire issued share capital of the Wit Sky Limited ("Wit Sky"), at the consideration of HK$40.0 million (the "Acquisition"). Details of the Acquisition have been disclosed in the announcements of the Company dated 27 October 2017 and 13 November 2017, respectively.

Wit Sky owns the entire equity interests in a company incorporated in Hong Kong with limited liability, which in turn owns the entire equity interests in the PRC with limited liability, which is principally engaged in industrial equipment, medical equipment, transportation equipment (aircraft, ships, vehicles, etc.), household products, product upstream and downstream supply chain and various types of financial leasing such as direct leasing, sublease, hire purchase, leveraged leasing, entrusted leasing and joint leasing the sale and dealing of the residual value of lease items, and leasing consultation business.

All conditions to the Sale and Purchase Agreement have been fulfilled and completion of the Acquisition (the "Completion") with the consideration adjusted to HK$30.0 million took place on 28 February 2018. Following the Completion, the Wit Sky's group became wholly owned subsidiaries of the Company. Details of the Completion have been disclosed in the announcement of the Company dated 28 February 2018.

Save as disclosed above, the Group did not have any material acquisitions or disposals of subsidiaries, associates or joint ventures of the Company in the course of 2017.

## CONTINGENT LIABILITIES

No material contingent liabilities of the Group were noted as at 31 December 2017 (2016: Nil).

## FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed above for the Possible Disposals of ChipMOS Taiwan ADS and the completion of the acquisition for the Target Group, there was no specific future plans for material investments or capital assets of the Company as at 31 December 2017.

## EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2017, the Group had approximately 33 employees (2016: 28 employees). Total employee benefits expenses, including Directors' emoluments, amounted to approximately HK$11.0 million (2016: HK$8.2 million) for the year.

The remuneration packages of employees are reviewed annually with reference to market level and individual staff performance. The Group's remuneration packages include basic salaries, bonus, contributions to provident fund and medical benefits.

## APPROACH TO ENVIRONMENTAL, SOCIAL AND GOVERNANCE AND REPORTING

This Environmental, Social and Governance Report (the "ESG Report") summarises the initiatives, programmes and performance of the Group as well as demonstrates its commitment to sustainability.

The core businesses of the Group are principally engaged in design and distribution of integrated circuits and semi-conductor parts in the People's Republic of China (the "PRC").

The Group believes that environmental protection, low carbon footprint, resource conservation and sustainable development are the key trends in society. In order to follow the key trends and pursue a successful and sustainable business model, the Group recognises the importance of integrating ESG aspects into its risk management system and has taken corresponding measures in its daily operation and governance perspective.

## REPORTING SCOPE

Unless stated otherwise, this Annual Report mainly covers the Group's major operating revenue activities under direct management control, including its design and distribution of integrated circuits and semi-conductor parts in the PRC.

The Group will continue to assess the major environmental, social and governance aspects of different businesses to determine whether it needs to be included in the environmental, social and governance reporting.

## REPORTING FRAMEWORK

This ESG Report has been prepared in accordance with the Environmental, Social and Governance Reporting Guide as set out in the Appendix 27 of the Listing Rules (the "ESG Reporting Guide").

Information relating to the corporate governance practices of the Group has been set out in the Corporate Governance Report on pages 37 to 49 of this Annual Report.

## REPORTING PERIOD

The ESG Report specifics the environmental, social and governance activities, challenges and measures being taken during the year ended 31 December 2017.

## STAKEHOLDER ENGAGEMENT

The Group values its stakeholders and their views relating to its businesses and environmental, social and governance issues. In order to understand and address stakeholders' concerns, the Group communicates with its key stakeholders, including but not limited to employees, investors, customers, suppliers, government bodies and communities through different channels such as conferences, electronic platforms and public events. In formulating operational strategies and environmental, social and governance measures, the Group takes into account the stakeholders' expectations and strives to improve its performance through mutual cooperation with the stakeholders, resulting in creating greater value for the community.

## Materiality Assessment

The management and employees who are responsible for the key functions of the Group have participated in preparing this Annual Report, assisted the Group in reviewing its operation, identifying key environmental, social and governance issues and assessing the importance of these issues to our businesses and stakeholders. We compiled a questionnaire in reference to the identified material environmental, social and governance issues to collect the information from relevant departments and business units of the Group.

The following table summarises the Group's significant environmental, social and governance issues as set out in this Annual Report:

| The ESG Reporting Guide | Material ESG aspects of the Group | Page |
|---|---|---|
| **A. Environmental** | | |
| A1. Emissions | Waste Management | P. 17 |
| | Greenhouse Gas ("GHG") Emission | P. 18 |
| A2. Use of Resources | Energy Consumption | P. 20 |
| | Water Consumption and Use of Packaging Materials | P. 20 |
| A3. The Environment and Natural Resources | Environmental Impact Management | P. 21 |
| | Noise Pollution | P. 21 |
| | Landscape and Natural Habitat | P. 22 |
| **B. Social** | | |
| B1. Employment | Employee Benefits and Equal Opportunities Policies | P. 22 |
| B2. Health and Safety | Occupational Health and Safety | P. 23 |
| B3. Development and Training | Staff Development and Training | P. 23 |
| B4. Labor Standards | Prevention of Child Labor or Forced Labor | P. 24 |
| B5. Supply Chain Management | Environmental and Social Risk Management of Supply Chain | P. 24 |
| B6. Product Responsibility | Quality and Safety of Products and Services | P. 25 |
| | Intellectual Property Management | P. 25 |
| B7. Anti-Corruption | Prevention of Corruption and Fraud | P. 26 |
| B8. Community Investment | Contributions to Society | P. 27 |

During the year ended 31 December 2017, the Group confirmed that appropriate and effective management policies and internal control systems for environmental, social and governance issues are in place and confirmed the information disclosed in the ESG Report meets the ESG Reporting Guide.

## Contact us

Comments and suggestions are welcome from our stakeholders. You may provide comments on ESG report or towards our performance in respect of sustainable development.

## A. ENVIRONMENTAL

## A1. Emissions

**General Disclosure and Key Performance Indicators ("KPI")**

The core businesses of the Group, which mainly involves design and distribution of integrated circuits and semi-conductor parts in the PRC, mainly rely on internet technology and related equipment and do not involve any manufacturing processes in the course of business. Therefore, during the year ended 31 December 2017, the Group and its office did not generate significant emissions, water pollutants and hazardous wastes during the operation, except for GHG emissions and non-hazardous waste.

Global warming and climate change have become major environmental issues to the world. The Group aims to minimize energy consumption and carbon emissions and has been exploring ways of adopting operational model which incurs less adverse impact on the environment. From the reporting of environmental perspective, we mainly focused on the environmental impact of the Group's offices in China and relevant measures to be taken during the daily operation and have formulated policies and procedures relating to the environmental management to govern limited greenhouse gas emissions and non-hazardous waste generated from our operation.

*Waste Management*

The Group adheres to waste management principle and strives to properly manage and dispose wastes produced by our business activities. Our waste management practice has been complied with relevant laws and regulations relating to environmental protection. The non-hazardous wastes generated by the Group's operations mainly consist of paper and toner cartridges. During the year ended 31 December 2017, the consumption volume generated by the Group is shown as below:

| Non-hazardous waste category | Quantity | Unit |
|---|---|---|
| Paper | 0.3 | Tonnes |
| Toner cartridge | 10.0 | Pieces |

We regularly monitor the consumption volume of paper, toner cartridges and ink cartridges and have implemented a number of reduction measures. The Group's office has also provided suitable facilities and encouraged our staff to sort and recycle the wastes to achieve the objectives in mitigating wastes, reusing and recycling in its operations. The Group maintains high standard in waste reduction, educates its employees the significance of sustainable development and provides relevant support in order to enhance their skills and knowledge in sustainable development.

Apart from recycling, the office has implemented various programs and activities to encourage employees to participate in waste reduction management, including:

- Promote green information and electronic communication, such as e-mail and electronic workflows, to implement "paperless system" concept;
- Place "Green Message" reminders on office equipment;
- Utilise used envelopes and double-side printing. Paper for single-side printing would be only adopted when handling official documents and confidential documents when necessary; and
- Recommend the use of recycled paper.

The Group does not produce any hazardous wastes in its business activities.

*GHG Emission*

The consumption of electricity at the offices and petrol are the largest sources of greenhouse gas emissions of the Group. During the year ended 31 December 2017, the Group's total GHG emissions amounted to approximately 58.2 tonnes. The detailed summary of the GHG emission is shown as below:

GHG Performance Summary

| **GHG Scope**[1] | **Tonnes** |
|---|---|
| Direct GHG emission (Scope 1) – petrol consumption | 6.2 |
| Indirect GHG emission (Scope 2) – electricity consumption | 50.6 |
| Other indirect GHG emission (Scope 3) – paper consumption | 1.4 |
| Total GHG emission | 58.2 |

[1] GHG emissions data is presented in carbon dioxide equivalent and was in reference to, including but not limited to, the reporting requirements of the "GHG Protocol Corporate Accounting and Reporting Standard" issued by the World Resources Institute and the World Business Council for Sustainable Development, the "Guidelines to Account for and Report on Greenhouse Gas Emissions and Removals for Buildings (Commercial, Residential or Institutional Purposes)" and the latest published Baseline Emission Factors for Regional Power Grids in China.

The Group has implemented a number of measures to mitigate energy consumption such as turning off the air conditioning system at night or when leaving office, keeping the office temperature at 25°C in summer and using LED lights or energy-saving light in the office, etc.

At the project level, the Group considers the principle of environmental protection when launching each of its projects. For example, in the course of selecting suppliers, we assess whether the materials used by the suppliers in the activities are hazardous to the environment and whether they can effectively conserve energy and minimize carbon emissions. In addition to the above-mentioned measures, the Group issues environmental-related memorandum to its staff to raise their awareness of environmental preservation. Notices and posters relating to the environmental information have been placed in the offices to promote the best practice of the environmental management.

The Group has complied with relevant environmental laws and regulations, including but not limited to Environmental Protection Law of the People's Republic of China, Water Pollution Prevention and Control Law of the People's Republic of China, Law of the People's Republic of China on Prevention and Control of Air Pollution and Environmental Protection Law of Solid Waste Pollution of the People's Republic of China. During the year ended 31 December 2017, the Group was not aware of any material noncompliance with laws and regulations relating to the air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste that would have a significant impact on the Group.

On top of complying with the general disclosure requirement of Aspect A1, we have complied with the KPI requirement which is summarised below:

| **"Comply or explain" Provisions** | | |
|---|---|---|
| KPI A1.1 | The types of emissions and respective emissions data. | Disclosed |
| KPI A1.2 | Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity. | Disclosed |
| KPI A1.3 | Total hazardous waste produced (in tonnes) and, where appropriate, intensity | Not applicable |
| KPI A1.4 | Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity. | Disclosed |
| KPI A1.5 | Description of measures to mitigate emissions and results achieved. | Disclosed |
| KPI A1.6 | Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved. | Disclosed |

## A2. Use of Resources

### General Disclosure and KPI

*Energy Consumption*

Due to the business nature of the Group, the volume of energy consumption, electricity consumption and water consumption are considered as relatively low, in particular water consumption is very minimal. As mentioned in the Aspect A1 section, the Group has formulated policies and procedures relating to the environmental management, including energy management. Electricity consumption and petrol consumption account for a substantial part of the carbon emission for the Group.

During the year ended 31 December 2017, the Group's consumption in petrol and electricity were:

| Energy Type | Quantity | Unit |
|---|---|---|
| Petrol | 2,300 | litre |
| Electricity | 64,000 | kWh |

On top of the measures of mitigating the energy consumption mentioned in previous section, the Group strives to utilize telephone or video conference to minimize face-to-face meeting in order to reduce petrol consumption in traveling and unnecessary business trips. The Group encourages resources saving in daily office operation and proactively fosters a low-carbon corporate culture, which further increases our employees' awareness in energy conservation.

*Water Consumption and Use of Packaging Materials*

As the water consumed by the Group is managed by the property management office of the office building where the Group is located, there is no relevant date on water consumption. The water consumed by the Group in its business activities are of insignificant amount. Regardless of limited water consumption, we still promote behavioral changes at office and encourage water conservation. Pantry and toilets are posted with environmental messages to remind employees for water conservation, which results in further enhancing our employees' awareness in water conservation.

In addition, due to the nature of business, the Group did not have physical products for sale and therefore did not involve any use of packaging materials. Therefore, this disclosure is not applicable to the Group.

On top of complying with the general disclosure requirement of Aspect A2, we have complied with the KPI requirement which is summarised below:

| **"Comply or explain" Provisions** | | |
|---|---|---|
| KPI A2.1 | Direct and/or indirect energy consumption by type and intensity. | Disclosed |
| KPI A2.2 | Water consumption in total and intensity. | Disclosed |
| KPI A2.3 | Description of energy use efficiency initiatives and results achieved. | Disclosed |
| KPI A2.4 | Description on whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved. | Issue in sourcing water – not applicable due to its business nature; Remaining – disclosed |
| KPI A2.5 | Total packaging material used for finished products. | Not applicable |

## A3. Environment and Natural Resources

### General Disclosure and KPI

*Environmental Impact Management*

The Group pursues the best practices in the environment protection and focuses on the impact of the Group's businesses to the environment and natural resources. In addition to complying with relevant environmental laws and regulations as well as properly preserve the natural environment, the Group has integrated the concept of environmental protection into its internal management and daily operations, with the aim of achieving environmental sustainability.

The Group strives to promote environmental protection and make effective use of resources. It carries out continuous monitoring if the business operations incur any potential impact to the environment, and minimises such impact to the environment through promoting green office and operating environment by adopting four basic principles which comprise of reduce, reuse, recycle and replacement. Where applicable, we adopt green purchasing strategies and the most practical technologies to protect our natural resources.

*Noise Pollution*

Noise pollution practices are implemented during our design and distribution of integrated circuits and semi-conductor parts, in order to minimise the noise pollution. Programs are produced in the studios with good soundproof facilities.

*Landscape and Natural Habitat*
The Group strives to minimise any unnecessary interference to the natural landscape and animal habitat in the process of design and distribution of integrated circuits and semi-conductor parts, in order to maintain the natural beauty of the environment.

The Group regularly reviews its environmental protection policies and has adopted the necessary precautionary measures and actions to reduce significant impact on the environment and natural resources, and ensure that the Group complies with relevant laws and regulations.

During the year ended 31 December 2017, the Group has not found any non-compliance with laws and regulations in respect of the environment and natural resources.

On top of complying with the general disclosure requirement of Aspect A3, we have complied with the KPI requirement which is summarized below:

| **"Comply or explain" Provisions** | | |
|---|---|---|
| KPI A3.1 | Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them. | Disclosed |

## B. SOCIAL

## B1. Employment

**General disclosure**

*Employee Benefits and Equal Opportunities Policies*
Employees are regarded as the Group's largest and most valuable assets and the core of competitive advantage. They provide the driving force for continuous innovation to the Group.

During the year ended 31 December 2017, the Group has fully complied with relevant rules and regulations in the PRC, including the Company Law of the People's Republic of China, the Contract Law of the People's Republic of China, the Labor Contract Law of the People's Republic of China and the Regulations on Labor Inspection and Security, as well as the statutory requirements in Hong Kong, including the Hong Kong Companies Ordinance (Chapter 622 of the Laws of Hong Kong), the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong), the Minimum Wages Ordinance, the Personal Data Privacy Ordinance and other relevant rules and regulations.

The Group is committed to maintaining a diverse workforce that includes age, gender, family status, sexual orientation, disability, ethnicity, religion and equal opportunities.

The Group's staff handbook contains polices in regards to recruitment, promotion, discipline, working hours and leave. The human resources department has been responsible for ensuring all employees have fully understood the contents of the handbook.

The management regularly reviews the Group's remuneration and benefits policies in reference to the market standards and is committed to safeguarding the rights and interests of the staff. Remuneration and benefits have been adjusted on an annual basis in accordance with the employees' individual performance, contribution and market conditions.

During the year ended 31 December 2017, the Group was not aware of any material non-compliance with laws and regulations relating to employment and labour practices.

## B2. Health and Safety

**General disclosure**

*Occupational Health and Safety*
The Group has always placed emphasis on occupational safety and has set up an occupational health and safety management system to provide a safe working environment for office employees.

During the year ended 31 December 2017, the Group has complied with relevant rules and regulations in the PRC, including the Law of the People's Republic of China on Work Safety and Occupational Disease Prevention and Control Law of the People's Republic of China, as well as the legislative requirements in Hong Kong, including the Occupational Safety and Health Ordinance.

During the year ended 31 December 2017, the Group was not aware of any non-compliance with the health and safety laws and regulations.

## B3. Development and Training

**General disclosure**

*Staff Development and Training*
Employees are regarded as the Group's largest and most valuable assets and an essential part of maintaining a competitive advantage. The Group provides its staff with training courses for upgrading skills and development as needed.

The Group encourages and supports employees to participate in personal and professional training to fulfill the needs of emerging technologies and new equipment. The Group also encourages the culture of sharing of knowledge and experience.

The Group has made good use of its internal resources to organise various forms of training for its office in China, including management, customer service and financial knowledge with the assistance of the Hong Kong Office of General Services.

## B4. Labour Standards

### General disclosure

*Prevention of Child Labor or Forced Labor*
The Group strictly prohibits employing any child labor or forced labor in its operations in Hong Kong and the PRC. The Group has established a well-defined recruitment process which examines the background of candidates and a formal reporting procedure for handling any exception. During the recruitment process, the age of the applicant is verified against the identity documents of the applicant. In addition, the Group conducts regular reviews and inspections to prevent any child labor or forced labor in operation.

In the meantime, the Group also avoids engaging vendors and contractors which are already known to be employing child labor or forced labor in their operations. The Group has complied with the Employment of Children Regulations (Chapter 57B of the Laws of Hong Kong) under the Employment Ordinance (Chapter 57 of the Laws of Hong Kong), the Convention on the Abolition of Forced Labor with respect to Employment of Workers, the Labor Law of the People's Republic of China on the Employment of Adolescents under the Age of 16 and their Legal Rights and Interests and Provisions on the Prohibition of Child Labor in the People's Republic of China.

During the year ended 31 December 2017, the Group complied with all the laws and regulations relating to the prevention of child labor or forced labor. The Group was not aware of any material non-compliance with laws and regulations relating to employment and labour practices.

## B5. Supply Chain Management

### General disclosure

*Environmental and Social Risk Management of Supply Chain*
The Group has established and implemented the Supplier Management Policy. In order to strengthen the selection of suppliers, the Group welcomes qualified, competent and high-quality suppliers to join. The Group's procurement department has specially formulated this policy in order to standardise the supplier management and improve the operational standard.

The Group's procurement department is also responsible for organising the supplier evaluation work in two ways which include the ongoing project evaluation and the annual assessment. The evaluation results will serve as the basis of supplier management. Suppliers need to react quickly to the assessment result, taking effective measures to improve the services provided within prescribed period. The Group has the rights to terminate the cooperation with service providers who violate the rules or do not meet the targets.

In the selection of new suppliers, the Group has compared at least three different companies, taking account of their operational and compliance records as well as their commitment level on top of cost consideration. Prior to conducting business with suppliers, we carry out annual reviews and evaluations in various aspects including occupational health and safety, employee rights protection, environmental protection and corporate social responsibility. This ensures that our operations comply with national standards or relevant regulations and that we have no child or forced labor issues. The assessment results will be used as a benchmark for the continuation or termination of cooperation in the future.

The Group maintains close liaison with its suppliers to monitor its performance to ensure that it is consistent with its service commitment.

## B6. Product Responsibility

**General disclosure**

*Quality and Safety of Products and Services*
The Group pays high attention to the quality and safety of its services. The Group has established relevant quality and safety inspection policies for different projects, communicates with our customers and confirms their project expectation and direction prior launching any project, and actively coordinates projects with customers in the process of providing services.

*Intellectual Property Management*
The Group's day-to-day operations involve the use of the intellectual property owned by customers, suppliers or the Group itself. Therefore, the protection of intellectual property rights is an extremely important task for the Group. When the Group engages with its customers or suppliers, it will include the protection of intellectual property in the contractual terms. The Group's legal department will also review all the contracts in operation and ensure that the contractual terms protect both parties' intellectual property rights. The Group also requires technical professionals to sign strict confidentiality agreements. Confidential information of our customers is only accessible to employees who are responsible for the corresponding project.

During the year ended 31 December 2017, the Group complies with relevant laws governing the confidentiality of data and intellectual property, including but not limited to Hong Kong Intellectual Property Law, Patent Law of the People's Republic of China, Trademark Law of the People's Republic of China and Copyright Law of the People's Republic of China.

During the year ended 31 December 2017, the Group was not aware of any non-compliance with relevant laws and regulations related to product responsibility.

## B7. Anti-Corruption

### General disclosure

*Prevention of Corruption and Fraud*

Preventive Measures, Enforcement and Monitoring

The Group has implemented the Prevention of Commercial Bribery Management Policy, strengthening its internal control mechanism, anti-corruption and anti-bribery work so as to achieve the business philosophy of "abiding by the law, integrity and quality service". For projects with higher monetary value, the Group makes an open bidding invitation to at least three suppliers. Different level of approval and authorisation is required according to the size of the tender agreement.

Reporting Mechanism

The mechanism includes the establishment of an inspection team and the establishment of a channel for evaluation and reporting. It is strictly forbidden to use the business opportunities or powers to obtain personal interests or benefits. If there is a conflict of interest, it needs to be reported to the management of the Group on a timely basis. The Group also encourages employees and all persons with whom the Group does business, including customers and suppliers, to report the suspected wrongdoing within the Group voluntarily.

The Group has complied with major relevant laws and regulations including Hong Kong's "Prevention of Bribery Ordinance" and the Mainland's "Corruption Ordinance of the People's Republic of China".

The Group has also taken many measures to prevent any money laundering activities in the Group. At the time of account opening in its securities brokerage business, the Group will perform a name search in an antimoney laundering database system maintained and provided by a third-party vendor, in order to screen each new client against current terrorist and sanction designations, and check whether the client is a Politically Exposed Person (PEP). New account applications lodged by terrorists or sanctioned entities would be rejected. Regular name checks of existing clients against the latest terrorist and sanction list issued by US Treasury Department, as recommended by the regulators, are also conducted. The Group performs regular reviews on transactions by high-risk clients, in order to identify suspicious transactions. In the event any suspicious transactions are noted, we will report them to the Joint Financial Intelligence Unit in due course.

During the year ended 31 December 2017, the Group was not aware of any non-compliance with relevant laws and regulations related to anti-corruption.

## B8. Community Investment

### General disclosure

*Contributions to Society*

As a responsible company, the Group actively strives to become a positive force in the community and maintains close communication and interaction with the community to contribute to community development.

The Group enhances the quality of life of community through arts, culture and entertainment using on demand systems and activities. Following the development of culture, the community can gain a deeper understanding of history and culture and cultivate higher appreciation of the present and future cultural activities and to a greater level of enjoyment.

The Group will also actively encourage employees to contribute their time and skills to community volunteer works to benefit local communities by giving them opportunities to learn more about social and environmental issues and enhance the corporate value of the Group.

As a moral and responsible enterprise, the Group will consider from time to time to make donations to charities when the Group records after-tax profits and has sufficient funds.

The Board of Directors of the Company submit their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2017.

## PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS AND BUSINESS REVIEW

The principal activity of the Company is investments holding. The activities of its subsidiaries are set out in note 1 to the Consolidated Financial Statements of this Annual Report.

An analysis of the Group's performance for the year by operating segments is set out in note 5 to the Consolidated Financial Statements of this Annual Report.

Further discussion and analysis of business review as required by Schedule 5 to the Hong Kong Companies Ordinance, including a discussion of the principal risks and uncertainties facing the Group and an indication of likely future developments in the Group's business, can be found in the "Five-Year Financial Summary", "Letter from the Board" and "Management Discussion and Analysis" set out on page 6, page 7 and pages 8 to 14 respectively of this Annual Report. Additionally, the financial risk management objectives and policies of the Company can be found in Note 31 to the Consolidated Financial Statements of this Annual Report. Discussions on the Group's environmental policies, relationships with its key stakeholders, and compliance with relevant laws and regulations which have a significant impact on the Group are contained in the Environmental, Social and Governance Report on pages 15 to 27 of this Annual Report. The above discussion forms part of this Report of the Directors.

## COMPLIANCE WITH THE LAWS AND REGULATIONS

The Group recognises the importance of compliance with regulatory requirements and the risks of non-compliance with the applicable laws and regulations. During the year under review, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. There was no material breach or non-compliance with the applicable laws and regulations by the Group during the year under review.

## RESULTS AND APPROPRIATIONS

Details of the Group's results for the year ended 31 December 2017 are set out in the Consolidated Statement of Profit or Loss and the Consolidated Statement of Comprehensive Income on pages 56 and 57 respectively of this Annual Report.

The Board does not recommend the payment of dividend for the year ended 31 December 2017.

## RESERVES

Details of the movements in reserves of the Group and the Company during the year are set out in the Consolidated Statement of Changes in Equity on page 60 and note 34(a) to the Consolidated Financial Statements of this Annual Report.

## PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group and of the Company are set out in note 14 to the Consolidated Financial Statements of this Annual Report.

## SHARE CAPITAL

Details of the share capital of the Company are set out in note 26 to the Consolidated Financial Statements of this Annual Report.

## CHARITABLE DONATIONS

The Group made HK$10,000 charitable donations during the year.

## DISTRIBUTABLE RESERVES

As at 31 December 2017, no reserves are available for distribution to shareholders by the Company as calculated in accordance with the Companies Act 1981 of Bermuda.

## PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities for the year ended 31 December 2017.

## PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's bye-laws ("Bye-laws") or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders of the Company.

## FIVE-YEAR FINANCIAL SUMMARY

A summary of the published results and of the assets and liabilities of the Group for the last five financial years is set out on page 6 of this Annual Report.

## TAX RELIEF

The Company is not aware of any relief from taxation available to shareholders by reason of their holding of the Company's listed securities.

## EQUITY-LINKED AGREEMENTS

For the year ended 31 December 2017, the Group has not entered into any equity-linked agreement.

## DIRECTORS

The Directors who held office during the year and up to the date of this Annual Report are:

### Executive Directors:

Mr. Liew Fui Kiang*
Mr. Leung Pok Man*
Ms. Lau Mei Ying*
Mr. Cheng Chow-Chun#
Mr. Lee Chao-Chun#
Mr. Sun Tao-Heng#
Mr. Yuan Chun-Tang#

### Independent non-executive Directors:

Ms. Chow Chui Ying*
Mr. Zhou Danqing*
Dr. Yang Yung-Ming*
Mr. Li Kwan In#
Mr. Suen Sai Wah Simon#
Mr. Wang Chiang-Ming#

* *appointed on 31 August 2017*
\# *resigned on 31 August 2017*

In accordance with Bye-Law 99 and 102, all Directors will re-elect at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT OF THE COMPANY

Biographical details of the Directors and senior management of the Company are set out on pages 3 to 5 of this Annual Report.

## ANNUAL CONFIRMATION OF INDEPENDENCE

The Company has received, from each independent non-executive Director, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all independent non-executive Directors to be independent in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules.

## DIRECTORS' SERVICE CONTRACTS

None of the Directors has a service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

## DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

None of the Director or an entity connected with any of them is or was materially interested, either directly or indirectly, in any transactions, arrangements and contract of significance subsisting during or at the year ended 31 December 2017.

## DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

Details of the emoluments of the Directors and senior management of the Company are set out in note 9 to the Consolidated Financial Statements of this Annual Report.

## PERMITTED INDEMNITY PROVISION

A permitted indemnity provision for the benefit of the Directors of the Company is currently in force and was in force throughout the financial year. The Company has taken out and maintained Directors and officers liability insurance which provides appropriate cover for, among others, the Directors of the Company.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company or any of its associated corporations a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and none of the Directors or their spouses or children under 18 years of age was granted any right to subscribe for any shares in, or debentures of, the Company or any of its associated corporations.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY OF ITS ASSOCIATED CORPORATIONS

As at 31 December 2017, none of the Directors nor the chief executive of the Company had any interests or short positions in any of the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules.

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2017, the interest and short positions in the shares and underlying shares of the Company (within the meaning of Part XV of the SFO) of the substantial shareholders (other than the Directors and chief executives of the Company) as recorded in the register required to be kept under Section 336 of Part XV of the SFO, or as otherwise notified to the Company and the Stock Exchange, were as set out below:

| | | Number of ordinary shares/Percentage of total issued shares as at 31 December 2017 (Note 1) | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Name of shareholders | Capacity | Long positions | % | Short positions | % | Lending pool | % | Note |
| Glory Genius International Holdings Limited | Beneficial owner | 146,392,770 | 43.49% | – | – | – | – | (2) |
| Mr. Tong Liang | Interest of controlled corporation | 146,392,770 | 43.49% | – | – | – | – | (2) |
| Vision2000 Venture Ltd. | Beneficial owner | 106,043,142 | 31.51% | – | – | – | – | (3) |
| Mosel Vitelic Inc. | Interest of controlled corporation | 106,043,142 | 31.51% | – | – | – | – | (3) |

Notes:

(1) Based on 336,587,142 ordinary shares of the Company in issue as at 31 December 2017.

(2) Glory Genius International Holdings Limited is owned as to 95% by Mr. Tong Liang and Mr. Tong Liang is therefore deemed to be interested in the shares held by Glory Genius International Holdings Limited.

(3) The 106,043,142 shares relate to the same batch of shares of the Company. According to the form of disclosure of interests submitted by Mosel Vitelic Inc. on 27 June 1997, Vision2000 Venture Ltd. is the controlled corporation of Mosel Vitelic Inc. and accordingly, Mosel Vitelic Inc. is deemed to be interested in the 106,043,142 shares of the Company held by Vision2000 Venture Ltd.

(4) The Board is given to understand that based on available records, an individual named Ms. Hsieh Hsiu Chen appears to have been interested in a total of 18,806,000 shares of the Company, representing approximately 5.59% of the total issued shares. The Company, however, has no record of any notification for this interest in such shares under Section 336 of the SFO.

Save for those disclosed above, as at 31 December 2017, no other persons had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

## FINANCIAL ASSISTANCE AND GUARANTEES TO AFFILIATED COMPANIES

There is no advance, which is of non-trading nature, to any of the affiliated companies as at 31 December 2017 as defined under Chapter 13 of the Listing Rules.

## MANAGEMENT CONTRACTS

No contracts, other than a contract of service with any Director or any person engaged in the full-time employment of the Company, concerning the management and administration of the whole or any substantial part of any business of the Company were entered into or existed during the year.

## MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year ended 31 December 2017 attributable to the Group's major suppliers and customers are as follows:

| | **Percentage of the total purchases/sales accounted for** |
|---|---|
| Purchases | |
| – the largest supplier | 33% |
| – five largest suppliers combined | 96% |
| | |
| Sales | |
| – the largest customer | 22% |
| – five largest customers combined | 81% |

None of the Directors, or any of their close associates, or any shareholders (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) had an interest in any of the major customers and suppliers noted above.

## CONTRACTS OF SIGNIFICANCE AND RELATED PARTY TRANSACTIONS

No contract of significance had been entered between the Company or any of its subsidiaries, and the controlling shareholders of the Company (as defined in the Listing Rules) or any of its subsidiaries. No contract of significance for the provision of services to the Company or any of its subsidiaries by the controlling shareholders of the Company (as defined in the Listing Rules) or any of its subsidiaries.

Details of the related party transactions undertaken in the usual course of business are set out in note 29 to the Consolidated Financial Statements of this Annual Report. None of these related party transactions constitutes "connected transactions" or "continuing connected transactions" as defined under Chapter 14A of the Listing Rules and therefore there is no disclosure requirements in accordance with Chapter 14A of the Listing Rules.

## CORPORATE GOVERNANCE PRACTICES

The Board confirms that the Company has adopted and complied with all code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Listing Rules during the year ended 31 December 2017 except for the deviation from Code Provision A.4. Details of such deviation are disclosed in the Corporate Governance Report on pages 37 to 49 in this Annual Report.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting the required standard set out in the model code for Securities Transactions by Directors of Listed Issuers as contained in Appendix 10 to the Listing Rules (the "Model Code"). The Company has made specific enquiry of all Directors regarding any non-compliance with the Model Code for the year ended 31 December 2017, all Directors confirmed their respective full compliance with the required standard as set out in the Model Code during the year ended 31 December 2017.

## EMOLUMENT POLICY OF THE GROUP

The emolument policy of the employees of the Group is reviewed regularly by the Board. Remuneration packages are structured to take into account the merit, qualifications and competence of individual employees as well as the general market conditions.

The emoluments of Directors are recommended by the remuneration committee and determined by taking into consideration of their duties and responsibilities with the Company, the market rate and their time, effort and expertise to be input into the Group's affairs and the Company's performance.

## SUFFICIENCY OF PUBLIC FLOAT

On 19 May 2015, the Company published an announcement disclosing, inter alia, receipt by the Company an application (the "Application") from Texan Management Limited ("Texan") for the issue of 4 replacement share certificates for the share certificates numbered 91064, 91065, 90986 and 90987 in respect of the 36,024,000 shares (representing 10.7% of the entire issued share capital of the Company) in the Company (the "Subject Shares"). Since then, the Company published the announcements in respect of the development of the Application dated 19 May 2015, 20 May 2015, 9 July 2015, 24 July 2015, 27 August 2015, 7 October 2015, 3 November 2015, 3 December 2015, 11 January 2016, 2 February 2016, 17 March 2016, 19 April 2016, 30 June 2016, 29 July 2016 and 16 November 2016.

As the date of this Annual Report, references were made to the further announcements, the statutory and/or necessary Application requirements and procedures for the issue of 4 replacement share certificates for the shares certificate numbered 91064, 91065, 90986 and 90987 to Texan were completed.

On 10 July 2017, the Company and Glory Genius International Holdings Limited ("Glory Genius") jointly announced that Kingston Securities Limited ("Kingston Securities"), for and on behalf of Glory Genius, would make a voluntary conditional cash offer (the "Offer") to acquire all of the issued shares in the Company.

Upon the recovery of the Subject Shares by Texan, the Subject Shares would not qualify as part of the public float and thus less than 25% of the issued share capital of the Company would be held in public hands. The Offer was a mechanism according to the Listing Rules to restore the public float of the Company, so that the trading suspension of the share capital could be uplifted.

On 31 August 2017 (the "Closing Date"), the Company and Glory Genius jointly announced that the formalities of the Offer was completed. With effect from the Closing Date, Glory Genius held an aggregate of 219,632,770 shares, representing approximately 65.25% of the entire issued share capital of the Company (the "Entire Issued Shares").

On 7 September 2017, Glory Genius and Kingston Securities entered into a placing agreement (the "Placing Agreement") for the placing of 73,240,000 shares (the "Placing Shares") (representing approximately 21.76% of the issued share capital HK$1.80 per Placing Share on a best effort basis held by Glory Genius at a placing price of the Company), in order to assist the Company to restore the public float (the "Placing").

On 4 October 2017, the Company was informed by Glory Genius that a total 73,240,000 Placing Shares had been placed to the placees and the completion of the Placing took place on the same day. Immediately upon the completion of the Placing, the public float of the Company has been restored to 25% of the issued share capital of the Company, which fulfilled the minimum public float requirement according to the Rule 8.08(1)(a) of the Listing Rules.

## CHANGE OF CONTROLLING SHAREHOLDER

As at 4:00 p.m. on 31 August 2017, taking into account the 219,632,770 Offer shares received under the Offer, Glory Genius and its concert parties would hold an aggregate of 219,632,770 shares, representing approximately 65.25% of the Entire Issued Shares.

Immediately prior to the commencement of the Offer period, Full Global International Limited and Texan held 145,609,999 shares and 36,024,000 shares respectively (representing approximately 43.26% and approximately 10.70% of the Entire Issued Shares). Vision2000 Venture Ltd. and public shareholders held 106,043,142 shares and 48,910,001 shares (representing approximately 31.51% and approximately 14.53% of the Entire Issued Shares).

Immediately upon the close of the Offer, Glory Genius and its concert parties held 219,632,770 shares (representing approximately 65.25% of the Entire Issued Shares). Vision2000 Venture Ltd. and public shareholders held 106,043,142 shares and 10,911,230 shares (representing approximately 31.51% and approximately 3.24% of the Entire Issued Shares).

On 4 October 2017, the Company was informed by Glory Genius that a total 73,240,000 Placing Shares had been placed to the placees and the completion of the Placing took place on the same day. Immediately upon the completion of the Placing, Glory Genius held 146,392,770 shares (representing approximately 65.25% of the Entire Issued Shares). Vision2000 Venture Ltd. and public shareholders held 106,043,142 shares and 84,151,230 shares (representing approximately 31.51% and approximately 25.00% of the Entire Issued Shares).

## COMPETING BUSINESS

None of the Directors is interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

## DISCLOSURE OF CHANGE OF INFORMATION OF DIRECTORS AND CHIEF EXECUTIVES

Save as disclosed in the section headed "Directors and Senior Management Biographies", there was no change in information of the Directors and chief executives of the Company since the date of the Annual Report of the Company which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

## AUDIT COMMITTEE

The audit committee of the Company comprises solely independent non-executive Directors, namely Ms. Chow Chui Ying (Chairman), Mr. Zhou Danqing and Dr. Yang Yung-Ming. The Group's annual results for the year ended 31 December 2017 have been reviewed by the audit committee of the Company.

## AUDITOR

The Board announces that PricewaterhouseCoopers Certified Public Accountants ("PwC") resigned as auditor of the Company with effect from 21 November 2017, as the Company could not reach a consensus with PwC on the audit fee for the year ended 31 December 2017.

The Board further announces that, with the recommendation of the audit committee of the Company, Zenith CPA Limited ("Zenith") has been appointed as the auditor of the Company with effect from 21 November 2017 to fill the casual vacancy following the resignation of PwC as the auditor of the Company, and to hold office until the conclusion of the next annual general meeting of the Company.

On behalf of the Board
**PacRay International Holdings Limited**

**Liew Fui Kiang**
*Chairman*

Hong Kong, 21 March 2018

PacRay International Holdings Limited (the "Company") and its subsidiaries (the "Group") recognizes the value and importance to achieving high corporate governance standards to enhance corporate performance and accountability.

The Board of Directors of the Company is committed to maintain sound corporate governance standard and procedures to ensure integrity, transparency and quality of disclosure in order to enhance the shareholders' value.

## CORPORATE GOVERNANCE PRACTICES

The Board confirms that the Company has adopted and complied with all code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules during the year ended 31 December 2017 except for the following deviation:

### Code Provision A.4

This code provision stipulates that non-executive Directors should be appointed for a specific term and subject to re-election.

The independent non-executive Directors were not appointed for specific terms but are subject to retirement by rotation at least once every three years and re-election at the Company's annual general meeting in accordance with the Bye-laws of the Company. At every annual general meeting of the Company, one-third of the Directors for the time being or, if their number is not three or a multiple of three, then the nearest but no less than one-third shall retire from office by rotation. Every Director should be subject to retirement by rotation at least once every three years.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting the required standard set out in the model code for Securities Transactions by Directors of Listed Issuers as contained in Appendix 10 to the Listing Rules (the "Model Code"). The Company has made specific enquiry of all Directors regarding any non-compliance with the Model Code for the year ended 31 December 2017, all Directors confirmed their respective full compliance with the required standard as set out in the Model Code during the year ended 31 December 2017.

## THE BOARD

As at 31 December 2017, the Board comprises 6 Directors, of which 3 are executive Directors and 3 are independent non-executive Directors. The number of independent non-executive Directors has met the minimum requirement of the Listing Rules and represented more than one-third of the total Board members. Further, one of the independent non-executive Directors possesses appropriate professional accounting qualifications and/or financial management expertise. As of the date of this Annual Report, the members of the Board are as follows:

### Executive Directors

Mr. Liew Fui Kiang *(Chairman)*
Mr. Leung Pok Man
Ms. Lau Mei Ying

## Independent Non-executive Directors

Ms. Chow Chui Ying
Mr. Zhou Danqing
Dr. Yang Yung-Ming

The biographical details of the Directors are contained in the section headed "Directors and Senior Management Biographies".

Each of the Directors has entered into an appointment agreement with the Company. There is no fixed term or proposed length of service for each of the Directors (including the independent non-executive Directors) except that the appointment is subject to the requirements under the Listing Rules, the Bye-laws and any other applicable laws and regulations, and the appointment can be terminated by either party by giving the other party three months' written notice in advance.

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

When the Board considers any material proposal or transaction in which a Director has a conflict of interest, the Director who has interests declares his interest and is required to abstain from voting and is not counted in the quorum.

Other than the regulatory and statutory responsibilities of the Board, the key functions of the Board are to formulate strategy and to monitor and control operating and financial performance in pursuit of the Group's strategic objective. The Board, led by the Chairman, retains full responsibility for setting objective and business development plans. All Directors (including independent non-executive Directors) have been consulted on major and material matters of the Company and have made active contribution to the affairs of the Board. The Board is committed to make decisions in the best interest of the Group. The main responsibilities of the management of the Company is to manage, operate and co-ordinate the business of the Company, execute the strategies formulated by the Board and make decisions in respect of daily matters.

There is no relationship (including financial, business, family or other material/relevant relationship(s)) between Board members and in particular, between the Chairman and the Chief Executive Officer.

During the year, thirteen Board meetings were convened by the Company.

The attendance of the Directors at the Board meetings and general meetings of the Company during the year 2017 is summarised below.

| | Number of Meetings attended/held | |
|---|---|---|
| | **Board meetings** | **General meetings** |
| **Executive Directors** | | |
| — Mr. Liew Fui Kiang *(Chairman)** | 4/4 | 0/0 |
| — Mr. Leung Pok Man* | 4/4 | 0/0 |
| — Ms. Lau Mei Ying* | 4/4 | 0/0 |
| — Mr. Cheng Chow-Chun# | 9/9 | 2/2 |
| — Mr. Lee Chao-Chun# | 9/9 | 2/2 |
| — Mr. Sun Tao-Heng# | 9/9 | 2/2 |
| — Mr. Yuan Chun-Tang# | 9/9 | 0/2 |
| **Independent Non-executive Directors** | | |
| — Ms. Chow Chui Ying* | 4/4 | 0/0 |
| — Mr. Zhou Danqing* | 4/4 | 0/0 |
| — Dr. Yang Yung-Ming* | 3/4 | 0/0 |
| — Mr. Li Kwan In# | 9/9 | 2/2 |
| — Mr. Suen Sai Wah Simon# | 9/9 | 2/2 |
| — Mr. Wang Chiang-Ming# | 9/9 | 2/2 |

* *appointed on 31 August 2017*

\# *resigned on 31 August 2017*

Apart from regular Board meetings, the Chairman also held meetings with the independent non-executive Directors without presence of executive Directors during the year.

Notice of at least 14 days of a regular Board meeting is to given all Directors who are given an opportunity to attend. For all other Board meetings, reasonable notice has been given.

The agenda accompanying Board papers are sent to all Directors at least 3 days before the date of every Board meeting in order to allow sufficient time for the Directors to review the documents. All businesses transacted at the Board meetings were well-documented. Draft and final versions of Board minutes are circulated to all Directors for their comments and records respectively.

Between Board meetings, the management provides to Directors from time to time updates and other information on the Group's business, operations and financial matters.

Directors are entitled to have access to Board papers and related materials and access to the advice and services of company secretary of the Company. Directors have the liberty to seek independent professional advice, if so required, at the Company's expenses as arranged by company secretary of the Company and they are at liberty to propose appropriate matters for inclusion in Board agendas.

For ensuring that Board procedures are followed and activities of the Board are efficient and effective, company secretary of the Company assists the Chairman to prepare agendas for regular board meetings and ensure the Board papers are disseminated to the Directors and Board Committees in a timely and comprehensive manner.

For the Group's compliance with the continuing obligations of the Listing Rules, The Codes on Takeovers and Mergers and Share Buy-backs, the SFO and the Companies Ordinance etc., including publication and dissemination of reports and financial statements and interim reports within the periods laid down in the Listing Rules, timely dissemination of announcements and information relating to the Group to the market and ensuring that proper notification is made of Director's dealings in securities of the Group, the Board engages the professional parties' input from time to time.

Directors are aware of their obligations for disclosure of interests in securities, connected transactions and inside information and ensure that the standards and disclosures required by the Listing Rules and the SFO are observed.

The Company has maintained liability insurance for Directors and senior management officers with appropriate coverage for certain legal liabilities which may arise in the course of performing their duties.

## DIRECTORS' TRAINING

The Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company would provide each newly appointed director a comprehensive induction package covering the summary of the responsibilities and liabilities of a director of a Hong Kong listed company, the Group's business and the Company's constitutional documents and guides on directors' duties to ensure that he/she is sufficiently aware of his/her responsibilities and obligations under the Listing Rules and other applicable regulatory requirements.

From time to time, relevant reading materials are provided to Directors with regard to regulatory and governance developments as well as organizes in-house training programme to refresh their knowledge and skills on the roles, functions and duties of a director of a listed company. The Company has devised a training record to assist the Directors to record the training they have undertaken.

During the year, the Directors participated in the following trainings to develop and refresh their knowledge and skills:

| | **Types of training** (Notes) |
|---|---|
| **Executive Directors** | |
| Mr. Liew Fui Kiang *(Chairman)** | A/B |
| Mr. Leung Pok Man* | A/B |
| Ms. Lau Mei Ying* | B |
| Mr. Cheng Chow-Chun# | A/B |
| Mr. Lee Chao-Chun# | A/B |
| Mr. Sun Tao-Heng# | A/B |
| Mr. Yuan Chun-Tang# | A/B |
| **Independent Non-executive Directors** | |
| Ms. Chow Chui Ying* | B |
| Mr. Zhou Danqing* | B |
| Dr. Yang Yung-Ming* | B |
| Mr. Li Kwan In# | A/B |
| Mr. Suen Sai Wah Simon# | A/B |
| Mr. Wang Chiang-Ming# | A/B |

* *appointed on 31 August 2017*

\# *resigned on 31 August 2017*

Notes:

A: attending seminars and/or programmes and/or conferences

B: reading materials relating to the economy, general business or regulatory updates etc.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge that they are primarily responsible for the preparation of the financial statements for the year ended 31 December 2017 which give a true and fair view and that appropriate accounting policies are selected and applied consistently.

To the best knowledge of the Directors, there is no uncertainty relating to events or conditions that may cast significant count upon the Company's ability to continue as a going concern.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Chairman and the Chief Executive Officer are Mr. Liew Fui Kiang and Ms. Chu Yung-Yi respectively. The Chairman bears primary responsibility for the work of the Board, by ensuring its effective function, while the Chief Executive Officer bears executive responsibility for the Company's business and the management of the day-to-day operations of the Company.

## BOARD COMMITTEES

The Board has established three Board Committees, namely, the Audit Committee, the Remuneration Committee and the Nomination Committee, to assist the Board in discharging its duties and to oversee particular aspects of the Group's affairs. All the Board Committees have clear written terms of reference and have to report on their decisions and recommendation to the Board. These written terms of reference are available for access at the principal place of business of the Company in Hong Kong and each of the committee members was furnished with a copy of the respective terms of reference.

The written terms of reference of the Board Committees are also available on the websites of the Company http://pacray.com.hk and the Stock Exchange.

All business dealt with by the Board Committees were well-documented. Draft and final versions of the Board Committees minutes are sent to all the respective Board Committees members for comments and records within reasonable time.

### 1. Audit Committee

The Audit Committee comprises solely independent non-executive Directors. As at 31 December 2017, the Audit Committee consists of three independent non-executive Directors, namely, Ms. Chow Chui Ying (Chairman), Mr. Zhou Danqing and Dr. Yang Yung-Ming.

The Audit Committee is responsible for the following:

— reviewing and supervising the Company's financial reporting process, risk management and internal control systems;

— reviewing the accounting principles and practices adopted by the Group and other financial reporting matters and ensure the completeness, accuracy and fairness of the financial statements;

— making recommendations as to the effectiveness of internal control and risk management;

— monitoring the compliance with statutory and listing requirements and to oversee the relationship with the external auditor; and

— reviewing arrangements to enable employees of the Company to raise concerns about improprieties in financial reporting, internal control or other matters of the Company.

The Audit Committee meets the external auditor and the senior management twice a year to discuss any areas of concern during the audits.

During the year, the Audit Committee has reviewed (i) the annual report of the Group for the year ended 31 December 2016, (ii) the interim report of the Group for the 6 months ended 30 June 2017, (iii) the external auditor's engagement letter with recommendation to the Board for approval, (iv) the determination and reporting of key audit matters, and (v) the effectiveness of the risk management and internal control systems and internal audit function.

During the year 2017, four meetings were held with the management and/or the external auditor. Members of the Audit Committee and their respective attendance at committee meetings were held during their term of office are listed below:

| | Number of Audit Committee Meetings attended/held |
|---|---|
| **Committee members** | |
| — Ms. Chow Chui Ying* | 1/1 |
| — Mr. Zhou Danqing* | 1/1 |
| — Dr. Yang Yung-Ming* | 1/1 |
| — Mr. Li Kwan In# | 3/3 |
| — Mr. Suen Sai Wah Simon# | 3/3 |
| — Mr. Wang Chiang-Ming# | 3/3 |

* *appointed on 31 August 2017*

\# *resigned on 31 August 2017*

## 2. Remuneration Committee

The Remuneration Committee comprises solely independent non-executive Directors. As at 31 December 2017, the Remuneration Committee consists of two independent non-executive Directors, namely, Mr. Zhou Danqing (Chairman) and Ms. Chow Chui Ying. Its primary responsibilities include recommending, reviewing and determining the remuneration policy and packages of directors and senior management. Directors do not participate in the determination of their own remuneration.

During the year, the Remuneration Committee has reviewed and recommended to the Board the Directors' remuneration. In making recommendations to the Board on the Directors' remuneration, the Remuneration Committee considered a number of factors including time commitment, responsibilities, qualification and the prevailing market rate. The remuneration of the Directors will be determined by the Board after obtaining authorization at its general meetings.

During the year, the Remuneration Committee held one meeting. Members of the Remuneration Committee and their respective attendance at the committee meeting during their term of office are listed below:

| | Number of Remuneration Committee Meetings attended/held |
|---|---|
| **Committee members** | |
| — Mr. Zhou Danqing* | 0/0 |
| — Ms. Chow Chui Ying* | 0/0 |
| — Mr. Suen Sai Wah Simon# | 1/1 |
| — Mr. Wang Chiang-Ming# | 1/1 |

* *appointed on 31 August 2017*

\# *resigned on 31 August 2017*

## 3. Nomination Committee

The Nomination Committee comprises solely independent non-executive Directors. As at 31 December 2017, the Nomination Committee consists of two independent non-executive Directors, namely, Mr. Zhou Danqing (Chairman) and Ms. Chow Chui Ying.

Its primary responsibilities are to assist the Board to review the structure of the Board and make recommendations to the Board on the appointment or re-appointment of directors to the Board. It also reviews the Company's adopted board diversity policy, as appropriate, to ensure its continued effectiveness and make recommendations to the Board for consideration and approval.

The Company recognizes the benefits of a Board that possesses a balance of skills, experience, expertise and diversity of perspectives appropriate to the requirements of the business of the Company. The Company has adopted a board diversity policy since November 2013.

Diversity of Board members can be achieved through consideration of a number of factors including, but not limited to, gender, age, race, experience, cultural and educational background, skills and other qualities considered relevant and applicable. It will also take into account factors based on the Company's business model and specific needs from time to time. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

During the year, the Nomination Committee has reviewed the structure, size and composition of the Board and the independence of the independent non-executive Directors.

During the year, the Nomination Committee held two meetings with the management. Members of the Nomination Committee and their respective attendance at the committee meeting during their term of office are listed below:

| | **Number of Nomination Committee Meetings attended/held** |
|---|---|
| **Committee members** | |
| — Mr. Zhou Danqing* | 0/0 |
| — Ms. Chow Chui Ying* | 0/0 |
| — Mr. Suen Sai Wah Simon# | 2/2 |
| — Mr. Wang Chiang-Ming# | 2/2 |

* *appointed on 31 August 2017*
\# *resigned on 31 August 2017*

## CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for determining the policy for the corporate governance of the Company. During the year, the Board has discharged the following corporate governance duties:

— To develop and review the Company's policies and practices on corporate governance and make recommendations on changes and updating;

— To review and monitor the training and continuous professional development of directors and senior management;

— To review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

— To develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors;

— To review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report; and

— To implement such other corporate governance duties and functions set out in the CG Code (as amended from time to time) for which the Board are responsible.

## AUDITOR'S REMUNERATION

The statement of the external auditor of the Company about their reporting responsibility on the Company's consolidated financial statements for the year ended 31 December 2017 is set out in the section headed "Independent Auditor's Report" of this Annual Report.

As at 31 December 2017, auditor's remuneration for audit services and non-audit services were approximately HK$650,000 and HK$Nil respectively.

## COMPANY SECRETARY

During the year, Ms. Wong Po Ling, Pauline is engaged and appointed by the Company from an external service provider as its Company Secretary. Its primary contact person at the Company is Mr. Liew Fui Kiang, Chairman of the Company. Ms. Wong has complied with Rule 3.29 of the Listing Rules of taking no less than 15 hours of relevant professional training.

## RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. Such systems and internal controls are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and establishing and maintaining appropriate and effective risk management and internal control systems.

The Audit Committee assists the Board in leading the management and overseeing their design, implementation and monitoring of the risk management and internal control systems.

The Company has established risk management manual to formulate the risk management process. The staff in all levels within the Group are also required to take the relevant responsibility on the risk management process. With reference to enterprise risk management — integrated framework issued by the Committee of Sponsoring Organisations of the Treadway Commission and the Company's enterprise risk management processes is summarised as follows:

1. Project initiation
2. Risk identification
3. Risk analysis
4. Risk treatment
5. Risk monitoring
6. Risk reporting

The risk management and internal control systems are reviewed at least annually to identify risks that potentially impact the business of the Group and various aspects including key operational and financial processes, regulatory compliance and information security to ensure appropriateness and effectiveness.

The management, in coordination with division/department heads, assessed the likelihood of risk occurrence, provided treatment plans, and monitored the risk management progress, and reported to the Audit Committee and the Board on all findings and the effectiveness of the systems.

The management has confirmed to the Board and the Audit Committee on the effectiveness of the risk management and internal control systems for the year ended 31 December 2017.

The Heads of each core business segment monitor compliance with policies and procedures and the effectiveness of internal control systems in respect of their responsible business segments. The Company also engaged an independent external consulting firm to review and assess the effectiveness of the risk management and internal control systems of the Group during the year. The assessment covers all material controls including financial, operational and compliance controls, as well as risk management functions during the year. The Audit Committee has reviewed the assessment report with the management, and noted that no significant areas of improvement are brought to its attention. The Company also conducted a review on the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function for the year under review. Accordingly, the Board was satisfied that the prevailing risk management and internal control systems of the Group are effective and adequate.

The Audit Committee reviews and approves the annual internal audit plan and reviews the internal audit reports and activities. The Audit Committee is of the view that the Internal Auditor has adequate qualification and resources to perform its functions and have discharged its duties to the best of their abilities and is independent of the activities that it performs audit.

The Board, as supported by the Audit Committee as well as the management report and the internal audit findings, reviewed the effectiveness of risk management and internal control systems, including the financial, operational and compliance controls, for the year ended 31 December 2017, and considered that such systems are effective and adequate. The annual review also covered the financial reporting and internal audit function and staff qualifications, experiences and relevant resources. Based on the above, the Board is of the view that the Company has established proper risk management and internal control systems which are effective and adequate.

The Company has developed its disclosure policy which provides a general guide to the Company's Directors, officers, senior management and relevant employees in handling confidential information, monitoring information disclosure and responding to enquiries.

Control procedures have been implemented to ensure that unauthorized access and use of inside information are strictly prohibited.

## COMMUNICATION WITH SHAREHOLDERS

The Company endeavours to maintain a high level transparency in communicating with its shareholders.

The Company welcomes the attendance of shareholders at general meetings to express their views. All the Directors are encouraged to attend the general meetings to have personal communication with shareholders. The Chairman of the Board as well as the chairmen of the Board Committees or other members of the respective committees are normally available to answer questions at general meetings. External auditor is also invited to attend the annual general meeting to answer questions about the conduct of the audit, the preparation and content of the auditor's report, the accounting policies adopted by the Company in relation to the preparation of the financial statements and independence of the auditor in relation to the conduct of the audit.

The Company is committed to maximizing the use of its website as a channel to provide updated information in a timely manner and strengthen the communication with shareholders.

Separate resolutions are proposed at the general meetings on each substantially separate issue, including the re-election of individual directors. The notice of general meeting is distributed to all shareholders and accompanying circular with details of each proposed resolution and other relevant information as required under the Listing Rules.

Resolutions put to vote at the general meetings (other than on procedural and administrative matters) are taken by poll. Procedures regarding the conduct of the poll are explained to the shareholders at the commencement of each general meeting. Poll results of the general meetings are published on the websites of the Company (http://pacray.com.hk) and the Stock Exchange after the meeting.

The Company held an annual general meeting on 15 August 2017 ("2017 AGM"). All resolutions proposed at the 2017 AGM were passed.

## SHAREHOLDERS' ENQUIRIES

Shareholders of the Company may direct their enquiries about their shareholdings to the Company's branch share registrar through the online holding enquiry service at www.tricoris.com or by email to is-enquiries@hk.tricorglobal.com or hotline at (852) 2980 1333 or in person at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

Shareholders may also send written enquiries in respect of corporate governance or other matters of the Company to the Board to the following:

| | |
|---|---|
| Address: | Unit 902, Unicorn Trade Centre, 127-131 Des Voeux Road Central, Hong Kong<br>For the attention of Chairman of the Board/Chief Executive Officer |
| Telephone: | (852) 2534 7888 |
| Fax: | (852) 2851 3055 |

## SHAREHOLDERS' RIGHTS

### 1. Convening a special general meeting by shareholders

The Directors shall, on the requisition of shareholders of the Company holding at the date of the deposit of the requisition not less than one-tenth of such of the paid-up capital of the Company which as at the date of the deposit carries the right of voting at general meetings of the Company, convene a special general meeting. The requisition must state the purposes of the meeting, and must be signed by the requisitionists and deposited at the principal office of the Company at Unit 902,Unicorn Trade Centre, 127-131 Des Voeux Road Central, Hong Kong (the "Principal Office"), and may consist of several documents in like form each signed by one or more requisitionists.

If the Directors do not within twenty-one days from the date of the deposit of the written requisition proceed to convene a meeting, the requisitionists, or any of them representing more than one half of the total voting rights of all of them, may themselves convene a meeting, but any meeting so convened shall not be held after the expiration of three months from the said date.

The special general meeting convened by the requisitionists shall be convened in the same manner, as nearly as possible, as that in which meetings are to be convened by Directors.

### 2. Putting forward proposed resolution(s) to be considered at general meetings

Shareholders of the Company can submit a requisition in writing to the Company to requisite the Company (i) to give notice to the shareholders entitled to receive notice of the next annual general meeting in respect of any resolution which may properly be moved and is intended to be moved at an annual general meeting of the Company and/or (ii) to circulate a statement to shareholders entitled to have notice of any general meeting of the Company in respect of the matter referred to in any proposed resolution or business to be considered at any general meeting of the Company. These will be done at the expense of the requisitionist unless the Company resolves otherwise. The number of shareholders necessary for such requisition shall be (i) either any number of shareholders representing not less than one-twentieth of the total voting rights of all shareholders having at the date of the requisition a right to vote at the meeting to which the requisition relates; or (ii) not less than one hundred shareholders holding the shares.

In the case of a requisition to circulate a statement to shareholders, please note that the statement shall contain no more than one thousand words. All requisition must be signed by all of the requisitionist(s) and be deposited at the Principal Office not less than six weeks before the general meeting in case of a requisition requiring notice of a resolution; and not less than one week before the general meeting in case of any other requisition.

The requisitionist(s) must deposit or tender with the requisition a sum of money reasonably sufficient to meet the Company's expenses in serving the notice of the resolution and/or circulating the statement (as applicable) in giving effect to the requisition.

## CONSTITUTIONAL DOCUMENTS

There was no change in the Company's constitutional documents during the year. An up-to-date version of the Company's memorandum of association and Bye-laws are available on the websites of the Company and the Stock Exchange.

# INDEPENDENT AUDITOR'S REPORT

ZENITH 誠豐
ASSURANCE I TRANSACTIONS I ADVISORY

**To the shareholders of PacRay International Holdings Limited**
*(Incorporated in Bermuda with limited liability)*

## OPINION

We have audited the consolidated financial statements of PacRay International Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 56 to 116, 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 consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

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

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

**To the shareholders of PacRay International Holdings Limited** *(Continued)*
*(Incorporated in Bermuda with limited liability)*

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| *Provision for inventories* | |
| At 31 December 2017, the Group held inventories of HK$4.8 million, net of impairment provision of HK$2.8 million. Inventories are carried at the lower of cost and net realisable value ("NRV"). The cost of inventories is written down to NRV when there is an objective evidence that the cost of inventories may not be recoverable if those inventories are damaged, if they have become obsolete, or if their selling prices have declined.<br><br>Management evaluates the NRV at each period end based on the estimated selling price less cost to sell, which requires significant judgements and assumptions to be made to determine the estimated selling price of individual products, including historical experience of selling products of similar nature and expectation of future sales based on current market conditions and available information. The estimations are also subject to uncertainty as a result of future changes of market trends, customer demands and technology development.<br><br>The significant accounting estimates and judgements and disclosure for inventories are set out in notes 4 and 18 to the consolidated financial statements, respectively. | Our audit procedures in relation to provision for inventories included:<br><br>– Obtained an understanding and evaluating management's assessment on impairment provision for inventories;<br><br>– Observed client's inventories counts to identify whether there is any damaged or obsolete inventories;<br><br>– Test inventory ageing, on a sample basis, on individual inventories items;<br><br>– Compared the estimated selling price and sales quantity with the actual selling price and sales quantity subsequent to the year end or the latest sales data of each individual inventory, on a sample basis, to assess the reasonableness of the NRV used by management in the carrying value assessment; and<br><br>– Discussed with management to understand the additional factors that were considered on the relevant inventories items which have long stock turnover period or no subsequent sales after year end. We independently evaluated the relevance of these factors and obtained evidence, such as sales plan, to assess the reasonableness of the NRV estimated. |

**To the shareholders of PacRay International Holdings Limited** *(Continued)*
*(Incorporated in Bermuda with limited liability)*

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| *Valuation of loans receivables* | |
| At 31 December 2017, there was loans receivables of HK$15.7 million. Loans receivables are carried at amortised cost and no impairment has been recognised for the year then ended. Assessing impairment of loans receivables is an estimation which involve significant management judgement.<br><br>The impairment of loans receivables is estimated by the management through the application of judgement and use of subjective assumptions. Provisions are made for impairment loss when the Group will not collect all amounts due.<br><br>The significant accounting estimates and judgements and disclosure for loans receivables are set out in notes 4 and 21 to the consolidated financial statements, respectively. | Our audit procedures in relation to valuation of loans receivables included:<br><br>– Reviewed management assessment on the borrower's credibility and assessment of borrower's background;<br><br>– Examined loan agreements with borrowers to understand the settlement arrangement of loans advanced;<br><br>– Obtained audit confirmations from borrowers in respect of outstanding balances at 31 December 2017; and<br><br>– Assessed whether the consolidated financial statements disclosures appropriately reflect the Group's exposure to credit risk. |

## OTHER MATTER

The consolidated financial statements of the Group for the year ended 31 December 2016 were audited by another auditor who expressed an unmodified opinion on those statements on 22 March 2017.

## OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the 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.

**To the shareholders of PacRay International Holdings Limited** *(Continued)*
*(Incorporated in Bermuda with limited liability)*

## RESPONSIBILITIES OF THE DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing the consolidated financial statements, the directors of the Company 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 of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company 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. Our report is made solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

**To the shareholders of PacRay International Holdings Limited** *(Continued)*
*(Incorporated in Bermuda with limited liability)*

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

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.

**To the shareholders of PacRay International Holdings Limited** *(Continued)*
*(Incorporated in Bermuda with limited liability)*

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Hung Pui Yu.

**Zenith CPA Limited**
*Certified Public Accountants*
**Hung Pui Yu**
Practising Certificate Number: P06702

Hong Kong, 21 March 2018

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2017

| | Notes | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|---|
| **REVENUE** | 5 | **36,580** | 17,337 |
| Cost of sales | | **(23,721)** | (7,697) |
| **Gross profit** | | **12,859** | 9,640 |
| Other income | 6 | **2,873** | 4,135 |
| Other gains/(losses), net | 7 | **5,108** | (1,831) |
| Distribution costs | | **(259)** | (68) |
| General and administrative expenses | | **(23,218)** | (16,771) |
| **LOSS BEFORE TAX** | 8 | **(2,637)** | (4,895) |
| Income tax expense | 11 | **(49)** | (99) |
| **LOSS FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY** | | **(2,686)** | (4,994) |
| | | **HK cents** | HK cents |
| **LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY** | | | |
| – Basic and diluted | 13 | **(0.80)** | (1.48) |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| **LOSS FOR THE YEAR** | **(2,686)** | (4,994) |
| **OTHER COMPREHENSIVE INCOME/(LOSS)** | | |
| *Items that may be reclassified subsequently to profit or loss:* | | |
| Changes in fair value on available-for-sale investments | **14,005** | (8,471) |
| Release of investment reserve upon disposal of available-for-sale investments | **(4,420)** | – |
| Exchange differences on translation | **975** | (748) |
| **OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX** | **10,560** | (9,219) |
| **TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY** | **7,874** | (14,213) |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

| | Notes | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 14 | **2,508** | 2,288 |
| Intangible assets | 15 | **–** | – |
| Deferred tax assets | 16 | **479** | 412 |
| Available-for-sale investments | 17 | **40,947** | 47,055 |
| Long-term deposits | 20 | **366** | 177 |
| Total non-current assets | | **44,300** | 49,932 |
| **CURRENT ASSETS** | | | |
| Inventories | 18 | **4,807** | 4,282 |
| Trade and bills receivables | 19 | **12,507** | 3,991 |
| Deposits, prepayments and other receivables | 20 | **43,214** | 15,127 |
| Loans receivables | 21 | **15,700** | – |
| Investments at fair value through profit or loss | 22 | **–** | 718 |
| Current income tax recoverable | | **327** | 51 |
| Cash and cash equivalents | 23 | **43,296** | 81,726 |
| Total current assets | | **119,851** | 105,895 |
| **CURRENT LIABILITIES** | | | |
| Trade payables | 24 | **150** | 105 |
| Other payables and accruals | 25 | **2,898** | 2,493 |
| Total current liabilities | | **3,048** | 2,598 |
| **NET CURRENT ASSETS** | | **116,803** | 103,297 |
| **NET ASSETS** | | **161,103** | 153,229 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

| | Notes | **2017**<br>**HK$'000** | 2016<br>HK$'000 |
|---|---|---|---|
| **CAPITAL AND RESERVES** | | | |
| Share capital | 26 | **134,922** | 134,922 |
| Other reserves | 27 | **1,886** | (8,674) |
| Retained earnings | | **24,295** | 26,981 |
| **Total equity** | | **161,103** | 153,229 |

**LIEW Fui Kiang**
*Director*

**LEUNG Pok Man**
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

| | Attributable to owners of the Company | | | |
|---|---|---|---|---|
| | Share capital HK$'000 (note 26) | Other reserves HK$'000 (note 27) | Retained earnings HK$'000 | Total HK$'000 |
| **Balance at 1 January 2016** | 134,922 | 545 | 31,975 | 167,442 |
| Loss for the year | – | – | (4,994) | (4,994) |
| **Other comprehensive loss** | | | | |
| Changes in fair value on available-for-sale investments | – | (8,471) | – | (8,471) |
| Exchange differences on translation | – | (748) | – | (748) |
| **Total comprehensive loss for the year** | – | (9,219) | (4,994) | (14,213) |
| **Balance at 31 December 2016** | 134,922 | (8,674) | 26,981 | 153,229 |
| **Balance at 1 January 2017** | **134,922** | **(8,674)** | **26,981** | **153,229** |
| Loss for the year | **–** | **–** | **(2,686)** | **(2,686)** |
| **Other comprehensive loss** | | | | |
| Changes in fair value on available-for-sale investments | **–** | **14,005** | **–** | **14,005** |
| Release of investment reserve upon disposal of available-for-sale investments | **–** | **(4,420)** | **–** | **(4,420)** |
| Exchange differences on translation | **–** | **975** | **–** | **975** |
| **Total comprehensive income/(loss) for the year** | **–** | **10,560** | **(2,686)** | **7,874** |
| **Balance at 31 December 2017** | **134,922** | **1,886** | **24,295** | **161,103** |

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

| | Notes | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| **Loss before tax** | | **(2,637)** | (4,895) |
| Adjustments for: | | | |
| Interest income | 6 | **(727)** | (355) |
| Dividend income | 6 | **(2,034)** | (3,471) |
| Depreciation of property, plant and equipment | 8 | **561** | 549 |
| Loss on disposal of property, plant and equipment | 7,8 | **30** | 58 |
| Change in fair value from investments at fair value through profit or loss | 7,8 | **–** | (4) |
| Gains on disposals of available-for-sale investments | 7,8 | **(4,420)** | – |
| (Gains)/losses on disposal/derecognition of investments at fair value through profit or loss | 7,8 | **(166)** | 1,790 |
| Impairment of inventories | 8 | **693** | 336 |
| **Operating cash flows before movements in working capital** | | **(8,700)** | (5,992) |
| Changes in working capital: | | | |
| – Inventories | | **(885)** | (1,524) |
| – Trade and bills receivables | | **(8,213)** | (1,263) |
| – Deposits, prepayments and other receivables | | **(711)** | (163) |
| – Trade payables | | **35** | 21 |
| – Other payables and accruals | | **292** | (61) |
| **Cash used in operations** | | **(18,182)** | (8,982) |
| Oversea income tax (paid)/refunded, net | | **(345)** | 5 |
| Net cash flows used in operating activities | | **(18,527)** | (8,977) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchases of property, plant and equipment | 14 | **(640)** | (491) |
| Purchases of available-for-sale investments | | **(23,000)** | – |
| Proceeds from disposal/derecognition of investments at fair value through profit or loss | | **884** | 2,469 |
| Proceeds from disposals of available-for-sale investments | | **43,217** | – |
| Loans advanced to third parties | | **(15,700)** | – |
| Refundable deposit paid for a proposed acquisition of a subsidiary | | **(30,000)** | – |
| Interest received | | **446** | 317 |
| Dividend received | | **4,819** | 686 |
| Net cash flows (used in)/generated from investing activities | | **(19,974)** | 2,981 |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | | **(38,501)** | (5,996) |
| Cash and cash equivalents at 1 January | | **81,726** | 87,791 |
| Effect of foreign exchange rate changes, net | | **71** | (69) |
| **CASH AND CASH EQUIVALENTS AT 31 DECEMBER** | | **43,296** | 81,726 |

## 1 CORPORATE AND GROUP INFORMATION

PacRay International Holdings Limited (the "Company") was incorporated in Bermuda as an investment holding company with limited liability under the Companies Act 1981 of Bermuda. The address of its registered office is Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda. The address of its principal place of business is Unit 902, Unicorn Trade Centre, 127-131 Des Voeux Central, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

During the year, the Company and its subsidiaries (collectively referred hereinafter as the "Group") are principally engaged in the design and distribution of integrated circuits and semi-conductor parts in the People's Republic of China (the "PRC"), Hong Kong and Taiwan; and investments holding.

In the opinion of the directors of the Company, Glory Genius International Holdings Limited, is the ultimate holding company of the Company and Mr. Tong Liang is the ultimate controlling party.

### Information about subsidiaries

Particulars of the Company's subsidiaries are as follows:

| Name | Place of incorporation/ registration and business | Issued ordinary/ registered share capital | Percentage of equity attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| Able Summit Investment Limited ("Able Summit")[2, 3] | British Virgin Islands | US$1 | 100% | – | Investment holding |
| Brilliant Express Global Investment Limited[2, 3] | British Virgin Islands | US$1 | – | 100% | Investment holding |
| Fasty Technology Limited[3] | Hong Kong | HK$1 | – | 100% | Inactive |
| Harvest Century Enterprises Limited | Hong Kong | HK$10,000 | 100% | – | Inactive |
| Rockey Company Limited | Hong Kong | HK$2 | 100% | – | Investment holding and trading |
| Shanghai SyncMOS Semiconductor Company Limited ("Shanghai SyncMOS")[*,1, 2] | PRC | US$7,000,000 | – | 100% | Design, distribution and trading of integrated circuit products and provision of related agency services in the PRC |
| Sunny Fast International Investment Limited[2] | British Virgin Islands | US$1 | 100% | – | Investment holding |

## 1 CORPORATE AND GROUP INFORMATION *(Continued)*

### Information about subsidiaries *(Continued)*

| Name | Place of incorporation/ registration and business | Issued ordinary/ registered share capital | Percentage of equity attributable to the Company Direct | Percentage of equity attributable to the Company Indirect | Principal activities |
|---|---|---|---|---|---|
| SyncMOS Technologies, Inc. (BVI)[2] | British Virgin Islands | US$1 | 100% | – | Investment holding |
| Top Return Investments Limited | Hong Kong | HK$1 | 100% | – | Investment holding |
| Total Way Technology Limited | Hong Kong | HK$1 | – | 100% | Trading |
| Wellba Investment Limited | Hong Kong | HK$2 ordinary shares and HK$2,000,001 non-voting deferred shares | – | 100% | Inactive |
| Win Win Property Investments Limited[2] | British Virgin Islands | US$1 | 100% | – | Inactive |

* The English name of the Chinese entity is translation of its Chinese name and are included herein for identification purpose only.

1 The entity is registered as wholly-foreign-owned enterprise under PRC law.

2 The statutory financial statements of the above subsidiaries were not audited by Zenith CPA Limited.

3 These entities are incorporated during the year.

## 2.1 BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain available-for-sale investments and investments at fair value through profit or loss which have been measured at fair value. These consolidated financial statements presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand ("HK$'000") except which otherwise indicated.

## 2.1 BASIS OF PREPARATION *(Continued)*

### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2017. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e. existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

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

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's consolidated financial statements.

| | |
|---|---|
| Amendments to HKAS 7 | Disclosure Initiative |
| Amendments to HKAS 12 | Recognition of Deferred Tax Assets for Unrealised Losses |
| Amendments to HKFRS 12 included in Annual Improvements to HKFRSs 2014-2016 Cycle | Disclosure of Interests in Other Entities: Clarification of the Scope of HKFRS 12 |

The Group has assessed the impact of the adoption of these amended HKFRSs and considered that there was no significant impact on the Group's results and financial position for the current and prior years and/or disclosures set out in the consolidated financial statements.

The nature and the impact of the amendments are described below:

(a) Amendments to HKAS 7 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. The Group did not have any changes in liabilities arising from financing activities and therefore no impact on the Group.

(b) Amendments to HKAS 12 clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The amendments have had no significant impact on the financial position or performance of the Group as the Group has no significant deductible temporary differences or assets that are in the scope of the amendments.

(c) Amendments to HKFRS12 clarify that the disclosure requirements in HKFRS 12, other than those disclosure requirements in paragraphs B10 to B16 of HKFRS12, apply to an entity's interest in a subsidiary, a joint venture or an associate, or a portion of its interest in a joint venture or an associate that is classified as held for sale or included in a disposal group classified as held for sale. The amendments have had no impact on the Group's consolidated financial statements as the Group does not have subsidiaries classified as a disposal group held for sale as at 31 December 2017.

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these consolidated financial statements.

| | |
|---|---|
| Amendments to HKFRS 2 | Classification and Measurement of Share-based Payment Transactions[1] |
| Amendments to HKFRS 4 | Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1] |
| HKFRS 9 | Financial Instruments[1] |
| Amendments to HKFRS 9 | Prepayment Features with Negative Compensation[2] |
| Amendments to HKFRS 10 and HKAS 28 (2011) | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4] |
| HKFRS 15 | Revenue from Contracts with Customers[1] |
| Amendments to HKFRS 15 | Clarifications to HKFRS 15 Revenue from Contracts with Customers[1] |
| HKFRS 16 | Leases[2] |
| HKFRS 17 | Insurance Contracts[3] |
| Amendments to HKAS 28 | Long-term Interests in Associates and Joint Ventures[2] |
| Amendments to HKAS 40 | Transfers of Investment Property[1] |
| HK(IFRIC)-Int 22 | Foreign Currency Transactions and Advance Consideration[1] |
| HK(IFRIC)-Int 23 | Uncertainty over Income Tax Treatments[2] |
| Annual Improvement 2014-2016 Cycle | Amendments to HKFRS 1 and HKAS 28[1] |
| Annual Improvement 2015-2017 Cycle | Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[2] |

[1] Effective for annual periods beginning on or after 1 January 2018
[2] Effective for annual periods beginning on or after 1 January 2019
[3] Effective for annual periods beginning on or after 1 January 2021
[4] No mandatory effective date yet determined but available for adoption

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

Further information about those HKFRSs that are expected to be applicable to the Group is described below. The actual impacts upon adoption could be different to those below, depending on additional reasonable and supportable information being made available to the Group at the time of applying the standards and the transitional provisions and policy options finally adopted.

### HKFRS 9 Financial Instruments

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group will adopt HKFRS 9 from 1 January 2018. The Group will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018. During 2017, the Group has performed a detailed assessment of the impact of the adoption of HKFRS 9. The expected impacts relate to the classification and measurement and the impairment requirements and are summarised as follows:

### (a) Classification and measurement

Currently, the Group's financial assets are classified into loans and receivables and available-for-sale financial investments.

The Group does not expect that the adoption of HKFRS 9 will have a significant impact on loans and receivables except for certain trade and bills receivables. Certain Group's trade and bills receivables are managed with a business model under which they are either held to collect contractual cash flows or sold prior to their expiry date. Accordingly, these trade and bills receivables will be reclassified as financial assets at fair value through other comprehensive income ("**FVTOCI**"). Gains and losses recorded in other comprehensive income for the trade and bills receivables will be recycled to the consolidated statement of profit or loss when the trade and bills receivables are derecognised.

For the available-for-sale financial investments carried at fair value, they are qualified for designation as measured at FVTOCI under HKFRS 9. Accordingly, the Group does not expect the adoption of HKFRS 9 will have a significant impact on the classification and measurement. However, the fair value gains or losses accumulated in the investment reserve as at 1 January 2018 will no longer be subsequently reclassified to the consolidated statement of profit or loss.

For the available-for-sale financial investments carried at cost less impairment, they are qualified for designation as measured at FVTOCI under HKFRS 9. The Group expects to apply the option to measure these available-for-sale financial investments at fair value at the end of subsequent reporting periods with fair value gains or losses to be recognised as other comprehensive income and accumulated in the investment reserve. Since the Group has a number of available-for-sale financial investments of which it required time to gather information to assess and finalised their fair values as at 1 January 2018, the assessment has yet been completed. Based on the preliminary assessment, the Group does not expect the fair values of these investments are significant different from their carrying amount as at 1 January 2018.

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

### HKFRS 9 Financial Instruments (Continued)

#### (b) Impairment

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at FVTOCI, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group will apply the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its loans receivables and trade and other receivables. Furthermore, the Group will apply the general approach and record twelve-month expected credit losses that are estimated based on the possible default events on its other receivables within the next twelve months. The Group has expected that the provision for impairment and related deferred tax assets will increase upon the initial adoption of the standard.

### HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 “Revenue”, HKAS 11 “Construction Contracts” and the related interpretations when it becomes effective. The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

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

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

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

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

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

### HK(IFRIC) – Int 22 – Foreign Currency Transactions and Advance Consideration

The Interpretation provides guidance on determining the date of the transaction for determining an exchange rate to use for transactions that involve advance consideration paid or received in a foreign currency and the recognition of a non-monetary asset or non-monetary liability. The Interpretations specifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

### HKFRS 16 – Leases

HKFRS 16, which upon the effective date will supersede HKAS 17 "Leases" and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the consolidated statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

### HK(IFRIC) – Int 23 – Uncertainty over Income Tax Treatments

The Interpretation supports the requirements of HKAS 12, Income Taxes, by providing guidance over how to reflect the effects of uncertainty in accounting for income taxes.

Under the Interpretation, the entity shall determine whether to consider each uncertain tax treatment separately or together based on which approach better predicts the resolution of the uncertainty. The entity shall also assume the tax authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the entity determines it is probable that the tax authority will accept an uncertain tax treatment, then the entity should measure current and deferred tax in line with its tax filings. If the entity determines it is not probable, then the uncertainty in the determination of tax is reflected using either the "most likely amount" or the "expected value" approach, whichever better predicts the resolution of the uncertainty.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Business combinations 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 by the Group, liabilities assumed by the Group to 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 Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related 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 of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in the consolidated statement of profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in the consolidated statement of profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Business combinations and goodwill *(Continued)*

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 net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in the consolidated statement of 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 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

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

Where goodwill has been allocated to a cash-generating unit (or 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 the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

### Fair value measurement

The Group measures its listed equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Fair value measurement *(Continued)*

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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

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

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

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

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

### Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Impairment of non-financial assets *(Continued)*

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to the consolidated statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the consolidated statement of profit or loss in the period in which it arises.

### Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and 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 of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Related parties *(Continued)*

(b) the party is an entity where any of the following conditions applies: (Continued)

(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; (If the Group is itself such a plan) and the sponsoring employers of the post-employment benefit plan;

(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); and

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

### Property, plant and equipment and depreciation

Property, plant and equipment is stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated statement of profit or loss during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

| | |
|---|---|
| Leasehold improvements | 4 – 6 years or shorter of the lease term |
| Furniture, fixtures and equipment | 4 – 5 years |

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Intangible assets

#### Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of two to five years. Cost associated with maintaining computer software programmes are recognised as expenses as incurred.

### Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the consolidated statement of profit or loss on the straight-line basis over the lease terms.

### Investments and other financial assets

#### Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Investments and other financial assets *(Continued)*

#### Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

*Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with positive net changes in fair value presented as other gains/(losses), net and in the consolidated statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the consolidated statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income in the consolidated statement of profit or loss. The loss arising from impairment is recognised in other gains/(losses), net in the consolidated statement of profit or loss.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Investments and other financial assets *(Continued)*

*Available-for-sale financial investments*

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments. Equity investments classified as available-for-sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the investment reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the consolidated statement of profit or loss in other gains/(losses), net, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the investment reserve to the consolidated statement of profit or loss in other gains/(losses), net. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the consolidated statement of profit or loss as other income.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

If there is objective evidence that an impairment loss has been incurred on such unlisted equity investments, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial assets. Impairment losses on these assets are not reversed.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a passthrough arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

### Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Impairment of financial assets *(Continued)*

#### Financial assets carried at amortised cost

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

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

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

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

#### Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Impairment of financial assets *(Continued)*

#### Available-for-sale investments

For available-for-sale investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the consolidated statement of profit or loss, is removed from other comprehensive income and recognised in the consolidated statement of profit or loss.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. “Significant” is evaluated against the original cost of the investment and “prolonged” against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of profit or loss – is removed from other comprehensive income and recognised in the consolidated statement of profit or loss. Impairment losses on equity instruments classified as available-for-sale are not reversed through the consolidated statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is “significant” or “prolonged” requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

### Financial liabilities

#### Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group’s financial liabilities include trade payables and other payables and accruals.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial liabilities *(Continued)*

#### Subsequent measurement

After initial recognition, financial liabilities are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the consolidated statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the consolidated statement of profit or loss.

### Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the consolidated statement of profit or loss.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other indirect costs and related production overheads based on normal operating capacity. Net realisable value is base on estimated selling price in the ordinary course of business, less applicable variable selling and distribution costs.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

### Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the consolidated statement of profit or loss.

### Income tax

Income tax comprises current and deferred tax.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Income tax *(Continued)*

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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 profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

#### (a) Sales of goods

Sales of goods are recognised when the title to the goods has been passed to the customer, which is at the date when the customer receives and accepts the goods, and the collectability of the related receivables is reasonably assured.

#### (b) Interest income

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

#### (c) Dividend income

Dividend income is recognised when the right to receive payment is established.

### Employee benefits

#### (a) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the reporting date. Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Employee benefits *(Continued)*

#### (b) Bonus plans

Provision for bonus plans is recognised when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

#### (c) Retirement benefits schemes

The Group contributes to various employee retirement benefit plans organised by municipal and provincial governments in Mainland China for its PRC based employees. Under these plans, the municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired PRC based employees of the Group. Contributions to these plans are expensed as incurred. The Group has no further payment obligations once the contributions have been paid.

The Group's contributions to the Mandatory Provident Fund Scheme established under the Hong Kong Mandatory Provident Fund Schemes Ordinance are expensed as incurred. Both the Group and its employees in Hong Kong are required to contribute 5% of each individual's relevant income with a maximum amount of HK$1,500 per month as a mandatory contribution. Employees may also elect to contribute more than the minimum as a voluntary contribution. The assets of the scheme are held separately from those of the Group and managed by independent professional fund managers. The Group has no further payment obligations once the contributions have been paid.

### Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Foreign currencies

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

Differences arising on settlement or translation of monetary items are recognised in the consolidated statement of profit or loss. These are recognised in other comprehensive income until the net investment is disposed of, at which time the cumulative amount is reclassified to the consolidated statement of profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of the Group's overseas subsidiaries, are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into Hong Kong dollars at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the consolidated statement of profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

## 4 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements used are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

### (a) Inventories

Inventories are carried at the lower of cost and net realisable value. The cost of inventories is written down to net realisable value when there is an objective evidence that the cost of inventories may not be recoverable. The cost of inventories may not be recoverable if those inventories are aged and damaged, if they have become wholly or partially obsolete, or if their selling prices have declined. The cost of inventories may also not be recoverable if the estimated costs to be incurred to make the sales have increased.

The amount written off to the consolidated statement of profit or loss is the difference between the carrying value and net realisable value of the inventories. In determining whether the inventories can be recoverable, significant judgement is required. In making this judgement, the Group evaluates, among other factors, the duration and extent by all means to which the amount will be recovered.

### (b) Impairment of loans, trade and other receivables

The Group makes impairment of loans, trade and other receivables based on an assessment of the recoverability of the receivables. This assessment is based on the credit history of the customers and other debtors and the current market condition. The directors reassess the impairment at the end of each reporting period.

## 5 SEGMENT INFORMATION

The Group is principally engaged in the design and distribution of integrated circuits and semi-conductor parts in the PRC, Hong Kong and Taiwan, and investments holding.

For management purpose, the Group is organised into three main operations:

(i) design and sales of integrated circuits used in industrial and household measuring tools conducted through the Group's subsidiary in the PRC, namely Shanghai SyncMOS, Hong Kong and Taiwan;

(ii) corporate administration and investment functions performed by the Hong Kong headquarters; and

(iii) others. The Company has identified new business, such as sales and distribution of construction materials and added as an additional reportable segment commencing in November 2017.

## 5 SEGMENT INFORMATION *(Continued)*

These operating segments are the basis on which the Group reports its primary segment information to the chief operating decision-maker who is the Chief Executive Officer.

The chief operating decision-maker assesses the performance of the operating segments based on a measure of revenue, operating profit and net profit.

| | Design and sales of integrated circuits HK$'000 | Headquarter HK$'000 | Others HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| **For the year ended 31 December 2017** | | | | |
| Revenues from external customers | 36,448 | – | 132 | 36,580 |
| Operating profit/(loss) | 3,279 | (6,695) | 52 | (3,364) |
| Interest income | 14 | 713 | – | 727 |
| Profit/(loss) before income tax | 3,293 | (5,982) | 52 | (2,637) |
| Income tax expense | (49) | – | – | (49) |
| Profit/(loss) for the year | 3,244 | (5,982) | 52 | (2,686) |
| **Other segment information:** | | | | |
| Other (losses)/gains – net, included in results for the year | (66) | 5,111 | 63 | 5,108 |
| Depreciation and amortisation, included in results for the year | 535 | 26 | – | 561 |
| Capital expenditures | 618 | 22 | – | 640 |
| **As at 31 December 2017** | | | | |
| Segment assets | 25,900 | 128,114 | 10,137 | 164,151 |
| Segment liabilities | 2,008 | 1,040 | – | 3,048 |

## 5 SEGMENT INFORMATION *(Continued)*

| | Design and sales of integrated circuits HK$'000 | Headquarter HK$'000 | Others HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| **For the year ended 31 December 2016** | | | | |
| Revenues from external customers | 17,337 | – | – | 17,337 |
| Operating profit/(loss) | 1,149 | (6,399) | – | (5,250) |
| Interest income | 9 | 346 | – | 355 |
| Profit/(loss) before income tax | 1,158 | (6,053) | – | (4,895) |
| Income tax expense | (99) | – | – | (99) |
| Profit/(loss) for the year | 1,059 | (6,053) | – | (4,994) |
| **Other segment information:** | | | | |
| Other losses – net, included in results for the year | (71) | (1,760) | – | (1,831) |
| Depreciation and amortisation, included in results for the year | 508 | 41 | – | 549 |
| Capital expenditures | 482 | 9 | – | 491 |
| **As at 31 December 2016** | | | | |
| Segment assets | 12,457 | 143,370 | – | 155,827 |
| Segment liabilities | 1,327 | 1,271 | – | 2,598 |

## 5 SEGMENT INFORMATION *(Continued)*

### Geographical information

**(a) Revenue from external customers**

| | **2017** **HK$'000** | 2016 HK$'000 |
|---|---|---|
| Hong Kong | **8,114** | – |
| PRC | **24,606** | 17,337 |
| Taiwan | **3,860** | – |
| | **36,580** | 17,337 |

The revenue information above is based on the locations of the customers.

**(b) Non-current assets**

| | **2017** **HK$'000** | 2016 HK$'000 |
|---|---|---|
| Hong Kong | **23,240** | 54 |
| PRC | **2,634** | 2,411 |
| The United States of America | **17,947** | 47,055 |
| | **43,821** | 49,520 |

The non-current asset information above is based on the locations of the assets and excludes deferred tax assets.

## 5 SEGMENT INFORMATION *(Continued)*

### Information about major customers

During the year ended 31 December 2017, revenue of HK$29,718,000 (2016: HK$14,408,000) was derived from design and sales of integrated circuits to five (2016: four) customers, which individually accounted for over 10% of the Group's total revenue.

| | **2017** | 2016 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Customer A | **7,982** | – |
| Customer B | **6,322** | 3,501 |
| Customer C | **5,941** | 4,584 |
| Customer D | **5,613** | 3,651 |
| Customer E | **3,860** | – |
| Customer F | **N/A*** | 2,672 |

* The corresponding revenue of Customer F for the year ended 31 December 2017 is not disclosed as it individually did not contribute over 10% of the Group's total revenue for the year.

## 6 OTHER INCOME

| | **2017** | 2016 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Interest income | **727** | 355 |
| Dividend income | **2,034** | 3,471 |
| Sundry income | **112** | 309 |
| | **2,873** | 4,135 |

## 7 OTHER GAINS/(LOSSES), NET

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| Gains on disposals of available-for-sale investments | **4,420** | – |
| Investments at fair value through profit or loss: | | |
| – fair value gains, net | **–** | 4 |
| – gains/(losses) on disposal/derecognition | **166** | (1,790) |
| Exchange gains, net | **552** | 13 |
| Loss on disposal of property, plant and equipment | **(30)** | (58) |
| | **5,108** | (1,831) |

## 8 LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging/(crediting):

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| Cost of inventories sold* | **23,028** | 7,361 |
| Depreciation | **561** | 549 |
| Auditor's remuneration | **650** | 768 |
| Minimum lease payments under operating leases | **1,520** | 1,681 |
| Employee benefits expenses (including directors' remuneration (Note 9)) | | |
| Salaries, allowances and benefits in kind | **9,778** | 7,049 |
| Pension scheme contributions | **1,259** | 1,163 |
| | **11,037** | 8,212 |
| Provision for inventories* | **693** | 336 |
| Research and development costs | **201** | 56 |
| Dividend income | **(2,034)** | (3,471) |
| Exchange gains, net | **(552)** | (13) |
| Interest income | **(727)** | (355) |
| Loss on disposal of property, plant and equipment | **30** | 58 |
| (Gains)/losses on disposal/derecognition of investments at fair value through profit or loss | **(166)** | 1,790 |
| Gains on disposals of available-for-sale investments | **(4,420)** | – |
| Fair value gains investments at fair value through profit or loss | **–** | (4) |

* Included in "cost of sales" on the face of consolidated statement of profit or loss.

## 9 BENEFITS AND INTERESTS OF DIRECTORS

### (a) Directors' remuneration

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the List of Securities on the Stock Exchange, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

| Name of Director | Fees HK$'000 | Salaries, allowances and other benefits HK$'000 | Discretionary bonus HK$'000 | Employer's contribution to retirement benefit contributions HK$'000 | Share-based payments HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| **2017** | | | | | | |
| **Executive directors:** | | | | | | |
| Mr. Liew Fui Kiang (Note (i)) | 160 | 320 | – | – | – | 480 |
| Mr. Leung Pok Man (Note (i)) | 160 | – | – | – | – | 160 |
| Ms. Lau Mei Ying (Note (i)) | 160 | – | – | – | – | 160 |
| Mr. Cheng Chow-Chun (Note (ii)) | 107 | – | – | – | – | 107 |
| Mr. Lee Chao-Chun (Note (ii)) | 107 | – | – | – | – | 107 |
| Mr. Sun Tao-Heng (Note (ii)) | 107 | – | – | – | – | 107 |
| Mr. Yuan Chun-Tang (Note (ii)) | 107 | – | – | – | – | 107 |
| | 908 | 320 | – | – | – | 1,228 |
| **Independent non-executive directors:** | | | | | | |
| Ms. Chow Chui Ying (Note (i)) | 40 | – | – | – | – | 40 |
| Mr. Zhou Danqing (Note (i)) | 40 | – | – | – | – | 40 |
| Dr. Yang Yung-Ming (Note (i)) | 40 | – | – | – | – | 40 |
| Mr. Suen Sai Wah Simon (Note (ii)) | 80 | – | – | – | – | 80 |
| Mr. Li Kwan In (Note (ii)) | 80 | – | – | – | – | 80 |
| Mr. Wang Chiang-Ming (Note (ii)) | 80 | – | – | – | – | 80 |
| | 360 | – | – | – | – | 360 |
| | 1,268 | 320 | – | – | – | 1,588 |

## 9 BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

### (a) Directors' remuneration *(Continued)*

| Name of Director | Fees HK$'000 | Salaries, allowances and other benefits HK$'000 | Discretionary bonus HK$'000 | Employer's contribution to retirement benefit contributions HK$'000 | Share-based payments HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| **2016** | | | | | | |
| **Executive directors:** | | | | | | |
| Mr. Cheng Chow-Chun (Note (ii)) | 160 | – | – | – | – | 160 |
| Mr. Lee Chao-Chun (Note (ii)) | 160 | – | – | – | – | 160 |
| Mr. Sun Tao-Heng (Note (ii)) | 160 | – | – | – | – | 160 |
| Mr. Yuan Chun-Tang (Note (ii)) | 160 | – | – | – | – | 160 |
| | 640 | – | – | – | – | 640 |
| **Independent non-executive directors:** | | | | | | |
| Mr. Suen Sai Wah Simon (Note (ii)) | 120 | – | – | – | – | 120 |
| Mr. Li Kwan In (Note (ii)) | 120 | – | – | – | – | 120 |
| Mr. Wang Chiang-Ming (Note (ii)) | 120 | – | – | – | – | 120 |
| | 360 | – | – | – | – | 360 |
| | 1,000 | – | – | – | – | 1,000 |

Note:

(i) Appointed on 31 August 2017.

(ii) Resigned on 31 August 2017.

## 9 BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

### (b) Directors' retirement benefits and termination benefits

None of the directors received or will receive any retirement benefits or termination benefits during the financial year (2016: Nil).

### (c) Consideration provided to third parties for making available directors' services

During the financial year ended 31 December 2017, the Company does not pay consideration to any third parties for making available directors' services (2016: Nil).

### (d) Information about loans, quasi-loans and other dealings in favour of directors, controlled body corporates by and connected entities with such directors

As at 31 December 2017, there are no loans, quasi-loans and other dealing arrangements in favour of directors, controlled body corporates by and controlled entities with such directors (2016: Nil).

### (e) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## 10 FIVE HIGHEST PAID INDIVIDUALS

None of the five highest paid individuals is a director (2016: None) of the Company whose emoluments are reflected in Note 9. Details of the remuneration for the year of the five highest paid employees who are not a director of the Company are as follows:

| | **2017** | 2016 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Basic salaries and allowances | **3,193** | 2,765 |
| Bonuses | **502** | 162 |
| Pension costs – defined contribution plan | **229** | 317 |
| | **3,924** | 3,244 |

The emoluments of these five (2016: five) highest paid individuals fell within the following bands:

| | **Number of individuals** | |
|---|---|---|
| | **2017** | 2016 |
| Nil – HK$1,000,000 | **4** | 4 |
| HK$1,000,001 – HK$1,500,000 | **1** | 1 |
| | **5** | 5 |

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

## 11 INCOME TAX EXPENSE

The Company is exempted from taxation in Bermuda. No provision for Hong Kong profits tax has been made as its subsidiaries in Hong Kong have no estimated assessable profits for the year, except for one of the subsidiaries has available tax losses brought forward from prior years to offset the assessable profits generated during the year. Shanghai SyncMOS was registered as a New and High Technology Enterprise during the year ended 31 December 2017 and is subjected to a preferential Corporate Income Tax ("CIT") rate of 15% (2016: preferential CIT rate of 15%).

| | **2017** | 2016 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Current – PRC | **83** | – |
| Deferred (Note 16) | **(34)** | 99 |
| Total tax charge for the year | **49** | 99 |

The tax on the Group's loss before income tax differs from the theoretical amount that would arise using domestic tax rates applicable to loss in the respective countries as follows:

| | **2017** | 2016 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Loss before tax | **(2,637)** | (4,895) |
| Tax calculated at domestic tax rates applicable to profit in the respective countries | **(369)** | 226 |
| Income not subject to tax | **(1,244)** | (53) |
| Expenses not deductible for tax | **351** | 12 |
| Tax incentives for research and development expenses (Note) | **(366)** | (86) |
| Tax losses not recognised | **1,774** | – |
| Tax losses utilised from previous periods | **(8)** | – |
| Others | **(89)** | – |
| Income tax expense | **49** | 99 |

Note:

According to relevant laws and regulations promulgated by the State Administration of Tax of the PRC effective from 2008 onwards, enterprises engaging in research and development activities are entitled to claim 150% of their qualified research and development expenses so incurred as tax deductible expenses when determining their assessable profits for the year ("Super Deduction"). The additional deduction of 50% of qualified research and development expenses is subject to the approval from the relevant tax authorities in the annual CIT filling. The Group has made its best estimate for the Super Deduction to be claimed in ascertaining the assessable profits for the year ended 31 December 2017.

## 12 DIVIDEND

No dividends has been paid or proposed during the year 31 December 2017 nor has any dividend been proposed since the end of the reporting period (2016: Nil).

## 13 LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

### (a) Basic

Basic loss per share is calculated by dividing the consolidated loss attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

| | **2017** | 2016 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Loss attributable to ordinary equity holders of the Company | **(2,686)** | (4,994) |

| | **Number of shares** | |
|---|---|---|
| | **2017** | 2016 |
| | **'000** | '000 |
| Weighted average number of ordinary shares in issue | **336,587** | 336,587 |
| | **HK cents** | HK cents |
| Basic loss per share | **(0.80)** | (1.48) |

### (b) Diluted

The Company has not issued any potentially dilutive ordinary shares during the years ended 31 December 2017 and 2016.

## 14 PROPERTY, PLANT AND EQUIPMENT

| | Leasehold improvements HK$'000 | Furniture, fixtures and equipment HK$'000 | Total HK$'000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2016 | 124 | 8,452 | 8,576 |
| Additions | 9 | 482 | 491 |
| Disposal/Write off | (29) | (596) | (625) |
| Exchange differences | – | (520) | (520) |
| At 31 December 2016 and 1 January 2017 | 104 | 7,818 | 7,922 |
| Additions | – | 640 | 640 |
| Disposal/Write off | (30) | (328) | (358) |
| Exchange differences | – | 578 | 578 |
| At 31 December 2017 | 74 | 8,708 | 8,782 |
| **Accumulated depreciation** | | | |
| At 1 January 2016 | (98) | (5,918) | (6,016) |
| Charge for the year | (21) | (528) | (549) |
| Disposal/Write off | 29 | 538 | 567 |
| Exchange differences | – | 364 | 364 |
| At 31 December 2016 and 1 January 2017 | (90) | (5,544) | (5,634) |
| Charge for the year | (13) | (548) | (561) |
| Disposal/Write off | 30 | 298 | 328 |
| Exchange differences | – | (407) | (407) |
| At 31 December 2017 | (73) | (6,201) | (6,274) |
| **Carrying amounts** | | | |
| At 31 December 2016 | 14 | 2,274 | 2,288 |
| At 31 December 2017 | 1 | 2,507 | 2,508 |

Depreciation expenses of HK$561,000 (2016: HK$549,000) has been charged in 'general and administrative expenses'.

## 15 INTANGIBLE ASSETS

| | **Computer software** HK$'000 |
|---|---|
| At 1 January 2016, 31 December 2016 and 31 December 2017 | |
| Cost | 5,005 |
| Accumulated amortisation | (5,005) |
| Net carrying amount | – |

## 16 DEFERRED TAX ASSETS

The analysis of deferred tax assets is as follows:

| | **2017** **HK$'000** | 2016 HK$'000 |
|---|---|---|
| Deferred tax assets to be recovered after more than 12 months | **479** | 412 |

The gross movement on the deferred tax assets is as follows:

| | **2017** **HK$'000** | 2016 HK$'000 |
|---|---|---|
| At 1 January | **412** | 542 |
| Credited/(charged) to the consolidated statement of profit or loss (Note 11) | **34** | (99) |
| Exchange differences on translation | **33** | (31) |
| At 31 December | **479** | 412 |

## 16 DEFERRED TAX ASSETS *(Continued)*

Deferred tax assets:

| | Provision HK$'000 | Tax losses HK$'000 | Total HK$'000 |
|---|---|---|---|
| At 1 January 2016 | 279 | 263 | 542 |
| Deferred tax charged/(credited) to consolidated statement of profit or loss during the year | 53 | (152) | (99) |
| Exchange differences on translation | (20) | (11) | (31) |
| **At 31 December 2016 and at 1 January 2017** | **312** | **100** | **412** |
| Deferred tax charged/(credited) to consolidated statement of profit or loss during the year | **139** | **(105)** | **34** |
| Exchange differences on translation | **28** | **5** | **33** |
| At 31 December 2017 | **479** | **–** | **479** |

Unrecognised tax losses of HK$91,158,000 (2016: HK$80,454,000) is subject to the approval of the relevant tax authorities and have no expiry dates. The potential deferred tax assets in respect of these tax losses which have not been recognised amounted to HK$15,041,000 (2016: HK$13,275,000).

## 17 AVAILABLE-FOR-SALE INVESTMENTS

| | **2017 HK$'000** | 2016 HK$'000 |
|---|---|---|
| **At 1 January** | **47,055** | – |
| Additions | **23,000** | 55,526 |
| Disposals | **(43,217)** | – |
| Fair value gain/(loss) (Note 27) | **14,005** | (8,471) |
| Exchange differences on translation | **104** | – |
| **At 31 December** | **40,947** | 47,055 |

## 17 AVAILABLE-FOR-SALE INVESTMENTS *(Continued)*

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| Listed investment, at fair value | | |
| – Equity securities listed in the United States of America (Note (a)) | **17,947** | 47,055 |
| Unlisted investment, at cost | | |
| – Equity securities (Note (b)) | **23,000** | – |
| | **40,947** | 47,055 |

Notes:

(a) As at 31 December 2017, the Group owned 130,362 (2016: 430,027) ChipMOS Technologies Inc. ("ChipMOS Taiwan") American depository shares ("ChipMOS Taiwan ADS"). During the year, the Group disposed 299,665 ChipMos Taiwan ADS. The Group classified its investment in ChipMOS Taiwan ADS as an available-for-sale investments.

(b) On 7 November 2017, Able Summit, a wholly-owned subsidiary, entered into a capital injection agreement, in which Able Summit agreed to subscribe for 23,000,000 shares (representing approximately 8.81%) in Cornerstone Securities Limited at HK$23,000,000. Cornerstone Securities Limited was incorporated in Hong Kong with limited liabilities and is principally engaged in securities brokerage business in Hong Kong. The investment is measured at cost less impairment at the end of reporting period because the range of reasonable fair value estimate is so significant that the directors of the Company are of the opinion that their fair value cannot be measured reliably.

During the year, the gross gain in respect of the Group's available-for-sale investments recognised in other comprehensive income amounted to HK$14,005,000 (2016: gross loss of HK$8,471,000) of which HK$4,420,000 (2016: Nil) was reclassified from the consolidated statement of comprehensive income to the consolidated statement of profit or loss for the year.

## 18 INVENTORIES

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| Raw materials | **1,368** | 935 |
| Work in progress | **1,339** | 1,528 |
| Finished goods | **4,885** | 3,843 |
| | **7,592** | 6,306 |
| Less: provision for inventories | **(2,785)** | (2,024) |
| Inventories, net | **4,807** | 4,282 |

The cost of inventories recognised as expense and included in 'cost of sales' amounted to HK$23,028,000 (2016: HK$7,361,000), which included provision for inventories of HK$693,000 for the year ended 31 December 2017 (2016: HK$336,000).

## 19 TRADE AND BILLS RECEIVABLES

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Trade receivables | **10,346** | 2,285 |
| Bills receivables | **2,161** | 1,706 |
| Less: allowance for impairment of receivables | **–** | – |
| Trade and bills receivables | **12,507** | 3,991 |

### Trade receivables

An aged analysis of trade receivables as at the end of the reporting period, based on invoice date, is as follows:

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Within 1 month | **8,766** | 383 |
| More than 1 month but less than 3 months | **1,391** | 1,755 |
| More than 3 months | **189** | 147 |
| | **10,346** | 2,285 |

The Group's credit terms to trade debtors range from 30 to 90 days (2016: 60 to 90 days).

An aged analysis of trade receivables that are not individually nor collectively considered to be impaired is as follows:

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Neither past due nor impaired | **10,157** | 1,710 |
| Less than 1 month past due | **189** | 428 |
| 1 to 3 months past due | **–** | 147 |
| | **10,346** | 2,285 |

Receivables that were neither past due nor impaired relate to a number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers who have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

## 19 TRADE AND BILLS RECEIVABLES *(Continued)*

### Bills receivables

The maturity dates of the Group's bills receivables as at the end of the reporting period are as follows:

| | **2017** | 2016 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Within 1 month | **516** | 251 |
| More than 1 month but less than 3 months | **985** | 748 |
| More than 3 months but less than 6 months | **660** | 707 |
| | **2,161** | 1,706 |

## 20 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

| | **2017** | 2016 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Deposits | **30,511** | 708 |
| Prepayments | **9,678** | 919 |
| Dividends receivable | **–** | 2,785 |
| Proceeds receivable from derecognition of investments at fair value through profit or loss | **3,029** | 10,757 |
| Other receivables (Note) | **362** | 135 |
| | **43,580** | 15,304 |
| Less: non-current portion – long-term deposits | **(366)** | (177) |
| Current portion | **43,214** | 15,127 |

Note: Included in other receivables' is an amount due from Mosel Vitelic Inc., a related company amounting of HK$3,000 (2016: HK$3,000). The amount due is unsecured, interest-free and repayable on demand.

## 21 LOANS RECEIVABLES

During the year, loans are unsecured and were granted to independent third parties bear fixed interest rates of 10% per annum and will be matured in 2018 (2016: Nil).

Loans receivables are all denominated in Hong Kong dollars.

## 22 INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | **2017**<br>**HK$'000** | 2016<br>HK$'000 |
|---|---|---|
| Listed equity investments, at market value | **–** | 718 |

At 31 December 2016, the above equity investments were classified as held for trading and were, upon initial recognition, designated by the Group as financial assets at fair value through profit or loss.

All the investments at fair value through profit or loss were disposed during the year (2016: Nil).

## 23 CASH AND CASH EQUIVALENTS

| | **2017**<br>**HK$'000** | 2016<br>HK$'000 |
|---|---|---|
| Cash and bank balances | **42,038** | 5,753 |
| Time deposits | **1,258** | 75,973 |
| Cash and cash equivalents | **43,296** | 81,726 |

As at 31 December 2017, the cash and bank balances of the Group's subsidiary in the PRC denominated in Renminbi ("RMB") amounted to HK$3,948,000 (2016: HK$604,000). The RMB is not freely convertible into other currencies, however, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for others currencies through banks authorised to conduct foreign exchange business.

Cash at banks and time deposits earns interest at floating rate based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

## 24 TRADE PAYABLES

An aged analysis of the trade payables as at the end of the reporting period, based on invoice date, is as follows:

| | **2017**<br>**HK$'000** | 2016<br>HK$'000 |
|---|---|---|
| Within 1 month | **150** | 105 |

The trade payables are non-interest bearing and are normally settled on terms of one month.

## 25 OTHER PAYABLES AND ACCRUALS

| | **2017** **HK$'000** | 2016 HK$'000 |
|---|---|---|
| Accrued staff benefits | **1,273** | 835 |
| Accrued professional fees | **734** | 1,153 |
| Advances from customers | **406** | 250 |
| Other payables | **485** | 255 |
| | **2,898** | 2,493 |

## 26 SHARE CAPITAL

| | **Number of shares** '000 | **Ordinary shares** HK$'000 | **Share premium** HK$'000 | **Total share capital** HK$'000 |
|---|---|---|---|---|
| At 1 January 2016, 31 December 2016, 1 January 2017 and 31 December 2017 | 336,587 | 33,659 | 101,263 | 134,922 |

The total authorised number of ordinary shares is 1,000 million shares (2016: 1,000 million shares) with a par value of HK$0.1 per share (2016: HK$0.1 per share). All issued shares are fully paid.

## 27 OTHER RESERVES

| | **Exchange reserve** HK$'000 | **Investment reserve** HK$'000 | **Total** HK$'000 |
|---|---|---|---|
| At 1 January 2016 | 545 | – | 545 |
| Changes in fair value on available-for-sale investments (Note 17) | – | (8,471) | (8,471) |
| Exchange differences on translation | (748) | – | (748) |
| At 31 December 2016 and 1 January 2017 | (203) | (8,471) | (8,674) |
| Changes in fair value on available-for-sale investments (Note 17) | – | 14,005 | 14,005 |
| Reserve released upon disposal of available-for-sale investments | – | (4,420) | (4,420) |
| Exchange differences on translation | 975 | – | 975 |
| At 31 December 2017 | 772 | 1,114 | 1,886 |

## 28 OPERATING LEASE COMMITMENTS

The Group leases various offices under non-cancellable operating lease agreements. The lease terms are between one to three years.

The future aggregate minimum lease payments for office premises under non-cancellable operating leases are as follows:

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| – Not later than one year | **1,347** | 1,107 |
| – Later than one year and not later than five years | **377** | 717 |
| | **1,724** | 1,824 |

## 29 RELATED PARTY TRANSACTIONS

In addition to the transactions detailed elsewhere in these consolidated financial statements, the Group entered into the following material transactions with related parties during the year ended 31 December 2017.

### Key management compensation

Key management includes directors (executive and non-executive) and a senior management. The compensation paid or payable to key management for employee services is shown below:

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Basic salaries and allowances | **2,694** | 2,122 |
| Bonuses | **184** | 47 |
| | **2,878** | 2,169 |

## 30 FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Other than the listed investment of available-for-sale investments and investments at fair value through profit or loss as disclosed in notes 17 and 22 to the consolidated financial statements, all financial assets and liabilities of the Group as at 31 December 2017 and 2016, are loans and receivables, and financial liabilities at amortised cost, respectively.

## 30 FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Continued)*

Management has assessed that the fair values of cash and cash equivalents, loans receivables, trade and bills receivables, deposits and other receivables and trade and other payables approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The Group's finance department is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance department reports directly to the board of directors and the Audit Committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the board of directors. The valuation process and results are discussed with the Audit Committee twice a year for interim and annual financial reporting.

The fair values of listed equity investments are based on quoted market prices.

### Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Company's available-for-sale investments and investments at fair value through profit or loss:

| | Fair value measurement | | | |
|---|---|---|---|---|
| | **Quoted prices in active markets Level 1** | **Significant observable inputs Level 2** | **Significant unobservable inputs Level 3** | **Total** |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| 2017 | | | | |
| Available-for-sale investments: | | | | |
| Listed equity investments | **17,947** | **–** | **–** | **17,947** |
| 2016 | | | | |
| Available-for-sale investments: | | | | |
| Listed equity investments | 47,055 | – | – | 47,055 |
| Investments at fair value through profit or loss | 718 | – | – | 718 |
| | 47,773 | – | – | 47,773 |

The Group did not have any financial liabilities measured at fair value as at 31 December 2017 and 2016.

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2016: Nil).

## 31 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

### Financial risk factors

The Group's principal financial instruments are used to raise finance for the Group's operations and investments. The Group has various other financial assets and liabilities such as loans and trade receivables and other payables which arise directly from its operations. The main risks arising from the Group's financial instruments are foreign currency risk, interest rate risk, equity price risk, credit risk and liquidity risk. The board of directors review and agree policies for managing each of these risks and they are summarised below.

#### Foreign exchange risk

The Group operates in both the PRC and Hong Kong. Most of the transactions for the PRC reporting entity is denominated in RMB, whereas that for Hong Kong reporting entities are denominated in HK$ and United States dollar ("US$"). Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. Management is responsible for managing the net position in each foreign currency. The Group currently does not have a foreign currency hedging policy. As the assets and liabilities of the PRC reporting entity is mainly denominated in RMB, its functional currency, the directors are of the opinion that their volatility of their profits against changes in exchange rates of foreign currencies would not be significant. Accordingly, no sensitivity analysis is performed.

Moreover, as the assets and liabilities of the HK reporting entities are mainly denominated in HK$, its functional currency, and US$ are reasonably stable against the HK$ under the Linked Exchange Rate System, the directors are of the opinion that the Group does not have significant foreign exchange risk. Accordingly, no sensitivity analysis is performed.

#### Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest bearing financial assets. Interest-bearing financial assets are the interests on loans receivables and deposits with banks. Interests on deposits with banks based on deposit rates offered by bank while interests on loans receivables are based on fixed rates. The impact on post-tax loss of 10 basis-point shift would be a maximum decrease/increase of HK$63,000 for the year ended 31 December 2017 (2016: HK$85,000), mainly as a result of its interests-bearing bank deposits.

#### Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the value of individual securities. The Group is exposed to equity price risk arising from certain available-for-sale investments (note 17) and investments at fair value through profit or loss (note 22) as at 31 December 2017 and 2016. The Group's listed investments are listed on the Stock Exchanges and the NASDAQ market and are valued at quoted market prices at the end of the reporting period.

## 31 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

*(Continued)*

### Financial risk factors *(Continued)*

**Equity price risk** *(Continued)*

The following table demonstrates the sensitivity to every 10% (2016: 10%) change in the fair values of the equity investments, with all other variables held constant and before any impact on tax, based on their carrying amounts at the end of the reporting period.

| | Carrying amount of equity investment HK$'000 | Increase/ (decrease) in loss before tax HK$'000 | Increase/ (decrease) in equity HK$'000 |
|---|---|---|---|
| 2017 | | | |
| Investment listed in: | | | |
| United States of America – Available-for-sale | **17,947** | **–** | **1,795** |
| 2016 | | | |
| Investment listed in: | | | |
| United States of America – Available-for-sale | 47,055 | – | 4,706 |
| Hong Kong – Held-for-trading | 718 | 72 | – |
| | 47,773 | 72 | 4,706 |

**Credit risk**

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. The Group's credit risk is primarily attributable to the loans and trade receivables. In order to minimise the credit risk, the Group has established policies and systems for monitoring and control of credit risk. The management has delegated different divisions responsible for determination of credit limits, credit approvals and other monitoring processes to ensure that follow up action is taken to recover overdue debts. In addition, management reviews the recoverable amounts of loans and trade receivables individually or collectively at each reporting date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, management considers that the Group's credit risk is significantly reduced.

## 31 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### Financial risk factors *(Continued)*

**Credit risk** *(Continued)*

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, deposits and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of those instruments.

At the end of the reporting period, the Group had concentrations of credit risk as 98% (2016: 99%) of the Group's trade receivables were due from the Group's top five largest customers. The Group mitigates it concentration risk from it major customers by doing businesses with a number of customers for the same or similar products and the Group actively monitors the credit quality of its customers and adjusts the credit limits granted to the customers should their credit quality deteriorate or when there are signs of slow payment of outstanding receivables. Further quantitative data in respect of the Group's exposure to credit risk arising from these receivables are disclosed in note 19 to the consolidated financial statements.

**Liquidity risk**

Internally generated cash flows are the general sources of funds to finance the operations of the Group. The Group regularly reviews its major funding positions to ensure it has adequate financial resources in meeting its financial obligations. The Group aims to maintain sufficient bank deposits to meet its short term cash requirements. The Group's liquidity risk management includes diversifying the funding sources.

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

| | On demand or within one year | |
|---|---|---|
| | **2017** | 2016 |
| | **HK$'000** | HK$'000 |
| Trade payables | **150** | 105 |
| Other payables and accruals | **2,492** | 2,243 |
| | **2,642** | 2,348 |

## 31 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

*(Continued)*

### Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total liabilities expressed as a percentage of the total equity and liabilities. As at 31 December 2017, the gearing ratio was approximately 1.9% (2016: approximately 1.7%). Management considers a ratio of not more than 30% as optimal.

### Financial instruments by category

| | Loans and receivables HK$'000 | Financial assets at fair value through profit or loss HK$'000 | Available-for-sale financial investments HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| At 31 December 2017 | | | | |
| Trade and bills receivables | **12,507** | **–** | **–** | **12,507** |
| Deposits, prepayments and other receivables | **33,902** | **–** | **–** | **33,902** |
| Loans receivables | **15,700** | **–** | **–** | **15,700** |
| Available-for-sale investments | **–** | **–** | **40,947** | **40,947** |
| Cash and cash equivalents | **43,296** | **–** | **–** | **43,296** |
| Total | **105,405** | **–** | **40,947** | **146,352** |

## 31 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

*(Continued)*

### Financial instruments by category *(Continued)*

| | Loans and receivables HK$'000 | Financial assets at fair value through profit or loss HK$'000 | Available-for-sale financial investments HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| At 31 December 2016 | | | | |
| Trade and bills receivables | 3,991 | – | – | 3,991 |
| Deposits, prepayments and other receivables | 14,385 | – | – | 14,385 |
| Investments at fair value through profit or loss | – | 718 | – | 718 |
| Available-for-sale investments | – | – | 47,055 | 47,055 |
| Cash and cash equivalents | 81,726 | – | – | 81,726 |
| Total | 100,102 | 718 | 47,055 | 147,875 |

| | **Financial liabilities at amortised cost** HK$'000 |
|---|---|
| At 31 December 2017 | |
| Trade payables | **150** |
| Other payables and accruals | **2,492** |
| Total | **2,642** |
| At 31 December 2016 | |
| Trade payables | 105 |
| Other payables and accruals | 2,243 |
| Total | 2,348 |

## 31 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

*(Continued)*

### Offsetting financial assets and financial liabilities

No financial assets or liabilities are subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2017 (2016: same).

### Major customers and suppliers

The five largest customers of the Group accounted for approximately 81% (2016: 92%) of the Group's total revenue while the largest customer of the Group accounted for approximately 22% (2016: 26%) of the Group's total revenue. In addition, for the year ended 31 December 2017, the five largest suppliers of the Group accounted for approximately 96% (2016: 84%) of the Group's total purchases while the largest supplier of the Group accounted for approximately 33% (2016: 44%) of the Group's total purchases.

The Group mitigates its concentration risk from its major customers by doing businesses with a number of customers for the same or similar products. The Group also maintains relationships with a number of accredited suppliers so as to reduce its reliance of any of them.

## 32 EVENTS AFTER THE REPORTING PERIOD

(i) On 24 January 2018, the Company proposed a possible disposal of an aggregate of 130,362 ChipMOS Taiwan ADS, representing all of its current holding of ChipMOS Taiwan ADS (the "Possible Disposals"). A special general meeting was held on 12 March 2018 and an ordinary resolution was passed by the shareholders for approving the Company's Possible Disposals. Please refer to the circular dated 14 February 2018 and announcement on 12 March 2018 respectively for details.

(ii) On 28 February 2018, all conditions to the sales and purchase agreement for the Company's acquisition of the entire issued share capital in Wit Sky Limited have been fulfilled and completed. Please refer to the announcements dated 27 October 2017, 13 November 2017 and 28 February 2018 for details of the sales and purchase agreement and the completion respectively.

As the Group has not yet completed the fair value determination of the acquired companies' identifiable assets, liabilities and contingent liabilities at the date of completion of the Acquisition, the disclosure of such amounts and amount of goodwill is impracticable.

## 33 COMPARATIVE AMOUNTS

Certain comparative amounts have been represented to conform to the current year's presentation and disclosures.

## 34 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

### Statement of financial position of the Company

As at 31 December 2017

| | Note | **2017**<br>**HK$'000** | 2016<br>HK$'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | | **51** | 55 |
| Investments in subsidiaries | | **62,539** | 21,523 |
| Available-for-sale investments | | **17,947** | 47,055 |
| Long-term deposits | | **189** | – |
| Total non-current assets | | **80,726** | 68,633 |
| **CURRENT ASSETS** | | | |
| Loans receivables | | **15,700** | – |
| Deposits, prepayments and other receivables | | **33,806** | 14,419 |
| Cash and cash equivalents | | **35,989** | 79,221 |
| Total current assets | | **85,495** | 93,640 |
| **CURRENT LIABILITIES** | | | |
| Other payables and accruals | | **1,033** | 1,271 |
| Amounts due to subsidiaries | | **10,325** | 10,327 |
| Total current liabilities | | **11,358** | 11,598 |
| **NET CURRENT ASSETS** | | **74,137** | 82,042 |
| **NET ASSETS** | | **154,863** | 150,675 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | | **134,922** | 134,922 |
| Other reserves | 34(a) | **159,480** | 149,895 |
| Accumulated losses | 34(a) | **(139,539)** | (134,142) |
| **Total equity** | | **154,863** | 150,675 |

| | |
|---|---|
| **LIEW Fui Kiang** | **LEUNG Pok Man** |
| *Director* | *Director* |

## 34 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY *(Continued)*

### (a) Reserve movement of the Company

| | | Other reserves | | | |
|---|---|---|---|---|---|
| | **Accumulated losses** | **Contributed surplus** | **Capital reserve** | **Investment reserve** | **Total** |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| At 1 January 2016 | (127,846) | 137,800 | 20,566 | – | 158,366 |
| Loss for the year | (6,296) | – | – | – | – |
| Changes in fair value on available-for-sale investments | – | – | – | (8,471) | (8,471) |
| **At 31 December 2016** | (134,142) | 137,800 | 20,566 | (8,471) | 149,895 |
| At 1 January 2017 | **(134,142)** | **137,800** | **20,566** | **(8,471)** | **149,895** |
| Loss for the year | **(5,397)** | **–** | **–** | **–** | **–** |
| Changes in fair value on available-for-sale investments | **–** | **–** | **–** | **9,585** | **9,585** |
| **At 31 December 2017** | **(139,539)** | **137,800** | **20,566** | **1,114** | **159,480** |

## 35 APPROVAL OF THE FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 21 March 2018.