Alltronics Holdings Limited
華訊股份有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 833

Annual Report 2017

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CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. LAM Yin Kee *(Chairman and Chief Executive)*
Ms. YEUNG Po Wah
Mr. MENG Fei
Ms. LIU Jing
Mr. LAM Chee Tai, Eric
Mr. SO Kin Hung

Non-executive Directors

Mr. FAN, William Chung Yue
Mr. LAU Fai Lawrence

Independent Non-executive Directors

Mr. PANG Kwong Wah
Mr. YAU Ming Kim, Robert
Mr. YEN Yuen Ho, Tony
Mr. LIN Kam Sui

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit 408, 4/F, Citicorp Centre
18 Whitfield Road
Hong Kong

COMPANY SECRETARY

Mr. LEUNG Fuk Cheung

STOCK CODE

833

INDEPENDENT AUDITOR

Ernst & Young

AUDIT COMMITTEE

Mr. PANG Kwong Wah *(Chairman)*
Mr. YAU Ming Kim, Robert
Mr. YEN Yuen Ho, Tony

PRINCIPAL BANKERS

The Hong Kong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited
Standard Chartered Bank (Hong Kong) Limited
Shengjing Bank Co., Ltd.

SHARE REGISTRARS AND TRANSFER OFFICE

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

In Cayman Islands
Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

WEBSITE

http://www.irasia.com/listco/hk/alltronics/index.htm

On behalf of the board (the "Board") of directors (the "Directors") of Alltronics Holdings Limited (the "Company", and together with its subsidiaries, the "Group"), I am pleased to present to you the annual report for the year ended 31 December 2017.

BUSINESS REVIEW

The year 2017 was another remarkable year for the Group both in terms of turnover and profit. Total revenue for the year had increased by 31.0%, from HK$1,023.6 million to HK$1,340.9 million. Net profit attributable to owners of the Company had increased by 54.6% from HK$71.8 million to HK$111.0 million. The increase in overall profitability was mainly due to the expansion in revenue from electronic products segment, and the contribution from the new investment properties business segment. During the year, total revenue from electronic products segment had remained strong and had increased from HK$1,015.9 million to HK$1,235.4 million. Sales of the Group's major product, irrigation controllers, had increased by HK$56.0 million, sales of walkie-talkie products had increased by HK$101.8 million and sales of security tag products had increased by HK$12.8 million. The demand for the Group's other electronic products also remained strong during the year.

On the other hand, diversification of the Group's business into provision of investment properties for rental income had resulted in increase in turnover by HK$65.7 million. The fair value of the investment properties located at Beijing had also increased by HK$121.1 million since its acquisition in January 2017.

Regarding the LED energy saving business segment, as of 31 December 2017, the Group had completed the installation work and inspection procedures at over 600 retail stores of Suning.com Co., Ltd. ("Suning", formerly known as Suning Commerce Group Co., Ltd.). The Group had also completed the installation work and inspection procedures at two hotels operated by HNA Group Co., Ltd.

United States continued to be the major market for the Group's products and accounted for approximately 45.3% of the total revenue for the year.

PROSPECTS

Although the global economy in 2018 will still be uncertain, I have confidence to tackle the challenges by continuously exploring new markets and new customers to broaden the customer base of the Group and to expand the revenue stream. New products, including new model of walkie-talkie products and photolysis air purifiers, will be launched in 2018. In order to cope with the increasing demand on the Group's electronic products, new production facilities will be set up in Yichun.

In January 2017, the Group had completed the acquisition of the entire interest in a shopping mall located at Beijing, known as "Pretty Shopping Centre". The Pretty Shopping Centre is held for investment purposes and will generate stable source of revenue to the Group in future. In order to attract more prominent and prestigious tenants and to increase future rental income, the Pretty Shopping Centre is currently under renovation work which is expected to be completed in the second quarter of 2018. A new tenancy agreement for the entire shopping mall has been entered into with a renowned property management group in January 2018.

During the year, the Group's associated company, Yichun Yilian Print Tech. Co. Ltd. ("Yichun Yilian"), had set up new production facilities at Yichun for production of printers and accessory products. Strategic investors had also joint Yichun Yilian to broaden it shareholder base and to provide additional funds to finance its fast growing business. I expect the operations of Yichun Yilian will expand in a much faster pace in 2018 and its contribution to the Group will also increase.

Regarding the energy saving business segment, the Group will continue the installation work at other retail stores of Suning.

The Group will continue to look for new investment opportunity so as to diversify its business and to provide a better return to all shareholders.

DIVIDEND

The Board recommends a final dividend of HK5.0 cents per ordinary share, together with the interim dividend of HK3.0 cents per ordinary share paid in October 2017, the total dividend for the year will be HK8.0 cents per ordinary share. The Board believes that after the payment of the proposed final dividend, the financial position of the Group remains to be strong and the Group still has sufficient liquid funds to finance its operations and to prepare for future growth.

APPRECIATION

On behalf of the Board, I would like to thank the management team and all of our staff for their hard work and contribution in the past year. I would also like to take this opportunity to express our warmest welcome to Mr. Lau Fai Lawrence, Mr. Meng Fei and Mr. Lin Kam Sui for joining the Board during the year.

Lastly, I wish to extend my sincere gratitude to all our shareholders, customers and business partners for their continuing support.

Lam Yin Kee
Chairman

Hong Kong, 28 March 2018

FINANCIAL REVIEW

Revenue

Total revenue for the year ended 31 December 2017 had increased by 31.0% to HK$1,340.9 million, as compared to HK$1,023.6 million for the year 2016. The increase was mainly due to the increase in revenue from electronic products segment and the rental income recognised from the investment properties acquired during the year. The diversity of the Group's business has allowed the Group to maintain its revenue growth momentum in the year 2017.

The turnover analysis by business segments for the two years ended 31 December 2017 and 2016 respectively are as follows:

	2017	2016
	HK$'000	HK$'000
Revenue from sales of electronic products	**1,235,370**	1,015,877
Rental income from investment properties held	**65,698**	–
Revenue from biodiesel products and energy efficient gas stoves	**3,828**	3,084
Revenue from energy saving business	**36,023**	4,589
	1,340,919	1,023,550

Sales of electronic products comprise sales of finished electronic products; plastic moulds; plastic and other components for electronic products. The increase in total sales revenue from electronic products was mainly due to the strong demand for the Group's finished electronic products, which had increased from HK$746.9 million in 2016 to HK$991.6 million in 2017. During the year, the sales revenue from the Group's major products, irrigation controllers, to the largest customer of the Group in the United States had increased by HK$56.0 million. Sales of walkie-talkie products had increased by approximately HK$101.8 million, of which HK$45.0 million being sales of walkie-talkie products to a new customer, Xian Feng Yu Technology Limited ("Xian Feng Yu"), which is one of the companies within the Xiaomi Ecosystem. On the other hand, as the Group had focused more resources on finished electronic products during the year, the total sales revenue from components for electronic products, including transformers and adapters, had dropped slightly from HK$169.5 million in 2016 to HK$164.8 million in 2017. Sales revenue from plastic moulds and plastic components for electronic products had also dropped from HK$99.5 million in 2016 to HK$79.0 million in 2017.

On 24 January 2017, the Group had completed the acquisition of Bonroy Limited and its subsidiaries (the "Bonroy Group"). The principal asset of the Bonroy Group is the investment properties known as "Pretty Shopping Centre" located at Beijing, The People's Republic of China (the "PRC"). The Group regards the holding of the investment properties for rental income as a new business segment for the year. Total rental income from Pretty Shopping Centre recognised during the year was HK$65.7 million. The investment properties were under renovation work since July 2017 and no rental income had been recognised since then. The renovation work is expected to be completed in the second quarter of 2018.

The demand for biodiesel products continued to remain at a low level during the year with total sales revenue of approximately HK$1.5 million. On the other hand, total revenue from energy efficient gas stoves was HK$2.3 million.

Regarding the energy saving business segment, total revenue recognised during 2017 was HK$36.0 million, as compared to HK$4.6 million in 2016. The revenue represented the energy saving revenue generated from retail stores of Suning and hotels operated by the HNA Group Co., Ltd. with LED lighting equipment installed. The increase in energy saving revenue during the year was mainly due to the increase in number of retail stores of Suning which had completed the inspection procedures and commenced to generate energy saving revenue during the year. As of 31 December 2017, over 600 retail stores of Suning had completed the installation work and the inspection procedures. The Group will continue the installation work at other Suning retail stores in 2018. As of 31 December 2017, the Group had completed the installation work and inspection procedures at two hotels operated by the HNA Group Co., Ltd.

In terms of geographical market, the United States continued to be the major market for the Group's products and accounted for approximately 45.3% of the total revenue for the year (2016: 51.5%). Revenue from customers in the PRC had increased by HK$132.6 million mainly due to the rental income recognised from the investment properties located at Beijing and the sales of walkie-talkie products to Xian Feng Yu. Sales to customers in Hong Kong had increased by HK$100.7 million while sales to customers in Europe had decreased by HK$10.4 million. Sales to other geographical locations had remained stable. The Group will continue its efforts to secure new customers in different markets so that the revenue by geographical location can be spread more evenly.

Gross profit

The overall gross profit margin had improved from 20.9% for the year ended 31 December 2016 to 25.5% for 2017. The increase in overall gross profit margin was mainly due to the rental income of HK$65.7 million recognised during the year. During the year, the average gross profit margin for electronic products segment had remained stable at approximately 20.9%. In view of the challenging market conditions, the Group had to continue its effort to tighten the controls over production costs and overheads, and to improve production efficiency so as to maximise the gross profit margin for the electronic product segment.

Expenses and finance costs

Administrative expenses had increased by HK$27.0 million and distribution costs had increased by HK$11.9 million during the year. The increase in administrative expenses was mainly due to the administrative expenses of HK$29.1 million incurred by the Bonroy Group acquired during the year. Overall staff costs, including directors' emoluments, had increased by HK$20.0 million. The increase in distribution costs was mainly due to increase in business volume of electronic products and the distribution costs for investment properties.

Total finance costs had increased by HK$112.6 million which was mainly due to the interests of HK$111.7 million paid for the bank loans to finance the investment properties.

Other income/expenses

During the year, the acquisition of the Bonroy Group had resulted in a gain on bargain purchase of HK$6.3 million. The fair value of the investment properties held by the Bonroy Group had been reassessed as at 31 December 2017 and a fair value gain of HK$121.1 million was recognised. During the year, a gain on deemed disposal of partial interests in an associate of HK$8.4 million has been recognised. There were no such items in the prior year.

Profit attributable to owners of the parent

Profit attributable to owners of the Company for the year was HK$111.0 million, compared to HK$71.8 million for the year 2016. The increase was mainly due to the increase in revenue from the electronic products segment, the acquisition of the Bonroy Group which had resulted in a gain on bargain purchase of HK$6.3 million and a gain on changes in fair value of investment properties of HK$121.1 million, and the gain on deemed disposal of partial interests in an associate of HK$8.4 million.

PRODUCTION FACILITIES

The Group has four production facilities in the PRC for the manufacturing of electronic products and components, two of which are located in Shenzhen, one in Yangxi and one in Yichun. During the year, the Group spent approximately HK$28.8 million as capital expenditure to enhance its production capacity.

The Group will expand its production facilities for the electronic products segment at Yichun so as to cope with the increase in demand and for production of new products to be launched.

The Group has set up an office with LED testing facilities in Shenzhen to carry out its energy saving business.

LIQUIDITY AND FINANCIAL RESOURCES AND CAPITAL STRUCTURE

At 31 December 2017, the Group's total cash and cash equivalents, net of current bank overdrafts, amounted to HK$152.9 million. The net funds are sufficient to finance the Group's working capital and capital expenditure plans.

At 31 December 2017, total borrowings of the Group amounted to HK$2,140.5 million, comprising bank overdrafts of HK$19.5 million, bank loans of HK$2,118.0 million, trust receipt loans of HK$2.2 million, and obligations under finance leases of HK$0.8 million, of which HK$339.6 million are denominated in Hong Kong dollars and HK$1,800.9 million are denominated in RMB. The average effective interest rates for each or these borrowings at 31 December 2017 ranged from 1 – 3.5% over HIBOR to 8.5% per annum.

The Group's trade receivable turnover, inventory turnover and trade payable turnover for the year were approximately 52 days, 84 days and 68 days respectively. These turnover periods are consistent with the respective policies of the Group on credit terms granted to customers and obtained from suppliers.

As at 31 December 2017, the Group's total current assets had increased by 5.7% to HK$837.6 million compared to HK$792.3 million as at 31 December 2016, and the Group's total current liabilities had increased by 51.1% to HK$907.4 million compared to HK$600.7 million as at 31 December 2016. The current ratio (current assets/current liabilities) as at 31 December 2017 was 0.92 times, compared to 1.32 times as at 31 December 2016. The drop in current ratio was mainly due to the increase in mortgage loan and other bank borrowings as included in current liabilities at 31 December 2017.

Pursuant to an ordinary resolution passed by the shareholders of the Company at the annual general meeting held on 1 June 2017, the Company had issued 420,496,160 bonus shares on 23 June 2017. During the Period, the Company had not issued any other new shares and had not repurchased any of its own shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

At 31 December 2017, the Company had in issue a total of 946,116,360 ordinary shares. A new share option scheme (the "2016 Share Option Scheme") has been adopted by the shareholders of the Company at the annual general meeting of the Company held on 7 June 2016. There were no share options granted, exercised, lapsed or cancelled since the adoption of the 2016 Share Option Scheme. As at 31 December 2017, the Company did not have any share options outstanding.

CASH FLOWS

The net balance of cash, cash equivalents and bank overdrafts at 31 December 2017 was HK$152.9 million, which had decreased by HK$176.9 million compared to the balance at 31 December 2016.

The net cash used in operating activities for the year was HK$72.2 million. The net cash used in investing activities amounted to HK$39.4 million, which was mainly due to HK$28.8 million paid for the acquisition of property, plant and equipment.

On the other hand, there was a net cash outflow of HK$74.2 million from financing activities. During the year, new borrowings of HK$95.6 million were obtained and HK$99.3 million was used to repay borrowings and finance leases, and HK$70.4 million was paid to shareholders as dividends.

USE OF PROCEEDS FROM FUND RAISING ACTIVITIES

Share subscription under specific mandate

According to the Company's circular dated 25 November 2016, the net proceeds from the subscription of 23,437,980 new ordinary shares by Wealth Channel Global Limited of approximately HK$34.6 million was intended to be used for: (i) as to approximately HK$20 million for repayment of outstanding bank borrowings; and (ii) the remaining balance of approximately HK$14.6 million as general working capital for the Group's principal business and for future investment opportunities should the same arise.

During the year, HK$20 million has been utilised as intended for repayment of bank borrowings and HK$14.6 million has been utilised as intended for general working capital of the Group.

The Company did not have any fund raising activities during the year.

CAPITAL EXPENDITURE

During the year, the Group acquired property, plant and equipment at a total cost of HK$28.8 million, mainly financed by internal resources of the Group. The Group has also completed the acquisition of the Bonroy Group on 24 January 2017 at a cash consideration of United States dollar 1. The principal asset of the Bonroy Group is the investment properties located at Beijing. Details of the acquisition are set out in the circular dated 23 December 2016 issued by the Company.

PLEDGE OF ASSETS

At 31 December 2017, the Group had total bank borrowings (excluding obligations under finance leases) of HK$2,139.7 million, out of which HK$1,800.9 million were secured by the investment properties of HK$2,350.8 million; HK$65.0 million were secured by the leasehold property of HK$179.6 million and HK$11.7 million were secured by short-term bank deposits of HK$8.7 million and trade receivables of HK$1.0 million.

DEBT POSITION AND GEARING

As at 31 December 2017, the Group has net debts (being total bank and other borrowings net of cash and cash equivalents) of approximately HK$1,968.0 million. The total equity was approximately HK$548.9 million. As at 31 December 2016, the Group did not have a net debt position. The net debts at 31 December 2017 were mainly due to the bank loans of HK$1,800.9 million (RMB1,500 million) acquired from the Bonroy Group during the year. These bank loans are secured by the Group's investment properties with a carrying value of HK$2,350.8 million as at 31 December 2017.

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the maintaining appropriate debt and equity balance. The directors of the Company review the capital structure of the Group on a regular basis. As part of this review, the directors consider the cost of capital and the risks associates with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through various alternatives including the payment of dividends, new share issues and share buy-backs as well as the issue of new debts or the redemption of existing debts.

CONTINGENT LIABILITIES

On 15 November 2016, 北京金馬長城房產建設有限責任公司 (Beijing Jinma Changcheng Real Estate Construction Co., Ltd) ("Jinma Changcheng") as plaintiff instituted litigation against Beijing Wan Heng Da Investment Company Limited ("Beijing Wan Heng Da"), being a wholly-owned subsidiary of the Bonroy Group, as defendant in respect of the dispute on possession of properties, to claim for (i) Beijing Wan Heng Da to vacate the premises located at 2-05, 2-06, second floor of the Pretty Shopping Centre, the venue of 286.09 sq.m. at the West Exit on the first floor of the Pretty Shopping Centre, the venue with an additional floor area of 501.74 sq.m. on the elevated corridor on the first floor of the Pretty Shopping Centre and the venue with an additional floor area of 212.02 sq.m. at the west-side tunnel on the second floor of the Pretty Shopping Centre (the "Disputed Properties"); (ii) payment of a daily occupation fee of Renminbi 19,719.3 by Beijing Wan Heng Da for the period from 1 January 2016 and until the date of actual relocation; and (iii) costs of the litigation in respect of the case shall be borne by Beijing Wan Heng Da. As at the date of this report, the above litigation is pending to be heard by court and final court decision has not been made. Taking into consideration of the legal opinion prepared by the legal advisor of Beijing Wan Heng Da, the Directors believe that the claims made by Jinma Changcheng are without legal grounds and will not have material impact to financial statements of Beijing Wan Heng Da and the Group.

Save as disclosed above, at both 31 December 2017 and 31 December 2016, the Group did not have any material contingent liabilities.

EMPLOYEES

At 31 December 2017, the Group had 3,258 employees, of which 76 were employed in Hong Kong and 3,182 were employed in the PRC. Salaries of employees are maintained at competitive levels. The Group operates a defined contribution mandatory provident fund retirement benefits scheme for all its employees in Hong Kong, and provides its PRC employees with welfare schemes as required by the applicable laws and regulations in the PRC. The Group also offers discretionary bonuses to its employees by reference to the performance of individual employees and the overall performance of the Group.

No share options had been granted, exercised, lapsed or cancelled since the adoption of the 2016 Share Option Scheme. As at 31 December 2017, there were no share options remained outstanding.

The Group did not experience any significant labour disputes or substantial changes in the number of its employees that led to any disruption of its normal business operations. The Board believes that the Group's management and employees are the most valuable asset of the Group and they have contributed to the success of the Group.

FOREIGN EXCHANGE EXPOSURE

Most of the Group's revenue are denominated in United States dollars and Renminbi, and most of the purchases of raw materials and expenses are denominated in Renminbi and Hong Kong dollars. Furthermore, most of the Group's monetary assets are denominated in Hong Kong dollars, United States dollars and Renminbi.

The Group's principal production facilities are located in the PRC whilst its sales proceeds are primarily settled in United States dollars, Hong Kong dollars or Renminbi. The Group's investment properties are located at Beijing and all rental income are denominated in Renminbi. As such, management is aware of the potential foreign currency risk that may arise from the fluctuation of exchange rates between United States dollars, Hong Kong dollars and Renminbi. Although the foreign currency risk is not considered to be significant, management has taken action to minimise the risk, including the entering into forward foreign exchange contracts with major and reputable financial institutions to hedge its foreign exchange risk exposure. As at 31 December 2017, the Group did not have any outstanding forward foreign exchange contracts for hedging against foreign exchange risk exposure relating to the production costs and certain outstanding payables denominated in Renminbi. Management will continue to evaluate the Group's foreign currency exposure and take actions as appropriate to minimise the Group's exposure whenever necessary.

OUTLOOK

Electronic Products Segment

The Group foresees that the global economic environment in the 2018 will remain uncertain. Factors such as the risk of fluctuation of exchange rate of Renminbi against United States dollars and Hong Kong dollars; the risk of rise in interest rate; and the uncertain international trading environment will affect the performance of the Group's electronic products segment. The Group will continue its efforts to tighten controls over production costs and overheads, and to improve production efficiency so as to maximise the gross profit margin.

Management foresees that the demand for the Group's irrigation controllers and other major electronic products will remain to be strong in 2018. In addition, new products including new model of walkie-talkie products manufactured for Xian Feng Yu and a newly developed photolysis air purifiers are expected to provide strong momentum for the growth in revenue in 2018. The Group has confidence that the overall performance of the electronic business segment will remain strong.

In terms of geographical market, the Group foresees that United States will still be the major market for its products in 2018. The Group will continue to devote efforts to explore new markets and new customers to broaden its customer base.

Yichun Yilian Print Tech. Co., Ltd. ("Yichun Yilian') currently is a 42.34% owned associate of the Group, which is established in the PRC and principally engaged in the manufacturing and sale of printers and other accessory products, and the provision of on-line printing services on a charge-by-page basis. As at 31 December 2017, Yichun Yilian has distributed approximately 10,000 printers to over 400 locations in the PRC to provide on-line printing services on a charge-by-page basis. Yichun Yilian foresees that revenue from its on-line printing services will become the major source of revenue in future. The Group also expects that contribution from Yichun Yilian to the Group will become more and more significant.

During the year, Yichun Yilian was granted with the right to use an industrial park (the "Industrial Park") located in Yuanzhou, the PRC, with total gross floor area of approximately 200,000 square meters. Yichun Yilian has the right to use the Industrial Park for 50 years. The Government of Yuanzhou District will be responsible for the infrastructure and construction costs of the Industrial Park, including construction of the workers dormitory. Yichun Yilian will be responsible for setting up production facilities for printers and accessories products in the Industrial Park, with annual output of approximately 800,000 laser printers and 10,000,000 cartridges for laser printers. Yichun Yilian would introduce other manufacturers to set up production facilities in the Industrial Park so as to increase the employment rate of the local workers and to increase the tax revenue of the local government.

As the Group's production facilities for electronic products and components currently located in Shenzhen are close to full capacity, the Group will set up new production facilities at four factory blocks in the Industrial Park for the production of electronic products and components, so as to expand its overall production capacity to cope with the increase in demand and for production of new products to be launched. Two of the four factory blocks have already commenced operations and the remaining two factory blocks will commence operations during the second quarter of 2018.

The Group will continue to explore opportunities for new electronic products with other potential customers so as to broaden its revenue base and to maintain its growth momentum.

Investment properties segment

In order to attract more prominent and prestigious tenants and to increase the future rental income, the Group has decided to carry out renovation work at Pretty Shopping Centre. As at the date of this report, the renovation work is still in progress and is expected to be completed in the second quarter of 2018. The previous tenancy agreements signed with two tenants had been terminated and a new tenancy agreement has been entered into with a new tenant in January 2018 for a period of ten years. The new tenant is a renowned property management group and operates several shopping malls in different locations in the PRC. The new tenant will lease the entire property and then sub-lease out to sub-tenants.

Energy saving business

The installation of LED lighting equipment for Suning retail stores continued during the year and as at 31 December 2017, over 600 retail stores of Suning have completed the installation work and inspection procedures. The Group will continue the installation work at other retail stores of Suning during 2018.

Biodiesel products segment

The demand for the Group's biodiesel products remained at low levels during the year and management expects that the revenue from biodiesel products will remain stable in 2018.

As of 31 December 2017, about 100 energy efficient gas stoves had been installed for customers in Hong Kong. The Group expects that the operations of the energy efficient gas stoves business will expand steadily in 2018.

Looking forward, the Group will continue to explore opportunities for new products and projects with other potential customers in Hong Kong, in the PRC and overseas, and will continue to look for investment opportunity to diversify its business and to provide a better return to all shareholders.

PROPOSED DIVIDEND

The Board proposes the payment of a final dividend of HK5.0 cents per share. Together with the interim dividend of HK3.0 cents per share paid in October 2017, the total dividends paid or payable for the year 2017 will be HK8.0 cents per share. All dividends are paid in cash from funds generated from the Group's operations. The Group will have sufficient funds for its future expansion after the payment of dividends.

The proposed final dividend of HK5.0 cents per share will be payable to shareholders whose names appear on the register of members of the Company on 15 June 2018. Subject to the passing of the relevant resolution at the forthcoming annual general meeting, the final dividend will be payable on or about 29 June 2018.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 4 June 2018 to 7 June 2018 (both dates inclusive), during which period no share transfers will be effected. In order to qualify for attending and voting at the annual general meeting to be held on 7 June 2018 (the "AGM"), all share transfers must be lodged with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on 1 June 2018.

The register of members of the Company will also be closed from 13 June 2018 to 15 June 2018 (both dates inclusive), during which period no share transfers will be effected. In order to qualify for the proposed final dividend (subject to shareholders' approval at the AGM), all share transfers must be lodged with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on 12 June 2018.

DIRECTORS

Executive Directors

Mr. Lam Yin Kee (林賢奇), aged 71, is an executive Director and the Chairman of the Company. Being the founder of the Group, Mr. Lam has over 40 years of marketing experience in the electronic industry and he is responsible for the Groups' overall strategic planning and business development. He is also responsible for overseeing the overall operation in the sales and marketing and administration management of the Group. Prior to establishing the Group in 1997, Mr. Lam was the vice-chairman of a listed group in Hong Kong engaging in the manufacture and sales of electronic products for over 20 years. Mr. Lam is the spouse of Ms. Yeung Po Wah and the father of Mr. Lam Chee Tai, Eric.

Ms. Yeung Po Wah (楊寶華), aged 68, is an executive Director of the Company. Ms. Yeung is a co-founder of the Group and is responsible for the overall administrative functions and strategic planning of the Group. From 1967 to 1984, Ms. Yeung worked at the Bank of Tokyo with the last position being assistant manager of the remittance department. Ms. Yeung is the spouse of Mr. Lam Yin Kee and the mother of Mr. Lam Chee Tai, Eric.

Ms. Liu Jing (劉靖), aged 45, was appointed as an executive Director of the Company from 5 March 2016. Ms. Liu completed the studies for master degree in Finance, Trade and Economics at the Graduate School of Chinese Academy of Sciences, and is a senior accountant and a member of The Chinese Institute of Certified Public Accountants. Ms. Liu is currently an executive director of Beijing Extraordinary Leading Investment Management Co. Ltd., and is responsible for financial administration. Ms. Liu has over twenty years' experience in corporate strategic development, business operation management and finance, and has over seven years' experience in management of investment funds. During the period from July 1994 to July 2009, Ms. Liu held various positions in HNA Group Co. Ltd. and its affiliates, including assistant general manager, general manager and chief financial officer, and was responsible for financial, investment and corporate finance activities of the group. During the period from July 2009 to July 2012, Ms. Liu set up Shanghai Rich-yield Investment Management Centre (Limited Partnership) with other founders, and was responsible for its investment and corporate finance activities.

Mr. Lam Chee Tai, Eric (林子泰), aged 38, was appointed as an executive Director of the Company on 30 March 2012. Mr. Lam holds a Bachelor Degree in Commerce (Marketing) and a Master Degree in Business Systems from Monash University, Australia. Mr. Lam joined the Group as an assistant Marketing Manager in June 2004 and is currently the General Manager of a major subsidiary of the Group. Mr. Lam has extensive experience in production and customer management and is mainly responsible for the overall supervision of the Group's manufacturing operations in China and for business development in China market. Mr. Lam is the son of Mr. Lam Yin Kee and Ms. Yeung Po Wah.

Mr. So Kin Hung (蘇健鴻), aged 61, was appointed as an executive Director of the Company on 1 August 2008. Mr. So graduated from the University of East London (previously known as "North East London Polytechnic") in the United Kingdom in 1982, with a degree of Bachelor of Science (Electrical and Electronic Engineering). Mr. So joined the Group since 1997 and is also the general manager of two of the Group's subsidiaries, namely Alltronics Tech. Mftg. Limited and Shenzhen Allcomm Electronic Co. Ltd. He has over 25 years of experience in the electronic industry and is responsible for the marketing and engineering operations of the Group. Prior to joining the Group in 1997, Mr. So worked for a Hong Kong listed company as the assistant general manager.

Mr. Meng Fei (孟飛), aged 43, was appointed as an executive Director of the Company from 1 June 2017. Mr. Meng has completed the master degree study in Macro Economy at Tianjin University of Finance and Economics. Mr. Meng has over ten years experience in trade, corporate management, finance and investment, business re-structuring and capital market, and currently is the Deputy General Manager of Shenzhen Ao Ying Investment Co., Limited. Mr. Meng was the Deputy General Manager of South Huitong Shihua Micro Hard-Drive Company from 2004 to 2006, and was the Deputy General Manager of International Business Office of China Potevio Company Limited from 2006 to 2016.

Non-Executive Directors

Mr. Fan, William Chung Yue (范仲瑜), aged 77, is a non-executive Director appointed by the Group in June 2005. Mr. Fan is a solicitor in Hong Kong and has officially retired in April 2013. He is also an independent non-executive director of National Agricultural Holdings Limited since January 2015, which is a company listed on the Main Board of the Stock Exchange. Mr. Fan was also a non-executive director of Chinney Investments, Limited from May 1987 to August 2017, which is a company listed on the Main Board of the Stock Exchange.

Mr. Lau Fai Lawrence (劉斐), aged 46, is a non-executive Director appointed by the Group effective from 1 March 2017. Mr. Lau is currently a practising certified public accountant in Hong Kong, a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants in the United Kingdom. Mr. Lau graduated from The University of Hong Kong with a bachelor's degree in business administration in 1994 and obtained a master's degree in corporate finance from Hong Kong Polytechnic University in 2007.

Mr. Lau joined BBMG Corporation (a company listed on the Main Board of the Stock Exchange) (Stock Code: 2009) on 6 August 2008 as joint company secretary and qualified accountant. Since 26 October 2012, Mr. Lau serves as the company secretary of BBMG Corporation. Before joining BBMG Corporation, Mr. Lau has served as the group financial controller and qualified accountant of Founder Holdings Limited (Stock Code: 418) and Peking University Resources (Holdings) Company Limited (Stock Code: 618), both companies are listed on the Main Board of the Stock Exchange. Mr. Lau is an executive director of Future World Financial Holdings Limited (Stock Code: 572, previously known as "Central Wealth Financial Group Limited"), being a company listed on the Main Board of the Stock Exchange. Mr. Lau is also an independent non-executive director of Artini China Co. Ltd., (Stock Code: 789), Titan Petrochemicals Group Limited (Stock Code: 1192) and Topsearch International (Holdings) Limited (Stock Code: 2323) respectively, all of these companies are listed on the Main Board of the Stock Exchange.

Independent Non-Executive Directors

Mr. Pang Kwong Wah (彭廣華), aged 72, is an independent non-executive Director appointed by the Group in June 2013. Mr. Pang graduated from the University of Southern California in the United States of America with a Master of Business Administration and has extensive experience in finance and administration, business and general management. Mr. Pang was a principal of corporate services division of an international audit firm during 1985 to 1988 and had held senior positions including the chief operating officer and chief executive officer of a listed company in Hong Kong during 1988 to 2002. Mr. Pang was also a non-executive director of a listed company in Hong Kong during 2004 to 2005.

Mr. Yau Ming Kim, Robert (丘銘劍), aged 79, is an independent non-executive Director appointed by the Group in September 2009. Mr. Yau graduated from Wah Yan College and has extensive experience in the textile and clothing industry and worldwide trade affairs. He served as a trade officer in the Hong Kong Government from 1964 to 1971. In 1970, he was seconded to the General Agreement on Tariffs and Trade ("GATT") Secretariat (now known as "World Trade Organisation") in Geneva, Switzerland and was awarded GATT Fellowship. Mr. Yau had held senior positions including chief executive and managing director of various major international and local apparel companies since 1971. In addition, from 1998 to 2004, he was appointed as the vice chairman of Hong Kong Exporters' Association, member of the Executive Committee of The Hong Kong Shippers' Council and member of the Garment Advisory Committee of the Hong Kong Trade Development Council.

Mr. Yau is currently an independent non-executive director of Parkson Retail Group Limited and Tungtex (Holdings) Company Limited since 1 January 2007 and 18 September 2006 respectively. The shares of these two companies are listed on the Main Board of the Stock Exchange.

Mr. Yen Yuen Ho, Tony (嚴元浩), aged 70, is an independent non-executive Director appointed by the Group in August 2016. Mr. Yen is a solicitor of Hong Kong and the United Kingdom. He is also a barrister and solicitor of Australia. From August 1994 to March 2007, he was the Law Draftsman of the Department of Justice of Hong Kong. He was also a member of the Hong Kong Government's Law Reform Commission. Mr. Yen was conferred the Silver Bauhinia Star Medal by the Hong Kong Government in 2000. Currently, he is an adjunct professor at the Hong Kong Shue Yan University and the Beijing Normal University. Mr. Yen is an Honorary Court Member of the Hong Kong University of Science and Technology and an Honorary Fellow of the Faculty of Education, University of Hong Kong. He is the director of two secondary schools, the Vice President of the Neighbourhood Advice Action Council and a member of Heep Hong Society's Executive Council. He is an honorary adviser to the Pok Oi Hospital and the Hong Kong Academy of Nursing. From April 2009 to April 2015, Mr. Yen was the vice chairman of the Hong Kong Government's Social Welfare Department Lump Sum Grant Independent Complaints Handling Committee. Since January 2013, he has been a member of the Hong Kong Government's Panel of Review Board on School Complaints.

Mr. Yen is an independent non-executive director of Jinchuan Group International Resources Company Limited (stock code: 2362) and United Photovoltaics Group Limited (stock code: 686), whose shares are listed on the Main Board of the Stock Exchange, and also an independent director of China Minsheng Jiaye Investment Co., Limited. Mr. Yen also served as an independent non-executive director of Link Holdings Limited (stock code: 8237) from 20 June 2014 to 16 October 2014, whose shares are listed on the Growth Enterprise Market of the Stock Exchange. On 16 December 2016, Mr. Yen was appointed as an independent non-executive director of WWPKG Holdings Company Limited, whose shares are listed on the Growth Enterprise Market of the Stock Exchange since 12 January 2017.

Mr. Lin Kam Sui (連金水), aged 68, is an independent non-executive Director appointed by the Group in June 2017. Mr. Lin was graduated from Hong Kong Technical College (now known as Hong Kong Polytechnic University) and has over 45 years of experience in the field of electrical and mechanical engineering. Mr. Lin is a Chartered Engineer of the Engineering Council UK, a Fellow Member of The Chartered Institution of Building Services Engineers (UK), a Fellow Member of The Hong Kong Institution of Engineers, and a Life Member of American Society of Heating, Refrigerating and Air Conditioning Engineers. Mr. Lin is also the Honorary Life President of The Hong Kong Air Conditioning and Refrigeration Association Limited. Mr. Lin currently is the Business Development Director of Midea Electric (HK) Limited.

PUBLIC SANCTION

On 15 April 2010, the Stock Exchange publicly censured the Company for its breach of the former Rule 13.09 of the Listing Rules for failing to publish an announcement to disclose the deterioration of the Group's business performance in the first six months ended 30 June 2008. Mr. Lam Yin Kee and Ms. Yeung Po Wah were also publicly censured for their breach of director's undertakings in failing to use their best endeavours to procure the Company's compliance with the former Rule 13.09 of the Listing Rules. Mr. So Kin Hung, Mr. Fan, William Chung Yue and three former independent non-executive Directors of the Company, Mr. Barry John Buttifant, Mr. Leung Kam Wah and Ms. Yeung Chi Ying, were publicly criticised for their respective breaches of director's undertakings in failing to use their best endeavours to procure the Company's compliance with the former Rule 13.09 of the Listing Rules.

SENIOR MANAGEMENT

Mr. Ieong Kin San, Sunny (楊建燊), aged 67, is a co-founder of a major subsidiary, Southchina Engineering and Manufacturing Limited ("Southchina"), and currently is the marketing director and general manager of Southchina. He is responsible for overseeing the sales and marketing activities of Southchina and has over 30 years of management experience in manufacturing field.

Mr. Lam On Bong (林安邦), aged 66, is a co-founder of Southchina and currently is the operation director of Southchina. He is responsible for the overall management of Southchina's production facilities in the PRC and has over 30 years of management experience in manufacturing field.

Mr. Leung Hon Kwong, Jackson (梁漢光), aged 65, is a co-founder of Southchina and is currently the financial and purchasing director of Southchina. He is responsible for overseeing the purchasing and financial functions of Southchina and has over 30 years of management experience in manufacturing field.

Mr. Leung Fuk Cheung (梁福祥), aged 54, is the company secretary and qualified accountant of the Group. Mr. Leung is responsible for the Group's overall financial administration. He has extensive experience in finance, accounting, auditing and company secretarial practice and is currently a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of the Chartered Certified Accountants. Mr. Leung has worked for international accounting firms for over 12 years. Prior to joining the Group in August 2002, Mr. Leung worked as the financial controller for a jewelry manufacturing company.

1. OUR REPORT

1.1. Overview

This report provides information on the corporate social responsibility performance of Alltronics Holdings Limited (the "Group" or "we") in terms of environment, society and governance during the year from 1 January 2017 to 31 December 2017. This report is in compliance with the "comply or explain" provisions of the Environmental, Social and Governance Reporting Guide (the "Guide") contained in Appendix 27 of the Rules (the "Listing Rules") Governing the Listing of Securities on the Stock Exchange and contains all disclosures as recommended in the Guide.

1.2. Scope of Reporting

This environmental, social and governance report covers the operations of the headquarters office of Alltronics Holdings Limited and its main electronics manufacturing plant in Shenzhen ("Shenzhen Factory"). Unless otherwise stated, all key performance index in this report only provided by the Shenzhen Factory.

1.3. Feedback Mechanism

We welcome comments and advices from readers on this report or on our corporate social responsibility performance. Whether you are a customer, a business partner, a common citizen, a media organization or social group, your comments and advices will help determine and reinforce the Group's future sustainability strategy. Please contact us by email.

2. COMMUNICATION WITH STAKEHOLDERS

The Group understands that effective and continuous listening to stakeholders' opinions, responding to and addressing their concerns are indispensable for business development and the fulfillment of corporate social responsibility. As such, we endeavor to get a deep understanding of the concerns of different stakeholders; and build a relationship of mutual trust and mutual benefit with stakeholders to promote sustainable development.

The annual shareholders' meeting of the Group provides an effective platform for the Board of Directors to exchange opinions with shareholders. In addition to the annual shareholders' meeting, the Group, with an aim to maintain close relations with customers, suppliers and other stakeholders, maintains communication with all stakeholders from time to time via visits, teleconferences or meetings (such as the delivery and quality review meetings with suppliers), mails and emails, and follow-up services of marketing staff, with a view to listening to their opinions and demands. The Group's overall performance is also reported to all investors in its annual report.

3. ENVIRONMENTAL, SOCIAL AND GOVERNANCE PERFORMANCE

3.1. Environmental Protection

Management guidelines and policies

The Group is committed to environmental protection and promotes sustainable development. We have formulated a series of management policies and measures such as carbon emission management policy, waste management policy and green procurement policy, in an effort to minimize the risks and impacts of the Company's operations and project development on the environment.

The Group strictly complies with all applicable environmental laws and regulations. During the reporting period, there was no case of prosecution against the Group for violation of environmental laws.

3.1.1. *Pollution Control*

Countermeasures to climate change

In order to demonstrate the Group's commitment to sustainability, we have formulated the Green Procurement Policy which prioritized the use of environment-friendly materials under our requirements; and we also adopt cleaner production, in as early as 2012, the Group successfully introduced the all-rounded-environmental production process by using environmental friendly materials, technology and equipment to reduce or eliminate the use of toxic, harmful substances, so as to reduce the impact on the environment and make its products meet the RoHS, REACH and Halogen Free requirements. In December 2012, the Group obtained the Clean Production Certificate. All these demonstrated our efforts in sustainable development.

Considering its original diesel-fired water heaters would generate exhaust gas when burning diesel fuel, the Shenzhen Factory of the Group chose to replace such heaters with solar and heat pump water heaters. In addition, the Shenzhen Factory also introduced a fully automatic welding machine equipped with an enclosed exhaust ventilator inside to remove the welding gas and keep the air clean in the workshop.

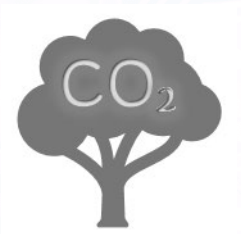
The Group is keenly aware that long-distance transportation during business trips will increase energy consumption and carbon emissions. As such, the Shenzhen Factory reduces business trips or avoids meetings requiring long-distance travel as practical as possible to reduce carbon emissions from long-distance travel. As for Hong Kong office, the business trips are generally infrequent due to the work nature.

During the reporting period, the Group emitted approximately 238.36 kg of nitrogen oxides, approximately 1.19 kg of sulfur oxides and approximately 22.84 kg of particulate matter. During the reporting period, the Group's total greenhouse gas emissions were 4,169.40 tonnes of carbon dioxide equivalent.

Nitrogen oxide emissions: 238.36 kg

Sulfur oxide emissions: 1.19 kg

Particulate emissions: 22.84 kg



Greenhouse gas emissions: 4,169.40 tonnes of carbon dioxide equivalent

Greenhouse gas emission intensity: 3.08 tonnes of carbon dioxide equivalent per employee

Waste management

In order to reduce the load on the landfill area and its associated treatment of waste disposal there, the Group attaches great importance to the management of waste. The Group follows the 3R waste management strategy to minimize waste generation (Reduce) and consider Reuse and Recycle before waste disposal, so as to live up to its commitment to waste management.

For the management of non-hazardous waste, the Shenzhen Factory will collect scrap and surplus metal materials for other production use and reduce the use of plastic packaging materials in production in accordance with the requirements of the Group to reduce waste generation.

The Group pays much attention to the generation of hazardous wastes and regularly reviews the production process to identify the sources of hazardous wastes and work out action plans for hazardous waste reduction. For example, in the Shenzhen Factory, the rosin inside machine panel saws originally required to be ultrasonically cleaned with industrial washing water has been replaced with environment-friendly no-clean rosin, reducing a large amount of hazardous wastes generated from industrial washing water every year. We engage organizations that have professional qualifications for treatment of hazardous wastes to handle the hazardous wastes requiring disposal and ensure that they strictly abide by the Provisional Regulations on the Administration of Hazardous Waste Transfer Records in Guangdong Province.

Total amount of hazardous waste: 1,265 kg

Total amount of harmless waste: 78,462 kg

3.1.2. *Making Good Use of Resources*

In order to make more effective and prudent use of all resources including energy, water and other natural resources, we have established the "Energy Conservation Policy", the "Water Conservation Policy for Daily Operations" and the "Green Office Policy", and have also provided our staff with more specific advices and measures for the management of energy, water and packaging materials.

Energy saving and consumption reduction

The Group always strives to absorb new technologies and equipment which can improve production efficiency and also promote environmental performance and reduce energy consumption. The Group has implemented a number of targeted energy-saving renovation projects to reduce energy consumption, such as the LED lamp renovation project, the furnace air-conditioning system renovation project and the staff dormitory renovation project. We also regularly inspect the conditions of equipment and perform sound maintenance to reduce energy waste caused by mechanical aging.

The total power consumption of the Group in the past year was approximately:

Total power consumption: 4,348,056 kWh

Total power consumption intensity: 3,211.27 kWh per employee

Water efficiency

The Group's water consumption is mainly resulted from the daily use of water by plant employees. To protect the precious water resources, we actively promote the concept of water conservation among employees and strengthen the maintenance, inspection and management of water-consuming equipment to achieve the purpose of water conservation. The Shenzhen Factory carried out an inspection targeting "dripping water pipes" to eliminate leakage of water pipes and reduce waste of water.

The total water consumption of the Group in the past year was approximately:

Total water consumption: 155,921 m^3

Total water consumption intensity: 115.16 m^3 per employee

3.1.3. Promoting Green Operations

The Group integrates environmental responsibility into its daily business operations. Accordingly, the Company promotes green operations and green procurement policy to reduce environmental impact and the consumption of natural resources.

Promoting green operations

The Group often advocates the importance of "reducing carbon emissions" at the meetings with stakeholders and introduces the environmental benefits of its products in product promotion publications. For example, its products meet the RoHS, REACH and Halogen Free requirements, with the harmful and toxic substances in the products under effective control. The Group attaches great importance to environmental protection training for its employees. In the first quarter of each year, the HR Department of the Shenzhen Factory will mobilize various departments to put forward their annual training needs, and then prepare a "List of Annual Training Requests" and submit it to the general manager for approval. Once approved, such list will be circulated to the departments concerned and environmental protection training will be carried out for employees in different departments according to the list.

Advocating green office

We have put in place green office measures for office operations, including: attaching a reminder to each power control device; opening windows for ventilation in spring and autumn to reduce the use of air conditioning as much as possible; setting the air conditioning system to keep the office room temperature at 25°C; building an office automation (OA) system to reduce the use of paper for application submitting; and practicing paperless office by using email communication for work, reducing printing of tendering documentation and recycling paper as much as possible to reduce the use of paper. We also conduct internal communications from time to time to strengthen the implementation of these measures.

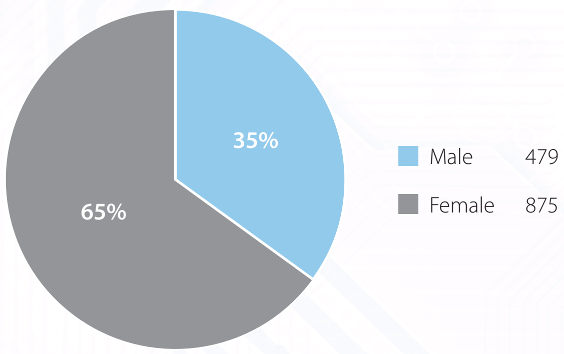
3.2. Caring People

Management guidelines and policies

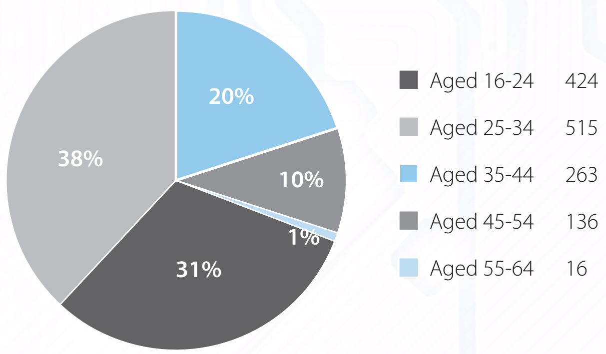
In the process of business development, the Group always keeps in mind its social responsibilities and upholds the belief of mutual respect and harmony. It is dedicated to the best possible treatment of employees and customers. At the same time, we are actively participating in and sponsoring meaningful community programs and activities. We also care about, and thus introduce an array of programs and measures to facilitate the career development and physical and mental health of our employees. On this basis, we provide safe and reliable products to achieve the vision of creating a better society.

Overview of the Group's employees over the past year:

Breakdown of employees in the Shenzhen Factory by gender



Breakdown of employees in the Shenzhen Factory by age



3.2.1. Equal Employment

Management guidelines and policies

In a drive to become the "best employer", we create a working environment that features mutual respect and harmonious coexistence of employees and prioritizes safety, and provide training courses and career development opportunities to help employees keep improving in work. We have a dedicated human resources committee to regularly review and improve the relevant policies, so as to ensure that they are in compliance with local laws and industry guidelines.

Equal opportunity and diversity

We adopt a policy of diversity and non-discrimination to ensure that each job applicant has equal right to apply for a job. Pursuant to the staff rules and regulations, the job candidates under the recruitment of the Shenzhen Factory are not discriminated against due to ethnicity, national origin, race, sex, language and religious belief. The Hong Kong office fully complies with Hong Kong laws and regulations, including the Sex Discrimination Ordinance, the Disability Discrimination Ordinance, the Family Status Discrimination Ordinance and the Race Discrimination Ordinance. The promotion of an employee is dependent upon his/her job performance, experience, and personal capabilities.

As a responsible employer, we have formulated the Retirement Policy and the Compensation Policy. The Group will handle retirement formalities for employees who have reached the statutory retirement age in accordance with the relevant regulations and will go through any dismissal procedures according to the Labor Law. In the event of a work-related accident, the Group will make reasonable compensation and handle it properly in accordance with relevant laws.

Employee benefits

We determine the remuneration of employees based on the remuneration system developed by the Group, the overall market situation and the work duties; and determine the benefits of employees in the Shenzhen Factory (including social insurance for employees) according to standards of the Ministry of Human Resources and Social Security and the Labor Law.

Meanwhile, we encourage employees to pursue work-life balance. To this end, the Group has formulated the Life Balance Policy and built recreation facilities in the plant area to enrich the lives of staff, including karaoke rooms, table tennis, billiards, basketball and badminton facilities. In addition, we organize a variety of lucky draws and cultural and recreational activities from time to time to help staff reduce stress, enhance staff relations and strengthen staff cohesion.

The Group strictly abides by the relevant employment laws. During the reporting period, there was not case of prosecution against the Group for violation of employment-related laws.

3.2.2. Occupational Health and Safety

Management guidelines and policies

Employees are our most valuable resources. We endeavor to create the safest and most agreeable working environment and achieve the goal of zero work accident. We take various measures to prevent the occurrence of occupational diseases and industrial casualties among our staff. We have in place a sound mechanism to manage occupational health and safety-related matters, including identifying risks inherent in our operations and conducting regular reviews and assessments, so as to meet regulatory requirements and the development needs of the Group.

Occupational health and safety policy

The Group's policy on occupational health and safety is to build a sound labor safety and health system. The Shenzhen Factory strictly implements the national regulations and standards on labor safety and health. As a responsible employer, we also provide employees with adequate training on occupational health and safety and appropriate protective equipment, with a view to enabling them to identify high-risk links in the workplace and work out solutions to lower work-related risks, prevent accidents in the course of work and reduce occupational hazards.

Workplace safety management

All employees of the Group are required to comply with its Safety Rules which stipulate the responsibilities and safety concerns of different positions in the workplace. We also hold safety meetings and carry out safety education and overhaul of workplace on a regular basis to promote workplace safety culture. In addition, the Group implements a series of safety management measures to ensure the safety of all personnel entering and leaving the workplace.

Employee communication

The Group welcomes and values employees' opinions. Employees can express their opinions in different ways. There are suggestion boxes in the plant area for employees to anonymously express their opinions which will be handled by the dedicated personnel from the Personnel Department. We also encourage employees to provide constructive suggestions on the management measures and methods of the Company. The Company will grant certain rewards as appropriate to the personnel whose suggestions are adopted.

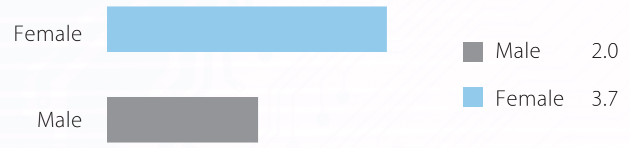
The Group strictly abides by the relevant safety laws. During the reporting period, there was not case of prosecution against the Group for violation of occupational safety-related laws.

3.2.3. Training and Development

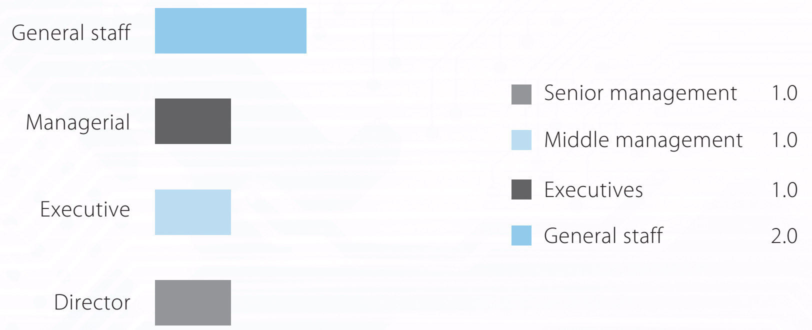
Management guidelines and policies

We firmly believe that continuous training and development of our staff will enhance the value of our team and the professional quality of our staff, which in turn will bring greater productivity to the Group. According to the Training Control Program of the Shenzhen Factory, in the first quarter of each year, the Personnel Department will organize all departments to put forward their annual training needs, and then formulate a list of annual training needs accordingly.

Average training hours of employees in the Shenzhen Factory by gender



Average training hours of staff in the Shenzhen Factory by employee category



Training System

The Group has developed a series of career development plans for its employees. Specifically, the Shenzhen Factory has built up a training system as follows:

1. The factory has set up a vocational training system where on-the-job training of employees will be organized systematically based on the business development needs of the Company and the personal capabilities of employees to facilitate the development of employees in their positions. Each worker to be engaged in technical work must receive training before taking a job.

2. Employees have the right to participate in training, have the opportunity to receive training and have the responsibilities to provide training to others. In addition to actively participating in various training sessions organized by the Company and different departments, employees should always focus on improving their expertise, work skills and comprehensive quality through independent study while making specific plans for their own career development and implementing such plans under the guidance of their direct superiors and the departments concerned.

3. Where the Company pays special training expenses for professional technical training of an employee, the employee shall follow the arrangement of the Company to engage in relevant technical work and undertake internal training and counseling work for other employees of the Company.

4. According to its business development needs, the Company organizes executives or technicians to go abroad on a tour of observation and study.

Where employees of the headquarters office in Hong Kong have training needs, they may apply to the department managers for taking external training courses and then have the Company reimburse their training expenses.

3.2.4. Protection of Rights and Interests

<u>Management guidelines and policies</u>

The Group holds a zero-tolerance attitude towards to any use of child labor. No minor under the age of 16 will be hired. When applying for a job, a job applicant must hold an identity card of the People's Republic of China/Hong Kong, a diploma, and proof of marriage status or a family planning certificate for age verification. The Group recruits personnel in accordance with the Labor Law of the PRC, prohibits any form of forced labor, undertakes not to force employees to work overtime, and respects employees' freedoms, including freedom of employment, freedom of resignation, freedom of working overtime, and freedom of movement.

During the reporting period, the Group found neither employment of child labor nor violation of forced labor-related regulations.

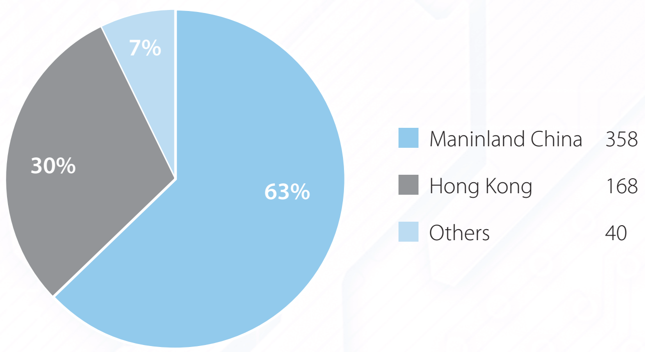
3.3. Operational Commitment

3.3.1. Supply Chain Management

Management guidelines and policies

The Group has formulated the "Supplier Code of Conduct" and requires suppliers to fully comply with it. In order to monitor the performance of its suppliers and ensure that they meet the relevant legal and regulatory requirements, the Group conducts regular assessments of the contractual performance of suppliers and will continue to engage only those meeting the eligibility criteria in terms of different performance indicators during the contract performance period.

Number of suppliers



Supplier selection criteria

The Shenzhen Factory of the Group has in place different criteria for selection of different types of suppliers. Generally, the assessment of a supplier is focused on its ability to inspect, measure and test products, its quality system and management system, and whether it meets relevant legal requirements (such as restrictions on hazardous chemical substances). Only those qualified suppliers will be included into the "Qualified Supplier List".

Supplier selection steps

All suppliers are subject to rigorous review procedures. The Purchasing Department is responsible for calling relevant departments together to hold a supplier review meeting every six months for comprehensive scoring and rating of suppliers in terms of quality, price, delivery and service, so as to determine whether each supplier can remain a qualified supplier or whether different countermeasures need to be taken. Suppliers with a comprehensive rating of A or B will become preferred suppliers; and suppliers rated as C will be deemed as generally qualified suppliers. Those with a rating of D will receive a "Report on Needed Corrective and Preventive Measures" requesting improvement. They need to upgrade their rating to C or above after the improvement, otherwise they will be disqualified as suppliers. Those rated as E will be disqualified suppliers directly.

3.3.2. Customer Health and Safety

Management guidelines and policies

The Group commits itself to establishing, maintaining and improving the ISO9001 quality system, in a mission to provide quality products and services to meet customer requirements. In the course of operations, the Group strictly abides by national laws and regulations and industry quality standards and constantly improves quality management to protect the basic rights and interests of customers.

Quality management system

The Group obtained ISO9001:1994 certification in 2000. Through years of supervision and guidance, the Group's quality control system is well-established and keeps improving and developing. Its quality policy and targets have been understood and implemented by all employees through company-wide training and publicity. The quality targets have been assigned to all departments. The management reviews the quality targets on a monthly basis and continuously refines them for quality improvement, and has verified the suitability, effectiveness and sufficiency of the quality system through internal and external audits. The Group conducts management reviews semi-annually to align its organizational structure and resource allocation with its quality system, thus ensuring the effective operation of the quality system. In summary, the Group's existing quality control system effectively guarantees product quality and ongoing customer satisfaction.

Product safety

In order to ensure that our products meet industry and national safety standards, we conduct product testing with specific and effective methods to make sure that our products meet quality and technical requirements and to correct any serious problems in a timely manner. We only deliver products meeting quality and technical requirements to customers.

After-sale services

Customer feedback is the biggest contributor to driving the Group forward, and hence we maintain good communication with our customers to understand their requirements for improvement of our products and services. The Group conducts surveys by visiting customers and issuing the "Customer Satisfaction Survey Form" to them to learn about their requirements. The Marketing Department of the Group is responsible for regularly reviewing customers' opinions on the products or services provided and developing measures to improve customer satisfaction.

Fair publicity policy

The Group understands the importance of advertising and sales pitches. As such, we have formulated the "Fair Publicity Policy" to regulate all our marketing staff who are required to provide customers with accurate and true information in the course of marketing, so as to ensure the effectiveness of marketing and avoid relevant legal risks in the process.

3.3.3. Corporate Governance

Management guidelines and policies

Members of the Board of Directors of the Group come from different backgrounds and jointly supervise the corporate governance of the Company. The Board of Directors, under which there are a number of committees in place including the Audit Committee, the Nomination Committee and the Remuneration Committee, is the Group's highest governing body which is responsible for formulating, reviewing and monitoring the Company's corporate governance policies and practices in order to protect the Group's assets and stakeholders' interests.

The Group has a strict anti-corruption policy which requires all employees to comply professionally with the Group's policies on conflict of interest, intellectual property rights, privacy, confidentiality of information, prevention of bribery and corruption, and equal opportunities. The Group requires employees to abide by the code of business ethics and to refrain from corruption and bribery during the term of their employment contract.

Protection of intellectual property

The Group is committed to protecting intellectual property and customer information. To this end, the Group has included confidentiality and competition restrictions into its Employee Rules. The Group may require certain personnel to sign a written confidentiality agreement or non-competition agreement based on the responsibilities of their positions. During the term of the confidentiality agreement, the employees concerned shall strictly abide by the confidentiality rules of the Group to prevent the disclosure of trade secrets. Meanwhile, such employees shall not use the Group's trade secrets to engage in production or business activities, nor shall they utilize the Group's trade secrets for new research or development projects.

3.4. Giving Back to Society

The Group is well aware that our responsibility is not only to contribute directly to the economy, but also to generate positive impact on the society as a whole through our business operations and public welfare projects. The Group proactively contacts community groups that match the Group's corporate responsibility to learn about community needs. To fulfill its obligations as a corporate citizen and serve the community, the Group took an active part in the activities organized by community groups in the past year.

Harmonious community

The Group always spares no effort in promoting the inclusive social culture. During the reporting period, it carried out a series of community activities, including:

- "Huayu Chinese-English Primary School in Tangxiayong Community – After-school Traffic Dispersion Activity": The activity was organized by the Volunteer Center at Tangxiayong Community, Yanluo Street, with an aim to make primary school students aware of the importance of crossing the road safely. On the day of the activity, we dispatched volunteers to direct the traffic so that the students could cross the road safely.

- "Beautiful Yanluotang Activity": Our volunteers also participated in the Yanluo Street cleaning activity organized by the Volunteer Center at Tangxiayong Community, Yanluo Street with an aim to provide create a clean and hygienic community for all residents.

- "Green Sports Good for Health": The activity was designed to promote green life and encourage healthy exercises. On the day of the activity, the Group organized its employees to serve and enable the public to enjoy a happy day with green sports.

- "2017 Yanluo Street 3.5 Shenzhen Volunteer Festival Launching Ceremony": The event was mainly to promote the culture of volunteer service and encourage people to participate in volunteer activities, serve the disadvantaged and perform civic duties. We dispatched 20 volunteers to promote volunteer service culture in the community and boost interaction of neighbors.

- "2017 Shanghai Commercial Pok Oi Cycling for Millions 2017": The event was organized by Pok Oi Hospital in Hong Kong with an aim to promote cycling, advocate green living and raise funds for Pok Oi Hospital to build the largest old-age home in Hong Kong. The Group had its employees form a cycling team to participate in the event.

3.5. Awards and Recognitions

To honor its corporate social responsibility and build an inclusive society, the Group also participated in the Caring Company Scheme organized by The Hong Kong Council of Social Service (HKCSS) and was awarded the Caring Company logo for the fifth consecutive year.

During the reporting period, the Group received the second prize for Yanluo Street's quality assessment of statistical data in the first quarter of 2017.

SUMMARY OF KEY PERFORMANCE INDEX (SHENZHEN FACTORY)

ENVIRONMENT		
Polluting emissions	**Unit**	
Exhaust emissions		
Nitrogen oxide emissions	kg	238.36
Sulfur oxide emissions	kg	1.19
Particulate emissions	kg	22.84
Solid waste		
Hazardous waste	kg	1,265.00
Hazardous waste Intensity	kg per employee	0.93
Harmless waste	kg	78,462.00
Hazardous waste Intensity	kg per employee	57.95
Greenhouse gas emissions and Intensity		
Total greenhouse gas emissions	tCO_2-e	4,169.40
Direct emission	tCO_2-e	226.27
Energy-related indirect emissions	tCO_2-e	3,895.43
Other indirect emissions	tCO_2-e	49.13
Greenhouse gas reduction due to newly planted trees	tCO_2-e	1.43
Emission Intensity	tCO_2-e per employee	3.08
Energy use		
Power purchased	kWh	4,348,056.00
Power Intensity	kWh per employee	3,211.27
Renewable energy (solar energy)	kWh	87,910.00
Renewable energy use Intensity (solar energy)	kWh per employee	64.93
Municipal water	m^3	155,921.45
Water use Intensity	m^3 per employee	115.16
Amount of packaging materials used		
Plastic	tonne	940.16
Paper	tonne	2,261.33
Metal	tonne	198.37
Lumber	tonne	51.76

SOCIETY

Employees	**Unit**	
Total number of employees	person	1,354
Breakdown of employees by age		
Aged 16–24	person	424
Aged 25–34	person	515
Aged 35–44	person	263
Aged 45–54	person	136
Aged 55–64	person	16
Breakdown of employees by gender		
Male	person	479
Female	person	875
Breakdown of employees by employment type		
Full time	person	1,354
Breakdown of employees by region		
Mainland China	person	1,354
Breakdown of employees by function		
Senior management	person	6
Middle management	person	10
Executives	person	40
General staff	person	1,298
Number of employee turnovers		
Turnover rate (monthly average)	percentage (%)	4.8%
Turnover rate by age		
Aged 16–24	percentage (%)	1.9%
Aged 25–34	percentage (%)	2.3%
Aged 35–44	percentage (%)	2.5%
Aged 45–54	percentage (%)	0.5%
Aged 55–64	percentage (%)	0.0%
Turnover rate by gender		
Male	percentage (%)	2.0%
Female	percentage (%)	3.0%
Turnover rate by region		
Mainland China	percentage (%)	4.8%

SOCIETY

Employees	**Unit**	
Health and safety		
Work-related deaths	persons	0
Number of work days lost due to work-related injuries	days	4
Training and development		
Total training hours	hours	2,708.00
Average training hours		
Male	hours	2.00
Female	hours	3.65
Senior management	hours	1.00
Middle management	hours	1.00
Executives	hours	1.00
General staff	hours	2.00
Percentage of trained employees by category		
Male	percentage (%)	100%
Female	percentage (%)	100%
Senior management	percentage (%)	100%
Middle management	percentage (%)	100%
Executives	percentage (%)	100%
General staff	percentage (%)	100%
Number of suppliers		
Mainland China	suppliers	358
Hong Kong	suppliers	168
Others	suppliers	40
Product responsibility		
Percentage of products that must be recalled for health and safety reasons	percentage (%)	0
Number of complaint cases about products and services	case	0
Anti-corruption		
Number of concluded corruption cases brought against the issuer or its employees during the reporting period	case	0

CORPORATE GOVERNANCE PRACTICES

The Board is committed to maintaining high standards of corporate governance to safeguard the interests of the shareholders of the Company and recognises the importance of good corporate governance to the Company's healthy development. The Company's corporate governance practices are based on the principles and code provisions (the "Code Provisions") set out in the Corporate Governance Code and Corporate Governance Report (the "CG Code") contained in Appendix 14 of the Rules (the "Listing Rules") Governing the Listing of Securities on the Stock Exchange.

During the year ended 31 December 2017, the Company has complied with the Code Provisions of the CG Code, except for the limited deviation on the grounds and causes as explained below. The Board will review and update the current practices regularly to ensure compliance with the latest practices in corporate governance so as to protect and maximise the interests of shareholders.

Code Provision A.2.1

Under Code Provision A.2.1, the roles of Chairman and Chief Executive should be separate and should not be performed by the same individual. The Company does not have a separate Chairman and Chief Executive and Mr. Lam Yin Kee currently holds both positions. The Board believes that vesting the roles of both Chairman and Chief Executive in the same person provides the Group with strong and consistent leadership and allows for more effective planning and execution of long term business strategies. However, the Board will review the roles of Mr. Lam Yin Kee acting as the Chairman and Chief Executive regularly, and may segregate the roles to two Directors, if the Board believes that it is for the best interest of the Company and the shareholders.

Code Provision I (f) and Rule 3.10A of the Listing Rules

Code Provision I (f) and Rule 3.10A of the Listing Rules stipulate that the Company is required to appoint independent non-executive directors representing at lease one-third of the Board. Following the appointment of Mr. Lau Fai Lawrence as a non-executive director of the Company effective from 1 March 2017 and during the period from 1 March 2017 to 31 May 2017, the number of independent non-executive directors for the composition of the Board had fallen below the minimum number required by the Listing Rules. Since the appointment of Mr. Lin Kam Sui as an independent non-executive director on 1 June 2017, the Company has complied with this requirement.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the code of conduct regarding Directors' securities transactions as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all Directors of the Company, all Directors of the Company confirmed that they had complied with the required standards as set out in the Model Code throughout the year ended 31 December 2017.

In addition, the Board also established written guidelines on no less exacting terms than the Model Code for relevant senior management of the Company in respect of their dealings in the securities of the Company.

THE BOARD OF DIRECTORS AND BOARD MEETINGS

The Board's primary responsibilities are to formulate the Group's long-term corporate strategy, to oversee the management of the Group and to evaluate the performance of the Group. The Board is also responsible for the approval of annual and interim results, risk management, major acquisitions, and other significant operational and financial matters. Matters not specifically reserved to the Board and necessarily relate to the daily operations of the Group are delegated to the management under the supervision of the respective Directors and the leadership of the Chairman.

During the year ended 31 December 2017, Mr. Meng Fei was appointed as an executive Director of the Company effective from 1 June 2017; Mr. Lau Fai Lawrence was appointed as a non-executive Director of the Company effective from 1 March 2017 and Mr. Lin Kam Sui was appointed as an independent non-executive Director of the Company effective from 1 June 2017. The Board currently comprises six executive Directors, two non-executive Directors and four independent non-executive Directors as follows:

Executive Directors:	Mr. Lam Yin Kee *(Chairman and Chief Executive)*
	Ms. Yeung Po Wah
	Ms. Liu Jing
	Mr. Lam Chee Tai, Eric
	Mr. So Kin Hung
	Mr. Meng Fei
Non-executive Directors:	Mr. Fan, William Chung Yue
	Mr. Lau Fai Lawrence
Independent non-executive Directors:	Mr. Pang Kwok Wah
	Mr. Yau Ming Kim, Robert
	Mr. Yen Yuen Ho, Tony
	Mr. Lin Kam Sui

Mr. Lam Yin Kee is the Chairman and Chief Executive of the Group. Ms. Yeung Po Wah is an executive Director of the Group and the spouse of Mr. Lam Yin Kee. Mr. Lam Chee Tai, Eric is an executive Director of the Group and the son of Mr. Lam Yin Kee and Ms. Yeung Po Wah. Apart from these, there is no other direct family relationship amongst the members of the Board.

The background and qualification of the Chairman of the Company and the other Directors are set out on pages 12 to 14 of this annual report. All Directors have sufficient experience to hold their positions so as to carry out their duties effectively and efficiently, and all of them have given sufficient time and attention to the affairs of the Group. The two non-executive Directors and the four independent non-executive Directors are person of high caliber with academic and professional qualifications in the fields of accounting, finance, law, worldwide trade affairs and business management. They bring a broad range of financial, regulatory and commercial experience and skills to the Board, which contribute to the effective strategic management of the Group.

Each of the non-executive Directors and the independent non-executive Directors has been appointed with a formal letter of appointment setting out the terms and conditions of their respective appointment. Mr. Fan, William Chung Yue is appointed for a term of one year commencing from 17 June 2005, and such appointments shall continue thereafter from year to year until terminated by either party with one month's written notice served to the other party. Mr. Lau Fai Lawrence was appointed as a non-executive Director of the Company for a term of three years from 1 March 2017 and was re-elected at the annual general meeting of the Company held on 1 June 2017. The appointment of Mr. Lau Fai Lawrence shall continue thereafter from year to year until terminated by either party with one month's notice in writing. Mr. Yau Ming Kim, Robert was appointed as an independent non-executive Director of the Company from 1 September 2009 and was re-elected at the annual general meeting of the Company held on 28 May 2010. The appointment of Mr. Yau Ming Kim, Robert, shall continue thereafter from year to year until terminated by either party with one month's notice in writing. Mr. Pang Kwong Wah was appointed as an independent non-executive Director of the Company from 21 June 2013 and was re-elected at the annual general meeting of the Company held on 29 May 2014. The appointment of Mr. Pang Kwong Wah shall continue thereafter from year to year until terminated by either party with one month's notice in writing. Mr. Yen Yuen Ho, Tony was appointed as an independent non-executive Director of the Company for a term of 3 years from 12 August 2016, and was re-elected at the annual general meeting of the Company held on 1 June 2017. The appointment of Mr. Yen Yuen Ho, Tony shall continue thereafter from year to year until terminated by either party with one month's notice in writing. Mr. Lin Kam Sui was appointed as an independent non-executive Director of the Company for a term of 3 years from 1 June 2017, and he will retire and offer himself for re-election at the forthcoming annual general meeting of the Company to be held on 7 June 2018. The appointment of Mr. Lin Kam Sui shall continue thereafter from year to year until terminated by either party with one month's notice in writing.

The Board considers that the independent non-executive Directors can make independent judgment effectively and fulfill the independence guidelines set out in Rule 3.13 of the Listing Rules. Each of the independent non-executive Directors has given a written confirmation to the Company confirming that he has met the criteria set out in Rule 3.13 of the Listing Rules regarding the guidelines for the assessment of independence of Directors in respect of the year ended 31 December 2017.

Code Provision I (f) and Rule 3.10A of the Listing Rules stipulate that the Company is required to appoint independent non-executive directors representing at lease one-third of the Board. Following the appointment of Mr. Lau Fai Lawrence as a non-executive director of the Company effective from 1 March 2017 and during the period from 1 March 2017 to 31 May 2017, the number of independent non-executive directors for the composition of the Board had fallen below the minimum number required by the Listing Rules. Since the appointment of Mr. Lin Kam Sui as an independent non-executive director on 1 June 2017, the Company has complied with this requirement.

The Board schedules to hold at least four full board meetings a year at approximately quarterly intervals. During the year ended 31 December 2017, five full board meetings were held and the attendance of the Board of Directors is set out as follows:

	Number of meetings attended during the year ended 31 December 2017	
	Board meetings	**AGM/EGM***
Executive Directors		
Mr. Lam Yin Kee	5/5	2/2
Ms. Yeung Po Wah	5/5	2/2
Ms. Liu Jing	4/5	2/2
Mr. Lam Chee Tai, Eric	2/5	1/2
Mr. So Kin Hung	5/5	2/2
Mr. Meng Fei ***	2/2	N/A
Non-executive Directors		
Mr. Fan, William Chung Yue	3/5	0/2
Mr. Lau Fai Lawrence **	4/4	1/1
Independent non-executive Directors		
Mr. Pang Kwong Wah	5/5	2/2
Mr. Yau Ming Kim, Robert	2/5	1/2
Mr. Yen Yuen Ho, Tony	5/5	2/2
Mr. Lin Kam Sui ***	2/2	N/A

* During the year ended 31 December 2017, the 2017 AGM was held on 1 June 2017 and one extraordinary general meeting was held on 13 January 2017.

** Mr. Lau Fai Lawrence was appointed effective from 1 March 2017 and was entitled to attend 4 board meetings and the 2017 AGM during the year.

*** Mr. Meng Fei and Mr. Lin Kam Sui were appointed effective from 1 June 2017 and was entitled to attend two board meetings only during the year.

Every Board member has a duty to act in good faith, with due diligence and care, and in the best interests of the Company and its shareholders. Each Director is required to make disclosure of his/her interests or potential conflict of interests, if any, in any proposed transactions or issues discussed by the Directors at the Board and Board Committees' meetings. Any Director shall not vote on any resolution of the Board and Board Committees approving any contract or arrangement or any other proposal in which he/she (or his/her associates) is materially interested nor shall he/she be counted in the quorum present at the meeting.

Apart from the above regular meetings of the year, the Board will meet on other occasions when a board-level decision on a particular matter is required. The Chairman of the Board also held a meeting with the non-executive Directors (including independent non-executive Directors) of the Company during the year without the executive Directors present. Directors shall have full access to information on the Group and are able to obtain independent professional advice whenever deemed necessary by the Directors. No request was made by any Director for such independent professional advice in 2017. The Company Secretary shall prepare minutes and keep record of matters discussed and decisions resolved at all Board meetings, which will be available for inspection by Directors upon request.

The Company has arranged for appropriate liability insurance to indemnify its directors and officers for their liabilities arising out of corporate affairs. The insurance coverage is reviewed annually. During the year, no claim was made against the Directors and officers of the Company.

CORPORATE GOVERNANCE FUNCTIONS

No corporate governance committee has been established and the Board is responsible for performing the functions set out in the Code Provision D.3.1 of the CG Code. The Board is responsible for performing the corporate governance functions such as developing and reviewing the Company's policies, practices on corporate governance, training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code, and the Company's compliance with the CG Code and disclosure in the corporate governance report. The Board is also satisfied that all Directors have contributed sufficient time in performance of their responsibilities as directors of the Company.

The Board held meetings from time to time whenever necessary. At least 14 days notice of regular Board meetings is given to all directors and they can include matters for discussion in the agenda as they think fit. The agenda together with 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. Minutes of every Board meeting are circulated to all directors for their perusal and comments. Minutes are open for inspection at any reasonable time on reasonable notice by any director. The Board also ensures that it is supplied in a timely manner with the agenda and all necessary information in a form and of a quality appropriate to enable it to discharge its duties. Every Board member has full access to the advice and services of the company secretary with a view to ensuring that Board procedures, and all applicable rules and regulations are followed and they are also entitled to have full access to Board papers and related materials so that they are able to make an informed decision and to discharge their duties and responsibilities.

DIRECTORS' INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT

Upon appointment to the Board, each newly appointed Director receives a comprehensive package covering the Group's business and the general, statutory and regulatory obligations of being a director of a listed company to ensure that he/she is sufficiently aware of his/her responsibilities under the Listing Rules and other relevant regulatory requirements. The Directors are regularly briefed on the amendments to or updates on the relevant laws, rules and regulations. In addition, the Company has been encouraging the Directors and senior executives to enroll in a wide range of professional development courses or seminars relating to the Listing Rules, companies ordinance and corporate governance practices organised by professional bodies so that they can continuously update their relevant knowledge and skills. The company secretary also organises and arranges seminars on the latest development of applicable laws, rules and regulations for the Directors to assist them in discharging their duties.

During the year ended 31 December 2017, the Company engaged a professional training institution to provide all Directors with relevant training on directors' responsibilities and information disclosure. All Directors had complied with the requirements set out in the Code Provision A.6.5 and had provided their training records as follows:

	Type of training	
	Read materials	Attending seminars/ workshops
Executive Directors:		
Mr. Lam Yin Kee	✓	✓
Ms. Yeung Po Wah	✓	✓
Ms. Liu Jing	✓	✓
Mr. Lam Chee Tai, Eric	✓	✓
Mr. So Kin Hung	✓	✓
Mr. Meng Fei	✓	✓
Non-executive Directors:		
Mr. Fan, William Chung Yue	✓	✓
Mr. Lau Fai Lawrence	✓	✓
Independent non-executive Directors:		
Mr. Pang Kwong Wah	✓	✓
Mr. Yau Ming Kim, Robert	✓	✓
Mr. Yen Yuen Ho, Tony	✓	✓
Mr. lin Kam Sui	✓	✓

All the directors also understand the importance of continuous professional development and are committed to participating any suitable training to develop and refresh their knowledge and skills.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

In accordance with the Company's Articles of Association, at each annual general meeting one-third of the Directors for the time being (or, if the number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation.

Mr. Lam Yin Kee, Ms. Yeung Po Wah, Mr. So Kin Hung, Mr. Lau Fai Lawrence and Mr. Yen Yuen Ho, Tony had been re-appointed at the last Annual General Meeting held on 1 June 2017. Pursuant to Articles 86(3) and 87 of the Company's Articles of Association, Ms. Liu Jing, Mr. Lam Chee Tai, Eric, Mr. Meng Fei, Mr. Fan, William Chung Yue, Mr. Pang Kwong Wan and Mr. Lin Kam Sui shall retire at the forthcoming annual general meeting and being eligible, offer themselves for re-election.

All directors (including executive, non-executive and independent non-executive directors) are subject to election for appointment by shareholders at the annual general meeting at lease once every three years. None of the Directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within three years without payment of compensation (other than statutory compensation).

The notice period for the termination of the service contracts with executive Directors by either party is not less than three months. The notice period for the termination of appointment of non-executive Directors and independent non-executive Directors by either party is not less than one month.

NOMINATION COMMITTEE

The Company had set up a nomination committee (the "Nomination Committee") on 1 April 2012 with written terms of reference. The Nomination Committee has a minimum of five members, comprising a majority of independent non-executive Directors. The Nomination Committee is chaired by Mr. Lam Yin Kee (the Chairman of the Board) and other current members include Ms. Yeung Po Wah, Mr. Pang Kwong Wah, Mr. Yau Ming Kim, Robert and Mr. Yen Yuen Ho, Tony.

The terms of reference of the Nomination Committee are posted on the Company's website and the Stock Exchange's website. The primarily roles and functions of the Nomination Committee include reviewing the structure, size and composition of the Board at least once every year, making recommendations on any proposed changes to the Board to complement the Group's corporate strategy, identifying individuals suitably qualified to become members of the Board and selecting individuals nominated for directorship (if necessary), assessing the independence of the independent non-executive directors and making recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular the chairman and the chief executive officer.

The Company acknowledges that the diversification of the members of the Board has positive effects on enhancing the Group's performance, and has adopted a board diversity policy with effect from 1 September 2013. The Company sees the diversification of the members of the Board as an important supporting factor for the Group to achieve its strategic goal and maintain sustainable growth. In deciding the composition of the Board, the Company will consider the Board diversity from various perspectives, including but not limited to sex, age, cultural and academic background, race, professional experience, skills, knowledge and terms of services. All of our Directors are appointed according to the principle of meritocracy while all candidates are being selected objectively, and the benefit of Board diversity will also be taken into full consideration. The nomination committee will review the diversity of the composition of the Board on regular basis, and will monitor the implementation of this policy, so as to ensure this policy has been effectively implemented.

During the year, the Nomination Committee has held three meetings to review the structure, size and composition of the Board.

Name of committee member	Number of meeting attended
Mr. Lam Yin Kee	3/3
Ms. Yeung Po Wah	3/3
Mr. Pang Kwong Wah	3/3
Mr. Yau Ming Kim, Robert	1/3
Mr. Yen Yuen Ho, Tony	3/3

REMUNERATION COMMITTEE

The Company has set up a remuneration committee (the "Remuneration Committee") on 22 June 2005 with written terms of reference in compliance with the Listing Rules. The Remuneration Committee has a minimum of five members, comprising a majority of independent non-executive Directors. The Chairman of the Remuneration Committee is Mr. Pang Kwong Wah and other current members include Mr. Lam Yin Kee, Ms. Yeung Po Wah, Mr. Yau Ming Kim, Robert and Mr. Yen Yuen Ho, Tony. The Remuneration Committee schedules to meet at least once every year and the quorum necessary for meeting is two.

The terms of reference of the Remuneration Committee are posted on the Company's website and the Stock Exchange's website. The primarily duties of the Remuneration Committee include:

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

b) to have the delegated responsibility to determine the specific remuneration packages of all executive Directors and senior management, including benefits in kind, pension rights and compensation payments (including any compensation payable for loss or termination of their office or appointment) and make recommendations to the Board of the remuneration of non-executive Directors. The Remuneration Committee shall consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration;

c) to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;

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

e) to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate;

f) to ensure that no Director or any of his associates is involved in deciding his own remuneration;

g) to advise shareholders on how to vote with respect to any service contracts of Directors that required shareholders' approval under Rule 13.68 of the Listing Rules; and

h) to consider other topics, as defined by the Board.

The Remuneration Committee had held three meetings in 2017, and has discussed and reviewed the remuneration policy for all directors and senior management of the Group; the bonus payment policy and the pay trend for salary adjustment.

Name of committee member	Number of meeting attended
Mr. Lam Yin Kee	3/3
Ms. Yeung Po Wah	3/3
Mr. Pang Kwong Wah	3/3
Mr. Yau Ming Kim, Robert	1/3
Mr. Yen Yuen Ho, Tony	3/3

The emoluments payable to Directors will depend on their respective contractual terms under employment contracts. Details of the emoluments of Directors during the year ended 31 December 2017 are set out in note 8 to the consolidated financial statements of this annual report. The emoluments paid to the highest paid individuals, who were not directors of the Company, as set out in note 9 to the consolidated financial statements of this annual report during the year ended 31 December 2017 were within the following bands:

	Number of individuals
HK$2,000,001 to HK$2,500,000	3

The Company has adopted a share option scheme at the annual general meeting held on 7 June 2016, which serves as an incentive to attract, retain and motivate talented eligible staff, including Directors. Details of the share option scheme are set out in the Report of the Directors on pages 47 and 48 of this annual report.

The share option scheme has a term of 10 years and will be expired on 6 June 2026.

AUDIT COMMITTEE

The Company has established an audit committee (the "Audit Committee") on 22 June 2005 with written terms of reference in compliance with the Listing Rules. The Audit Committee comprises members of independent non-executive Directors only.

Mr. Pang Kwong Wah has been the chairman of the Audit Committee since 20 June 2013, the other two current members are Mr. Yau Ming Kim, Robert and Mr. Yen Yuen Ho, Tony. Mr. Pang Kwong Wah has appropriate professional qualifications as required under Rule 3.10(2) of the Listing Rules.

The Audit Committee meets at least twice every year and the quorum necessary for meeting is two. Two meetings were held during the year under review. Details of the attendance of the Audit Committee meetings are as follows:

Name of committee member	Number of meetings attended
Mr. Pang Kwong Wah	2/2
Mr. Yau Ming Kim, Robert	1/2
Mr. Yen Yuen Ho, Tony	2/2

The terms of reference of the Audit Committee are posted on the Company's website and the Stock Exchange's website. The primarily duties of the Audit Committee are as follows:

Relationship with the Company's independent auditor

(a) to be primarily responsible for making recommendation to the Board on the appointment, re-appointment and removal of the independent auditor, and to approve the remuneration and terms of engagement of the independent auditor, and any questions of resignation or dismissal of that auditor;

(b) to review and monitor the independent auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard. The Audit Committee should discuss with the independent auditor the nature and scope of the audit and reporting obligations before the audit commences;

(c) to develop and implement policy on the engagement of the independent auditor to supply non-audit services. The Audit Committee shall ensure that the provision by the independent auditor of non-audit services does not impair the independent auditor's independence or objectivity;

Review of financial information of the Company

(d) to monitor integrity of financial statements of the Company and the Company's annual reports and accounts, interim reports and, if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained therein, before submission to the Board;

(e) In regard to (d) above:–

(i) members of the Audit Committee should liaise with the Company's Board, senior management and the person appointed as the Company's qualified accountant. The Audit Committee must meet, at least twice a year, with the Company's independent auditor;

(ii) the Audit Committee should consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and must give due consideration to any matters that have been raised by the Company's qualified accountant, compliance officer or independent auditor; and

(iii) the Audit Committee should discuss problems and reservation arising from the financial statements, annual reports and accounts, interim reports and quarterly reports (if applicable) and any other matters the independent auditor may wish to discuss (in the absence of management of the Company where necessary);

Oversight of the Company's financial reporting system, risk management and internal control procedures

(f) to review the Company's financial controls, risk management and internal control systems, and its statement in relation thereto prior to endorsement by the Board;

(g) to discuss with the management the risk management and internal control systems and to ensure that management has discharged its duty to have an effective risk management and internal control system;

(h) to consider any major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and management's response to these findings;

(i) where an internal audit function exists, to review the internal audit programme, to ensure co-ordination between the internal and independent auditor, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor its effectiveness;

(j) to review the Company and its subsidiaries' financial and accounting policies and practices;

(k) to review the independent auditor's management letter, any material queries raised by the independent auditor to management about accounting records, financial accounts or systems of control and management's response;

(l) to ensure that the Board will provide a timely response to the issues raised in the independent auditor's management letter;

(m) to review arrangements by which employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, risk management and internal control or other matters. The Audit Committee should ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action;

(n) to act as the key representative body for overseeing the Company's relations with the independent auditor;

(o) to report to the Board on the matters set out in this term of reference; and

(p) to consider other topics, as defined by the Board.

The Audit Committee also ensures that the directors of the Company have conducted an annual review of the adequacy of resources, qualifications and experience of staff for the Company's accounting and financial reporting function, and training programmes and budget.

The Group's interim results and annual results for the year ended 31 December 2017 have been reviewed by the Audit Committee, which was of the opinion that the preparation of such results complied with applicable accounting standards and requirements and that adequate disclosures have been made.

During the year ended 31 December 2017, the Audit Committee has met with the independent auditor with no executive Directors present.

EXECUTIVE COMMITTEE

The Company had set up an executive committee (the "Executive Committee") with written terms of reference effective from 12 November 2012. The Executive Committee has a minimum of three members. Mr. Lam Yin Kee is the chairman of the Executive Committee and other current members included Ms. Yeung Po Wah and the Company Secretary. The primarily roles and functions of the Executive Committee are to review, evaluate and make recommendations to the Board regarding any investment opportunities, payments or guarantees in excess of HK$20,000,000.

INDEPENDENT AUDITOR

The Group's independent auditor is Ernst & Young ("EY"). EY is responsible for auditing and forming an independent opinion on the Group's annual consolidated financial statements.

The fees paid and payable by the Group to EY in respect of audit and non-audit services (mainly consist of review of interim financial information) for the year ended 31 December 2017 are HK$2,050,000 and HK$300,000 respectively.

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR FINANCIAL STATEMENTS

The Directors are responsible for overseeing the preparation of financial statements of each financial period, which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing the financial statements for the year ended 31 December 2017, the Directors have selected suitable accounting policies and have applied them consistently, adopted appropriate Hong Kong Financial Reporting Standards ("HKFRS") and Hong Kong Accounting Standards ("HKAS") which are pertinent to its operations and relevant to the financial statements, made judgements and estimates that are prudent and reasonable, and have prepared the accounts on the going concern basis.

The Directors' responsibilities for the financial statements and the responsibilities of the independent auditor to the shareholders are set out on in the Independent Auditor's Report on pages 59 and 60 of this annual report.

The Directors confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern.

INTERNAL CONTROLS AND RISK MANAGEMENT

Internal control systems have been designed to allow Directors to monitor the Group's overall financial position, safeguard its assets, provide reasonable assurance against fraud and errors, and to manage the risks in failing to achieve the Group's objectives. Executive Directors monitor the business activities closely. The Group from time to time updates and improves the internal controls.

The Group has conducted an annual review of its internal control systems to ensure that they are effective and adequate. The Company convenes management meeting periodically to discuss financial, operational and risk management control. The Audit Committee also reviews the internal control system and evaluates its adequacy, effectiveness and compliance on a regular basis. The Board is satisfied that such systems are effective and appropriate actions have been taken.

The Board is responsible for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives and ensuring that the Group establishes and maintains appropriate and effective risk management system. The Board oversees management in the design, implementation and monitoring of the risk management system.

COMPANY SECRETARY

The Company Secretary is responsible to the Board for ensuring that Board procedures are followed and that the activities of the Board are carried out efficiently and effectively. The Company Secretary assists the Chairman to prepare agendas and Board papers for meetings and disseminates such documents to the Directors and board committees in a timely manner. The Company Secretary also advises the Directors on their obligations in respect of disclosure of interests in securities, connected transactions and inside information and ensures that the standards and disclosures required by the Listing Rules are observed.

With respect to the secretarial function of the Group, the Company Secretary maintains formal minutes of the Board meetings and other Board committee meetings. During the year, Mr. Leung Fuk Cheung, the Company Secretary of the Company, has undertaken no less than 15 hours of professional training to update his skills and knowledge.

INVESTOR RELATIONS

The Company has disclosed all necessary information to the shareholders in compliance with the Listing Rules and uses a number of formal communication channels to account to shareholders and investors for the Company. These include (i) the publication of interim and annual reports; (ii) the annual general meeting or extraordinary general meeting providing a forum for shareholders of the Company to raise comments and exchange views with the Board; (iii) meetings are held with media and investors periodically; (iv) the Company replies to enquiries from shareholders timely; (v) the Company's share registrar in Hong Kong serves the shareholders regarding all share registration matters; and (vi) the Company will publish voluntary announcement to keep the shareholders and potential investors of the Company informed of the latest business development of the Company and its subsidiaries as and when necessary.

The Company's annual general meeting provides a good opportunity for communications between the Board and its shareholders. Shareholders are encouraged to attend the annual general meeting. Notice of the annual general meeting and related papers are sent to shareholders at least 20 clear business days before the meeting and the said notice is also published on the Stock Exchange's website and the Company's website. The Chairman and Directors will answer questions on the Group's business at the meeting.

SHAREHOLDERS' RIGHTS

Putting forward proposals at general meetings

The annual general meeting and other general meetings of the Company are primary platform for communication between the Company and its shareholders. The Company shall provide shareholders with relevant information on the resolution(s) proposed at a general meeting in a timely manner in accordance with the Listing Rules. The information provided shall be reasonably necessary to enable shareholders to make an informed decision on the proposed resolution(s).

There are no provisions in the Company's articles of association or the Cayman Islands Companies Law for shareholders to move new resolutions at general meetings. Shareholders who wish to move a resolution may request the Company to convene a general meeting in accordance with the procedures set out in the below paragraph.

As regards proposing a person for election as a director of the Company, please refer to the procedures posted on the Company's website.

Convening an extraordinary general meeting by shareholders

Pursuant to the articles of association of the Company, any one or more member(s) of the Company holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary of the Company by mail at Unit 408, 4/F, Citicorp Centre, 18 Whitfield Road, Hong Kong to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Putting forward enquiries to the Board

The Company has disclosed all necessary information to the shareholders in compliance with Listing Rules. Updated and key information of the Group is also available on the Company's website at http://www.irasia.com/listco/hk/alltronics/index.htm. The Company also replied the enquiries from shareholders timely. The Directors host the annual general meeting each year to meet the shareholders and answer their enquiries.

For putting forward any enquiries to the Board of the Company, shareholders may send written enquiries to the Company.

Note: The Company will not normally deal with verbal or anonymous enquiries.

Contact details

Shareholders may at any time send their enquiries and concerns to the Board in writing through the Company Secretary whose contact details are as follows:

Unit 408, 4/F, Citicorp Centre, 18 Whitfield Road, Hong Kong
Fax: (852) 2977 5633
Email: roger.leung@alltronics.com.hk

Shareholders may also make enquiries with the Board at the general meetings of the Company.

CONSTITUTIONAL DOCUMENTS

There are no changes in the Company's constitutional documents during the year.

The Board of Directors (the "Board") is pleased to present its annual report together with the audited consolidated financial statements of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The Company acts as an investment holding company and provides corporate management services to its group companies. The principal activities of the subsidiaries as set out in note 1 to the consolidated financial statements are primarily the manufacturing and trading of electronic products, plastic moulds, plastic and other components for electronic products, the trading of biodiesel products, the provision of energy saving business solutions and operation of investment properties. During the year ended 31 December 2017, the Group has diversified its business operations into investment properties segment through the acquisition of a subsidiary with investment properties located at Beijing, The People's Republic of China (the "PRC").

An analysis of the Group's performance for the year by business and geographical segments is set out in note 5 to the consolidated financial statements.

BUSINESS REVIEW

Details of the activities during the year as required by Schedule 5 to the new Hong Kong Companies Ordinance (Cap. 622), including a review of the Group's business, an analysis of the Group's performance during the year using financial key performance indicators, a description of the principal risks and uncertainties facing the Group and an indication of the future development in the Group's business, are set out in the sections "Chairman's Statement" on pages 3 to 4 and "Management Discussion and Analysis" on pages 5 to 11 of this annual report, and the notes to the consolidated financial statements.

Particulars of important events affecting the Group that have occurred since the end of the reporting period can also be found in the abovementioned sections and the notes to the consolidated financial statements. The discussions on the Group's compliance with the relevant laws and regulations are set out on page 45 of this annual report. An account of the Company's relationship with its key stakeholders is included in the "Relationship with Employees, Customers and Suppliers" and "Substantial Shareholders' Interests and/or Short Positions in the Shares and Underlying Shares of the Company" on pages 45 and 51 of this annual report respectively.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

The Group has formulated some policies in accordance with international environmental standards and has adopted environmentally-friendly production by improving energy efficiency while reducing energy consumption and pollutant emissions. Production factories of the Group have passed the certification of ISO 9001 quality control system and ISO 14001 environmental management system.

Details of the environmental, social and governance of the Group are set out in the "Environmental, Social and Governance Report" on pages 16 to 30 of this annual report.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

The Group recognises the importance of compliance with the requirements of relevant laws and regulations. During the year, as far as the Board and management are aware of, there was no material breach or non-compliance with any applicable laws and regulations by the Group that has a significant impact on the businesses and operations of the Group.

RELATIONSHIP WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

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

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated statement of profit or loss on page 61 of this annual report.

During the year, the Company has declared and paid an interim dividend of HK3.0 cents per ordinary share, totalling HK$28,383,490. The Directors recommend the payment of a final dividend for the year of HK5.0 cents per ordinary share, amounting to HK$47,305,820. The final dividend is subject to approval by shareholders at the Annual General Meeting of the Company to be held on 7 June 2018. It is expected that the final dividend will be paid on or about 29 June 2018 to shareholders whose names appear on the register of members on 15 June 2018.

DONATIONS

Charitable and other donations made by the Group during the year amounted to HK$950,000.

SHARES ISSUED DURING THE YEAR

During the year, the Company has issued new ordinary shares as follows:

(i) Pursuant to a resolution passed by the shareholders of the Company at the annual general meeting held on 1 June 2017, the Company has allotted and issued 420,496,160 bonus shares on 23 June 2017, credited as fully paid at par, on the basis of eight new bonus shares for every ten shares held by the shareholders of the Company whose names appeared on the register of members of the Company on 9 June 2017.

Details of the shares issued during the year ended 31 December 2017 are set out in note 28 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

Under the Companies Law of the Cayman Islands, share premium is distributable to shareholders, subject to the condition that immediately following the date on which the distribution or dividend is proposed to be made, the Company is able to pay its debts as they fall due in the ordinary course of business. Distributable reserves of the Company as at 31 December 2017, calculated according to the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to HK$318,355,000 (2016: HK$331,981,000).

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association and there was no restriction against such rights under the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years ended 31 December is set out on page 142 of this annual report.

PURCHASE, SALE OR REDEMPTION OF COMPANY'S LISTED SHARES

Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year ended 31 December 2017 and the Company has not redeemed any of its shares during the year.

SHARE OPTIONS

Pursuant to an ordinary resolution of the shareholders of the Company passed at the Annual General Meeting held on 7 June 2016, a share option scheme (the "2016 Share Option Scheme") was approved and adopted. The purpose of the 2016 Share Option Scheme is to enable the Group to grant options to selected participants as incentive or rewards for their contributions or potential contributions to the Group.

For the purpose of the 2016 Share Option Scheme, participants include (i) any executive, non-executive or independent non-executive Director of the Group; (ii) any employee (whether full time or part time) of the Group; and (iii) any supplier and/or sub-contractor of the Group.

The total number of shares which may be allotted and issued upon exercise of all options to be granted under the 2016 Share Option Scheme and any other share option schemes of the Company shall not in aggregate exceed 10 per cent. (the "General Scheme Limit") of the total number of shares on 7 June 2016, the date on which the 2016 Share Option Scheme was adopted.

The Company may seek approval of the shareholders in general meeting to refresh the General Scheme Limit such that the total number of shares which may be allotted and issued upon exercise of all options to be granted under the 2016 Share Option Scheme and any other share option schemes of the Company shall not exceed 10 per cent. of the issued share capital of the Company at the date of approval to refresh such limit.

Notwithstanding the above, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2016 Share Option Scheme and any other share option schemes of the Company shall not exceed 30 per cent. of the total number of shares of the Company in issue from time to time. No option may be granted under the 2016 Share Option Scheme and any other share option schemes of the Company if this will result in the aforesaid 30 per cent. limit being exceeded.

Unless with the approval of the shareholders in general meeting, the maximum number of shares issued and to be issued upon the exercise of the options granted to each participant (including both exercised and outstanding options) under the 2016 Share Option Scheme and other share option schemes of the Company in any twelve–month period shall not exceed 1 per cent. of the shares in issue.

An option must be exercised in accordance with the terms of the 2016 Share Option Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence from the date of the offer for the grant of the option is made, but shall end in any event not later than 10 years from the date on which the offer for the grant of the option is made, subject to the provisions for early termination thereof. The amount payable on acceptance of the grant of an option is HK$1.

Unless otherwise determined by the Directors and stated in the offer for the grant of options to a grantee, there is neither any performance target that needs to be achieved by a grantee before an option can be exercised nor any minimum period for which an option must be held before it can be exercised.

The subscription price in respect of each share issued under the 2016 Share Option Scheme shall be a price solely determined by the Directors but shall not be less than the highest of:

(i) the nominal value of a share;

(ii) the closing price of the shares of the Company as stated in the daily quotation sheets issued by the Stock Exchange on the date upon which the relevant option is accepted and deemed to be granted (the "Commencement Date"), which must be a business day;

(iii) the average closing price of the shares as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the Commencement Date.

The 2016 Share Option Scheme shall be valid and effective for a period of 10 years commencing from 7 June 2016, being the date on which the 2016 Share Option Scheme was adopted.

During the two years ended 31 December 2017 and 2016, there were no share options granted, exercised, cancelled or lapsed. As at 31 December 2017 and 2016, there were no outstanding share options issued under any share option scheme.

As at the date of this report, the total number of shares of the Company available for issue under the 2016 Share Option Scheme was 44,962,020, which represented approximately 4.8% of the issued share capital of the Company as at the date of this report.

DIRECTORS OF THE COMPANY

The Directors of the Company during the year and up to the date of this report were:

Executive Directors

Mr. Lam Yin Kee *(Chairman and Chief Executive)*
Ms. Yeung Po Wah
Ms. Liu Jing
Mr. Lam Chee Tai, Eric
Mr. So Kin Hung
Mr. Meng Fei *(appointed from 1 June 2017)*

Non-Executive Directors

Mr. Fan, William Chung Yue
Mr. Lau Fai Lawrence *(appointed from 1 March 2017)*

Independent Non-Executive Directors

Mr. Pang Kwong Wah
Mr. Yau Ming Kim, Robert
Mr. Yen Yuen Ho, Tony
Mr. Lin Kam Sui *(appointed from 1 June 2017)*

In accordance with Articles 86(3) and 87 of the Company's Articles of Association, Ms. Liu Jing, Mr. Lam Chee Tai, Eric, Mr. Meng Fei, Mr. Fan, William Chung Yue, Mr. Pang Kwong Wah and Mr. Lin Kam Sui shall retire at the forthcoming annual general meeting. All retiring directors, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

Each of Mr. Lam Yin Kee and Ms. Yeung Po Wah has entered into a service contract with the Company. Particulars of these contracts, except as indicated, are in all material respects identical and are summarised as follows:

(i) each service contract is of an initial term of three years commencing on 15 July 2005 and shall continue thereafter until terminated in accordance with the terms of the contracts. Under the contract, either party may terminate the contract at any time by giving to the other not less than three months' prior notice in writing;

(ii) the current monthly salary for each of Mr. Lam Yin Kee and Ms. Yeung Po Wah are HK$411,868 and HK$116,786 respectively, subject to discretionary bonus of not more than 10% of the Group's profit in aggregate; and

(iii) the Group provides directors' accommodation to Mr. Lam Yin Kee at a current monthly rental of HK$150,000.

Ms. Liu Jing was appointed for an initial term of three years commencing from 5 March 2016 and such appointment shall continue thereafter from year to year until terminated by either party with three month's notice in writing. The current monthly salary for Ms. Liu Jing is HK$55,125.

Mr. Meng Fei was appointed for an initial term of three years commencing from 1 June 2017 and such appointment shall continue thereafter from year to year until terminated by either party with three month's notice in writing. The current monthly salary for Mr. Meng Fei is HK$52,500.

There are no service contracts between the Company and Mr. Lam Chee Tai, Eric and Mr. So Kin Hung in relation to their roles as executive Directors of the Company. The current monthly salary for Mr. Lam Chee Tai, Eric and Mr. So Kin Hung are HK$143,992 and HK$109,385 respectively.

Mr. Fan, William Chung Yue was appointed for an initial term of one year commencing from 17 June 2005 and such appointment shall continue thereafter from year to year until terminated by either party with one month's notice in writing. Mr. Lau Fai Lawrence was appointed for an initial term of three years commencing from 1 March 2017 and such appointment shall continue thereafter from year to year until terminated by either party with one month's notice in writing. Mr. Yau Ming Kim, Robert was appointed as an independent non-executive Director of the Company from 1 September 2009. The appointment of Mr. Yau Ming Kim, Robert shall continue thereafter from year to year until terminated by either party with one month's notice in writing. Mr. Pang Kwong Wah was appointed as an independent non-executive Director of the Company from 21 June 2013. The appointment of Mr. Pang Kwong Wah shall continue thereafter from year to year until terminated by either party with one month's notice in writing. Mr. Yen Yuen Ho, Tony was appointed as an independent non-executive Director of the Company from 12 August 2016. The appointment of Mr. Yen Yuen Ho, Tony shall continue thereafter from year to year until terminated by either party with one month's notice in writing. Mr. Lin Kam Sui was appointed as an independent non-executive Director of the Company from 1 June 2017. The appointment of Mr. Lin Kam Sui shall continue thereafter from year to year until terminated by either party with one month's notice in writing.

Save as disclosed above, none of the Directors has entered into or has proposed to enter into any service contract with the Company or any member of the Group (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS THAT ARE SIGNIFICANT IN RELATION TO THE GROUP'S BUSINESS

Save as disclosed in this annual report, no transactions, arrangements and contracts of significance in relation to the Group's business to which the Company, any of its subsidiaries or its parent company was a party and in which a Director of the Company or the Director's connected party had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of Directors and senior management are set out on pages 12 to 15 of this annual report.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY SPECIFIED UNDERTAKING OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 31 December 2017, the interests and short positions of each Director and Chief Executive in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept by the Company under Section 352 of Part XV of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 of the Listing Rules were as follows:

(a) Ordinary shares of HK$0.01 each of the Company as at 31 December 2017

		Number of shares held				
		Personal interests	Family interests	Corporate interests	Total	% of the issued share capital of the Company
Mr. Lam Yin Kee	Long positions	5,504,922	–	439,740,000 *(Note 1)*	445,244,922	47.06
Ms. Yeung Po Wah	Long positions	–	445,244,922	–	445,244,922	47.06
Ms. Liu Jing	Long positions	124,509,600	–	–	124,509,600	13.16
Mr. Lam Chee Tai, Eric	Long positions	3,018,708	–	–	3,018,708	0.32

Notes:

1. 439,740,000 shares are owned by Profit International Holdings Limited, a company incorporated in the British Virgin Islands and is owned as to 95% by Mr. Lam Yin Kee and 5% by Ms. Yeung Po Wah. Ms. Yeung Po Wah is an executive Director of the Company and the spouse of Mr. Lam Yin Kee.

2. Mr. Lam Yin Kee and Ms. Yeung Po Wah are directors and beneficial owners of Profit International Holdings Limited.

3. Mr. Lam Chee Tai, Eric is the son of Mr. Lam Yin Kee and Ms. Yeung Po Wah.

(b) Share options of the Company as at 31 December 2017

None of the Directors and Chief Executives has held any share options as at 31 December 2017.

(c) **Interests in an associated corporation, Profit International Holdings Limited (ordinary shares of US$1 each) as at 31 December 2017**

		Number of shares held				
		Personal interests	Family interests	Corporate interests	Total	% of the issued share capital of the associated corporation
Mr. Lam Yin Kee	Long positions	950	–	–	950	95.0
Ms. Yeung Po Wah	Long positions	50	–	–	50	5.0

Save as disclosed above, at no time during the year, the Directors and Chief Executives (including their spouse and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for shares (or warrants or debentures, if applicable) of the Company, its specified undertakings and its associated corporations required to be disclosed pursuant to the SFO and the Hong Kong Companies Ordinance (Cap. 622).

Other than those interests and short positions disclosed above, the Directors and Chief Executives also hold shares of certain subsidiaries solely for the purpose of ensuring that the relevant subsidiary has more than one member.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

The register of substantial shareholders required to be kept under Section 336 of Part XV of the SFO shows that as at 31 December 2017, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital.

		Number of shares held			
Name		Personal interests	Nature of interest	Total	% of the issued share capital of the Company
Profit International Holdings Limited	Long positions	439,740,000	Beneficially owned	439,740,000	46.48
Ms. Liu Jing	Long positions	124,509,600	Beneficially owned	124,509,600	13.16
Wealth Channel Global Limited ("Wealth Channel") *(Note 1)*	Long positions	41,313,564	Beneficially owned	41,313,564	4.37
Diamond Path International Investments Limited ("Diamond International") *(Note 1)*	Long positions	41,313,564	Interest of a controlled corporation	41,313,564	4.37
Diamond Path Investments Limited ("Diamond Investments") *(Note 1)*	Long positions	41,313,564	Interest of a controlled corporation	41,313,564	4.37
Huarong Investment Stock Corporation Limited ("Huarong Investment") *(Note 1)*	Long positions	41,313,564	Interest of a controlled corporation	41,313,564	4.37

Name		Number of shares held			% of the issued share capital of the Company
		Personal interests	Nature of interest	Total	
Right Select International Limited ("Right Select") *(Note 1)*	Long positions	41,313,564	Interest of a controlled corporation	41,313,564	4.37
Lijiang Investment Holdings Limited *(Note 2)*	Long positions	94,611,636	Beneficially owned	94,611,636	10.00
China Huarong International Holdings Limited ("Huarong International") *(Notes 1 and 2)*	Long positions	135,925,200	Interest of a controlled corporation	135,925,200	14.37
Huarong Real Estate Co., Ltd. ("Huarong Real Estate") *(Notes 1 and 2)*	Long positions	135,925,200	Interest of a controlled corporation	135,925,200	14.37
China Huarong Asset Management Co., Ltd. ("China Huarong") *(Notes 1 and 2)*	Long positions	135,925,200	Interest of a controlled corporation	135,925,000	14.37
The Ministry of Finance of the People's Republic of China *(Notes 1 and 2)*	Long positions	135,925,200	Interest of a controlled corporation	135,925,000	14.37

Notes:

(1) 41,313,564 shares of the Company were beneficially owned by Wealth Channel which is wholly-owned by Diamond International. Diamond International is wholly-owned by Diamond Investments, which is a company wholly-owned by Huarong Investment. Right Select owns 50.99% interests in Huarong Investment. Right Select is a wholly-owned subsidiary of Huarong International.

(2) 94,611,636 shares of the Company were beneficially owned by Lijiang Investment Holdings Limited which is wholly-owned by Huarong International. Huarong International is owned as to 88.1% by Huarong Real Estate, which is a wholly-owned subsidiary of China Huarong. The Ministry of Finance of the People's Republic of China has approximately 67.75% interests in the share capital of China Huarong. Therefore, Huarong International, Huarong Real Estate, China Huarong and The Ministry of Finance of the People's Republic of China are deemed to be interested in 135,925,200 shares of the Company in aggregate.

Save as disclosed above and so far as the Directors and Chief Executives of the Company are aware of, as at 31 December 2017, there were no other person, other than the Directors or Chief Executives of the Company, who had interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company in accordance with the provisions of Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

MAJOR SUPPLIERS AND CUSTOMERS

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

Purchases	
– the largest supplier	3.0%
– five largest suppliers combined	10.1%
Sales	
– the largest customer	33.4%
– five largest customers combined	56.9%

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

CONNECTED TRANSACTIONS

Certain related party transactions as disclosed in note 33 to the consolidated financial statements also constituted connected transactions under the Listing Rules, and are required to be disclosed in accordance with Chapter 14A of the Listing Rules. The following transactions between certain connected parties (as defined in the Listing Rules) and the Group have been entered into and/or are ongoing for which relevant announcements, if necessary, had been made by the Company in accordance with the requirements of the Listing Rules.

CONTINUING CONNECTED TRANSACTION

The Group has rented a quarter as directors' accommodation from Profit Home Investments Limited ("Profit Home") at a monthly rental of HK$150,000 for a period of two years from 1 April 2015 to 31 March 2017. On 31 March 2017, the Group entered into a renewal tenancy agreement with Profit Home for a period of two years commencing from 1 April 2017 to 31 March 2019, at a monthly rental of HK$150,000. Ms. Yeung Po Wah and Mr. Lam Chee Tai, Eric hold 60% and 20% of shareholding respectively and are directors of Profit Home. Ms. Yeung Po Wah is an executive Director of the Company and the spouse of Mr. Lam Yin Kee. Mr. Lam Chee Tai, Eric is an executive Director of the Company and the son of Mr. Lam Yin Kee and Ms. Yeung Po Wah. Therefore, the lease for renting the quarter constitutes a continuing connected transaction of the Group under Chapter 14A of the Listing Rules.

As each of the applicable percentage ratios calculated in relation to the above connected transaction is less than 5% and the total annual consideration payable is less than HK$3,000,000, the transaction qualifies as a de minimis transaction pursuant to Rule 14A.76 (1) of the Listing Rules and is therefore exempt from the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

The aforesaid continuing connected transaction has been reviewed by the independent non-executive Directors of the Company. The independent non-executive Directors confirmed that the aforesaid connected transaction was entered into (a) in the ordinary and usual course of business of the Group; (b) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (c) in accordance with the relevant agreement governing it on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's independent auditor was engaged to report on the Group's continuing connected transaction in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The independent auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transaction as disclosed above in accordance with paragraph 14A.56 of the Listing Rules. A copy of the independent auditor's letter has been provided by the Company to the Stock Exchange.

CORPORATE GOVERNANCE

During the year ended 31 December 2017, the Company complied with all the code provisions of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules except for the following:

Code Provision A.2.1

Mr. Lam Yin Kee is the Chairman and the Chief Executive of the Company but the daily operation and management of the Company are monitored by the executive Directors as well as the senior management to ensure the balance of power and authority.

Code Provision I (f) and Rule 3.10A

According to Rule 3.10A of the Listing Rules, the Company is required to appoint independent non-executive directors representing at least one-third of the Board. Following the appointment of Mr. Lau Fai Lawrence as a non-executive director of the Company effective from 1 March 2017, the Board has a total of 10 directors, comprises 5 executive directors, 2 non-executive directors and 3 independent non-executive directors. The number of independent non-executive directors of the Company therefore falls below one-third of the Board as required under Rule 3.10A of the Listing Rules. The Company shall appoint at least one additional independent non-executive director in order to meet the above requirement. Pursuant to Rule 3.11 of the Listing Rules, the Company shall appoint a sufficient number of independent non-executive directors to meet the minimum number required under Rule 3.10A of the Listing Rules within three months after failing to meet the requirement. The Company has appointed Mr. Lin Kam Sui as an independent non-executive director from 1 June 2017 and the number of independent non-executive directors of the Company therefore meets the requirements under Rule 3.10A of the Listing Rules.

Further information is set out in the "Corporate Governance Report" on pages 31 to 44 of this annual report.

EMOLUMENT POLICY

The Group's emolument policy is designed to attract, retain and motivate talented individuals to contribute to the success of its business. The emolument policy of the employees of the Group is formulated and reviewed by the Remuneration Committee on the basis of their merit, qualifications and competence. The emoluments of the Directors of the Company are decided by the Remuneration Committee, having regards to the Group's operating results, individual performance and comparable market statistics.

PERMITTED INDEMNITY PROVISIONS

During the year under review and up to the date of this Report of the Directors, the Company's Articles of Association provide that the Directors shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty in their offices, provided that this indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any Director.

During the year under review and up to the date of this Report of the Directors, the Company has taken out and maintained appropriate insurance to cover potential legal actions against its Directors.

EQUITY-LINKED AGREEMENTS

No equity-linked agreements were entered into by the Group or existed during the year ended 31 December 2017.

SUFFICIENCY OF PUBLIC FLOAT

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

INDEPENDENT AUDITOR

The consolidated financial statements for the year ended 31 December 2017 have been audited by Ernst & Young, Certified Public Accountants who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Lam Yin Kee
Chairman
Hong Kong, 28 March 2018

TO THE MEMBERS OF ALLTRONICS HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Alltronics Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 61 to 141, 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 OF 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.

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
Investment properties	
As at 31 December 2017, the Group's investment properties amounted to approximately HK$2.35 billion which are measured at fair value. Management engaged external appraisers to evaluate the fair value of the investment properties annually. The fair value measurement of investment properties is complex and highly dependent on a range of estimates made by management, such as the rental value, rental growth rate, discount rate and budgeted construction cost. The accounting policies for and disclosures of investment properties are included in notes 3, 4 and 15 to the consolidated financial statements.	We assessed the objectivity, independence and expertise of the external appraisers. With the assistance of our internal valuation specialists, we evaluated the methodology and key assumptions used in the fair value measurement, including the rental value, rental growth, discount rate and budgeted construction cost, through comparison with available market information and comparable companies. We also compared the property-related data with underlying documentation.
Impairment assessment of goodwill	
As at 31 December 2017, the Group's goodwill relating to previous acquisitions amounted to HK$11.67 million which was material to the consolidated financial statements. Management is required to perform goodwill impairment assessment on an annual basis under HKFRSs. The assessment procedures were significant to our audit because the process was complex and involved management judgements, and is based on assumptions such as expected average gross margin, annual growth rates, expected market share, revenue and margin development that are affected by expected future market and economic conditions. The accounting policies for and disclosures of goodwill are included in notes 3, 4 and 16 to the consolidated financial statements.	We examined the Group's cash flows forecast of the relevant cash-generating units ("CGUs") by reviewing the accuracy of previous forecasts and the historic evidence supporting the underlying assumptions. Future cash flow assumptions such as expected average gross margin, annual growth rates and expected market share were evaluated through comparison of historical performance, seeking corroborative evidence and enquiry with management in respect of key growth and assumptions. We involved our internal specialists in assessing the key parameters such as the discount rate and long term growth rate and performing an independent assessment on general market indicators. Further, we assessed the sufficiency of the sensitivity analysis performed by management and performed other sensitivity analysis focusing on the key assumptions.

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
Inventory provision	
As at 31 December 2017, the total inventories and the related provision for obsolete inventories amounted to HK$267.25 million and HK$20.91 million, respectively, which were material to the financial statements. The inventories of the Group were mainly finished electronic products, plastic moulds, plastic and other components for electronic products which might become obsolete because of rapid technological advancement. Management's assessment on the provision for obsolete inventories is based on assumptions, including assumptions on the forecasted inventory usage and estimated selling prices, which are affected by expected future market and sales orders. The accounting policies for and disclosures of inventory provision are included in notes 3, 4 and 19 to the consolidated financial statements.	We evaluated, amongst others, the analyses and assessments of the sales forecasts and sales prices prepared by the management based on the existing contracts with the major customers. We also evaluated the expected future usage of inventories focusing on slow-moving and obsolete inventories. We tested a sample of inventory items to assess the cost basis and net realisable value of inventory. We also reviewed the basis for the inventory provision, the consistency in applying the provisioning policy and the rationale for the recording any specific provisions.
Acquisition – recognition and measurement	
During the year ended 31 December 2017, the Group acquired 100% equity interest in Bonroy Limited and its subsidiaries for a cash consideration of US$1. Management employed an external appraiser to perform the valuation of the assets acquired and liabilities assumed. The acquisition was significant as it resulted in a gain on bargain purchase of HK$6.26 million. In addition, the purchase price allocation processes were complex and involved significant management judgements and estimations, especially in respect of the fair value measurement of the assets acquired and liabilities assumed. Related disclosures are included in notes 3 and 30 to the consolidated financial statements.	We obtained the share purchase agreement and evaluated the key terms to ascertain that there was a transfer of control. We assessed the competence, objectivity, and the relevant experience of the external appraiser. We also involved our internal valuation specialists to assist us in evaluating management's valuation methodologies, discount rates, and source data and market data used.

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.

RESPONSIBILITIES OF THE DIRECTORS 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, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism 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.

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Law Kwok Kee.

Ernst & Young
Certified Public Accountants

Hong Kong
28 March 2018

	Notes	2017 HK$'000	2016 HK$'000 (Restated)
REVENUE	5	**1,340,919**	1,023,550
Cost of sales		**(998,655)**	(810,038)
Gross profit		**342,264**	213,512
Distribution costs		**(23,065)**	(11,122)
Administrative expenses		**(131,502)**	(104,530)
Other operating (expense)/income, net		**(14,486)**	10,697
Share of profits and losses of associates		**(794)**	(3,135)
Gain on deemed disposal of partial interests in an associate		**8,370**	–
Gain on changes in fair value of investment properties		**121,104**	–
Finance income		**3,897**	2,171
Finance costs	7	**(121,712)**	(9,155)
PROFIT BEFORE TAX	6	**184,076**	98,438
Income tax expense	10	**(65,107)**	(21,848)
PROFIT FOR THE YEAR		**118,969**	76,590
Attributable to:			
Owners of the parent		**110,998**	71,758
Non-controlling interests		**7,971**	4,832
		118,969	76,590
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12	**HK$**	HK$
Basic		**11.73 cents**	8.69 cents
Diluted		**11.73 cents**	8.69 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2017

	2017 HK$'000	2016 HK$'000
PROFIT FOR THE YEAR	**118,969**	76,590
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**13,673**	(19,130)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX	**13,673**	(19,130)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**132,642**	57,460
Attributable to:		
Owners of the parent	**125,453**	53,472
Non-controlling interests	**7,189**	3,988
	132,642	57,460

	Notes	2017 HK$'000	2016 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	*13*	**240,115**	227,449
Prepaid land lease payments	*14*	**1,620**	1,670
Investment properties	*15*	**2,350,822**	–
Goodwill	*16*	**11,672**	11,672
Investments in associates	*17*	**37,324**	30,507
Prepayments, deposits and other receivables	*21*	**17,934**	20,567
Long term receivables	*18*	**17,804**	3,541
Deferred tax assets	*27*	**4,530**	1,859
Total non-current assets		**2,681,821**	297,265
CURRENT ASSETS			
Inventories	*19*	**246,341**	210,799
Trade receivables	*20*	**200,493**	185,101
Long term receivables – current portion	*18*	**32,524**	19,673
Prepayments, deposits and other receivables	*21*	**177,038**	33,987
Financial assets at fair value through profit or loss	*22*	**–**	427
Pledged deposits	*23*	**8,720**	8,698
Cash and cash equivalents	*23*	**172,464**	333,629
Total current assets		**837,580**	792,314
CURRENT LIABILITIES			
Trade and bills payables	*24*	**211,889**	202,137
Other payables and accruals	*25*	**100,993**	63,069
Deferred revenue		**2,676**	1,385
Tax payable		**12,553**	8,333
Interest-bearing bank and other borrowings	*26*	**579,267**	325,738
Total current liabilities		**907,378**	600,662
NET CURRENT (LIABILITIES)/ASSETS		**(69,798)**	191,652
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,612,023**	488,917

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	*26*	**1,561,235**	1,097
Deferred revenue		**4,193**	1,054
Deferred tax liabilities	*27*	**497,735**	115
Total non-current liabilities		**2,063,163**	2,266
Net assets		**548,860**	486,651
EQUITY			
Equity attributable to owners of the parent			
Share capital	*28*	**9,461**	5,256
Reserves	*29*	**537,275**	486,460
		546,736	491,716
Non-controlling interests		**2,124**	(5,065)
Total equity		**548,860**	486,651

Lam Yin Kee
Director

Yeung Po Wah
Director

	Attributable to owners of the parent									
	Share capital	**Share premium**	**Capital reserve**	**Statutory reserve**	**Exchange reserve**	**Capital redemption reserve**	**Retained profits**	**Total**	**Non-controlling interests**	**Total equity**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
	(note 28)	*(note 28)*								
At 1 January 2016	4,496	169,614	5,799	12,835	6,128	42	171,553	370,467	(9,053)	361,414
Profit for the year	–	–	–	–	–	–	71,758	71,758	4,832	76,590
Other comprehensive loss for the year:										
Exchange differences related to foreign operations	–	–	–	–	(18,286)	–	–	(18,286)	(844)	(19,130)
Total comprehensive income for the year	–	–	–	–	(18,286)	–	71,758	53,472	3,988	57,460
Issue of shares *(note 28)*	760	111,979	–	–	–	–	–	112,739	–	112,739
Transfer from retained profits	–	–	–	3,879	–	–	(3,879)	–	–	–
Interim 2016 dividend paid	–	–	–	–	–	–	(22,481)	(22,481)	–	(22,481)
Final 2015 dividend paid	–	–	–	–	–	–	(22,481)	(22,481)	–	(22,481)
At 31 December 2016	5,256	281,593*	5,799*	16,714*	(12,158)*	42*	194,470*	491,716	(5,065)	486,651
At 1 January 2017	**5,256**	**281,593**	**5,799**	**16,714**	**(12,158)**	**42**	**194,470**	**491,716**	**(5,065)**	**486,651**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**110,998**	**110,998**	**7,971**	**118,969**
Other comprehensive income/ (loss) for the year:										
Exchange differences related to foreign operations	**–**	**–**	**–**	**–**	**14,455**	**–**	**–**	**14,455**	**(782)**	**13,673**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**14,455**	**–**	**110,998**	**125,453**	**7,189**	**132,642**
Bonus issue of shares *(note 28)*	**4,205**	**(4,205)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Transfer from retained profits	**–**	**–**	**–**	**5,784**	**–**	**–**	**(5,784)**	**–**	**–**	**–**
Interim 2017 dividend paid	**–**	**–**	**–**	**–**	**–**	**–**	**(28,383)**	**(28,383)**	**–**	**(28,383)**
Final 2016 dividend paid	**–**	**–**	**–**	**–**	**–**	**–**	**(42,050)**	**(42,050)**	**–**	**(42,050)**
At 31 December 2017	**9,461**	**277,388***	**5,799***	**22,498***	**2,297***	**42***	**229,251***	**546,736**	**2,124**	**548,860**

* These reserve accounts comprise the consolidated reserves of HK$537,275,000 (2016: HK$486,460,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**184,076**	98,438
Adjustments for:			
Finance costs	*7*	**121,712**	9,155
Interest income	*6*	**(3,897)**	(2,171)
Depreciation	*6*	**17,024**	15,786
Amortisation of prepaid land lease prepayments	*6*	**50**	50
Share of profits and loss of associates		**794**	3,135
Gain on deemed disposal of partial interests in an associate		**(8,370)**	–
Amortisation of non-current prepayments		**6,161**	3,486
Written-off non-current prepayments		**–**	920
Fair value gain on derivative instruments – transactions not qualifying as hedges	*6*	**–**	(3,876)
Fair value gain on equity investments at fair value through profit or loss	*6*	**–**	(171)
Realised gain on disposal of equity investments at fair value through profit or loss	*6*	**(5)**	–
Gain on changes in fair value of investment properties		**(121,104)**	–
Losses on disposal of items of property, plant and equipment	*6*	**1**	138
Gain on bargain purchase	*30*	**(6,263)**	–
		190,179	124,890
Increase in inventories		**(35,542)**	(14,119)
Increase in trade receivables		**(15,392)**	(69,839)
(Increase)/decrease in long term receivables		**(12,851)**	3,020
Increase in prepayments, deposits and other receivables		**(56,732)**	(2,363)
Increase/(decrease) in deferred revenue		**4,430**	(255)
Increase in trade and bills payables		**9,752**	41,559
Increase in trust receipt loans		**708**	324
(Decrease)/increase in other payables and accruals		**(10,773)**	17,047
Cash generated from operations		**73,779**	100,264
Interest received		**3,897**	2,171
Interest paid		**(121,712)**	(9,155)
Tax paid		**(28,152)**	(20,293)
Net cash flows (used in)/from operating activities		**(72,188)**	72,987

	Notes	2017 HK$'000	2016 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment and intangible assets		**(28,762)**	(209,307)
Proceeds from acquisition consideration	*30*	**1,720**	–
Decrease in prepayments for non-current assets		**–**	32,750
Decrease/(Increase) in investments in associates		**4**	(10,215)
Increase in long term receivables		**(14,263)**	–
Disposal of financial assets at fair value through profit or loss		**432**	–
Increase in pledged deposits		**(22)**	–
Proceeds from disposals of items of property, plant and equipment		**1,445**	1,107
Net cash flows used in investing activities		**(39,446)**	(185,665)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans and other borrowings		**95,597**	306,361
Repayments of bank loans and other borrowings		**(98,341)**	(122,348)
Dividends paid	*11*	**(70,433)**	(44,962)
Capital element of finance lease payments		**(1,006)**	(1,131)
Proceeds from issue of shares		**–**	112,739
Decrease in pledged deposits		**–**	1,830
Net cash flows (used in)/from financing activities		**(74,183)**	252,489
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(185,817)**	139,811
Cash and cash equivalents at beginning of year		**329,868**	196,776
Effect of foreign exchange rate changes, net		**8,879**	(6,719)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**152,930**	329,868
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash balances		**118,438**	264,702
Non-pledged time deposits with original maturity of less than three months		**54,026**	68,927
Cash and cash equivalents as stated in the consolidated statement of financial position	*23*	**172,464**	333,629
Bank overdrafts	*26*	**(19,534)**	(3,761)
Cash and cash equivalents as stated in the consolidated statement of cash flows		**152,930**	329,868

1. CORPORATE AND GROUP INFORMATION

Alltronics Holdings Limited (the "Company") was incorporated in the Cayman Islands on 24 July 2003 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

The Company is an investment holding company. The principal activities of the Company and its subsidiaries (together the "Group") are the manufacturing and trading of electronic products, plastic moulds, plastic and other components for electronic products, the trading of biodiesel products, the provision of energy saving business solutions and the operation of investment properties.

The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 15 July 2005. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Group is controlled by Profit International Holdings Limited (incorporated in the British Virgin Islands), which owns 46.48% of the Company's issued shares as at 31 December 2017 (At 31 December 2016: 46.48%). In the opinion of the directors, the Company's ultimate holding company is Profit International Holdings Limited and the ultimate controlling party is Mr. Lam Yin Kee.

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Name	Place of incorporation/ registration and business operation	Issued/registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct (%)	Indirect (%)	
Alltronics (BVI) Limited	The British Virgin Islands	100 ordinary shares of US$1 each	100	–	Investment holding in Hong Kong
Alltronics Resources Limited	The British Virgin Islands	100 ordinary shares of US$1 each	100	–	Investment holding in Hong Kong
Alltronics Industries Limited	Hong Kong	1 ordinary share of HK$1	100	–	Investment holding in Hong Kong
Alltronics Project Limited	Hong Kong	100 ordinary shares totalling HK$100	100	–	Investment holding and energy saving business in Hong Kong
Alltronics Tech. Mftg. Limited	Hong Kong	500,000 ordinary shares totalling HK$500,000	–	100	Research and development, manufacturing and trading of electronic products
WT Technology Development Company Limited	Hong Kong	10,000 ordinary shares totalling HK$10,000	–	100	Investment holding in Hong Kong
Allcomm (H.K.) Limited	Hong Kong	2 ordinary shares totalling HK$2	–	100	Investment holding and trading of electronic products

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Name	Place of incorporation/ registration and business operation	Issued/registered share capital	Percentage of equity attributable to the Company Direct (%)	Indirect (%)	Principal activities
Shenzhen Allcomm Electronic Co. Ltd.**	People's Republic of China ("PRC")	Registered capital of US$2,500,000	–	100	Manufacture of electronic products
Dynamic Progress International Limited	Hong Kong	10,000 ordinary shares totalling HK$10,000	–	51	Trading of biodiesel products and provision of energy efficient gas stoves
Southchina Engineering and Manufacturing Limited	Hong Kong	1,000,000 ordinary shares totalling HK$1,000,000	–	51	Manufacturing of plastic moulds, plastic and electronic accessories in the PRC
華泰電器制品(深圳)有限公司**	PRC	Registered capital of RMB1,000,000	–	100	Manufacturing of transformers, solenoids and other components for electronic products in the PRC
陽江市華訊電子制品有限公司**	PRC	Registered capital of US$1,500,000	–	100	Manufacturing of transformers, solenoids and other components for electronic products in the PRC
Alltronics Energy Saving (Shenzhen) Limited**	PRC	Registered capital of HK$60,000,000	–	100	Provision of energy saving business solutions to customers
南盈科技發展(深圳)有限公司*/**	PRC	Registered capital of HK$7,700,000	–	51	Manufacturing of plastic moulds, plastic and electronic accessories
南華匯盈科技發展(深圳)有限公司*/**	PRC	Registered capital of HK$12,000,000	–	51	Manufacturing of plastic moulds, plastic and electronic accessories
宜春華訊電子製品有限公司**	PRC	Registered capital of RMB20,000,000	–	100	Manufacturing of transformers, solenoids and other components for electronic products in the PRC

1. CORPORATE AND GROUP INFORMATION (Continued)
Information about subsidiaries (Continued)

Name	Place of incorporation/ registration and business operation	Issued/registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct (%)	Indirect (%)	
Sino Growth Holdings Limited	The British Virgin Islands	1 ordinary share of US$1 each	100	–	Investment holding in Samoa
Bonroy Limited	Samoa	1 ordinary share of US$1 each	–	100	Investment holding in Hong Kong
Triumph Consumer Goods Limited	Hong Kong	10,000 ordinary shares totalling HK$10,000	–	100	Investment holding in the PRC
深圳市創潤融資租賃有限公司**	PRC	Registered capital of US$15,000,000	–	100	Investment holding
北京萬恒達投資有限公司**	PRC	Registered capital of RMB570,000,000	–	100	Property leasing

* These companies are subsidiaries of non-wholly-owned subsidiaries of the Company and, accordingly, are accounted for as subsidiaries by virtue of the Company's control over them.

** These companies are registered as wholly-foreign-owned enterprise under PRC law.

2.1 BASIS OF PREPARATION

These 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 (the "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 equity investments and investment properties which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except otherwise indicated.

As at 31 December 2017, the Group had net current liabilities of HK$69,798,000. The Group's ability to repay its debts when they fall due heavily relies on its future operating cash flows and its ability to renew the bank loans.

In view of the above, the directors of the Company have carefully assessed the Group's liquidity position having taken into account (i) the estimated operating cash inflows of the Group for the next twelve months from the end of the current reporting year; (ii) the unutilised banking facilities of the Group amounting to HK$312 million as at 31 December 2017; and (iii) the directors of the Company consider that it is highly probable that the bank loans can be renewed in the next twelve months.

On the basis of the above considerations, the directors of the Company believe that the Group can satisfy its financial obligations in the foreseeable future and accordingly, these consolidated financial statements have been prepared on a going concern basis.

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.

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

2.1 BASIS OF PREPARATION (Continued)

Basis of consolidation (Continued)

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 revised HKFRSs for the first time for the current year's 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*

None of the above amendments to HKFRSs has had a significant financial effect on these 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. Disclosure of the changes in liabilities arising from financing activities is provided in note 37 to the financial statements.

(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.

(c) Amendments to HKFRS12 clarify that the disclosure requirements in HKFRS 12, other than those disclosure requirements in paragraphs B10 to B16 of HKFRS 12, 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.

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 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*[3]
HKFRS 15	*Revenue from Contracts with Customers*[1]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*[1]
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]
HKFRS 16	*Leases*[2]
Annual Improvements 2014-2016 Cycle	Amendments to HKFRS 1 and HKFRS 28[1]

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

Further information about those HKFRSs that are expected to be applicable to the Group is described below. Of those standards, HKFRS 9 and HKFRS 15 will be applicable for the Group's financial year ending 31 December 2018 and are expected to have a significant impact upon adoption. Whilst management has performed a detailed assessment of the estimated impacts of these standards, that assessment is based on the information currently available to the Group, including expectations of the application of transitional provision options and policy choices. 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.

The HKICPA issued amendments to HKFRS 2 in August 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if they elect to adopt for all three amendments and other criteria are met. The Group will adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

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

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

The Group does not expect that the adoption of HKFRS 9 will have a significant impact on the classification and measurement of its financial assets. It expects to continue measuring at amortised cost all financial assets currently held at amortised costs.

(b) Impairment

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, 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 value of all cash shortfalls over the remaining life of all of its trade 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 determined that the standard is not expected to have any significant impact on the Group's financial statements upon the initial adoption of the standard.

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

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

HKFRS 15, issued in July 2014, establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group will adopt HKFRS 15 from 1 January 2018 and plans to adopt the full retrospective approach. During 2017, the Group has performed a detailed assessment on the impact of the adoption of HKFRS 15.

The Group's principal activities consist of the manufacture and sale of electronic products, the trading of biodiesel products, the provision of energy saving business solutions to customers and the provision of property rental services to customers. The directors of the Company anticipate that the application of HKFRS 15 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 to be recognised in the respective reporting period.

HKFRS 16, issued in May 2016, replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group expects to adopt HKFRS 16 from 1 January 2019. The Group is currently assessing the impact of HKFRS 16 upon adoption and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted. As disclosed in note 31 to the financial statements, at 31 December 2017, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately HK$51,375,000. Upon adoption of HKFRS 16, certain amounts included therein may need to be recognised as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new rights of use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short-term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.

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

Amendments to HKAS 40, issued in April 2017, clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to the changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at the date that it first applies the amendments and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application is only permitted if it is possible without the use of hindsight. The Group expects to adopt the amendments prospectively from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

HKFRIC-Int 22, issued in June 2017, provides guidance on how to determine the date of the transaction when applying IAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies 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 of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. Entities may apply the interpretation on a full retrospective basis or on a prospective basis, either from the beginning of the reporting period in which the entity first applies the interpretation or the beginning of the prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. The Group expects to adopt the interpretation prospectively from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

HKFRIC-Int 23, issued in July 2017, addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The amendments are not expected to have any significant impact on the Group's financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and other comprehensive income of associates is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates.

When an investment in an associate is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

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 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 profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable 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 profit or loss as a gain on bargain purchase.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations and goodwill (Continued)

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 investment properties 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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value measurement (Continued)

All assets and liabilities for which fair value is measured or disclosed in the 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 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, financial assets, investment properties and non-current 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.

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 the reporting period as to whether there is any 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 profit or loss in the period in which it arises.

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

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;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

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

(vi) the entity is controlled or jointly controlled by a person identified in (a);

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the consolidated statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of that asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the statement of profit or loss. Any subsequent revaluation surplus is credited to the statement of profit or loss to the extent of the deficit previously charged. An annual transfer from the asset revaluation reserve to retained profits is made for the difference between the depreciation based on the revalued carrying amount of an asset and the depreciation based on the asset's original cost. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

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

Buildings	2% – 20% or over the lease terms, whichever is shorter
Leasehold improvements	16.67% – 20% or over the lease terms, whichever is shorter
Plant and machinery	9% – 20%
Motor vehicles	9% – 20%
Office equipment	8% – 20%
Furniture and fixtures	9% – 20%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in the statement of profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of profit or loss in the year of the retirement or disposal.

For a transfer from investment properties to owner-occupied properties or inventories, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under "Property, plant and equipment and depreciation" above. For a transfer from inventories to investment properties, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the statement of profit or loss.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

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 lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. 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.

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 statement of financial position at fair value with changes in fair value presented as other operating income, net in the consolidated statement of profit or loss. These net fair value changes 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.

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 and gains in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in finance costs for loans and in other expenses for receivables.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Available-for-sale investments

Available-for-sale investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. 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.

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.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

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 pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the assets. 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. 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.

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 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 operating income in the 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)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss or loans and borrowings, as appropriate.

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 and bills payables, financial liabilities included in other payables and accruals, and interest-bearing bank and other borrowings.

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of purchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Gains or losses on liabilities held for trading are recognised in the consolidated statement of profit or loss. The net fair value gain or loss recognised in the consolidated statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition 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.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings 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 profit or loss when the liabilities are derecognised as well as through the effective interest rate method 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 statement of profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is currently an enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

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 which are readily convertible into known amounts of cash and which 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 statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, 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 each 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 statement of profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

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 each reporting period, taking into consideration interpretations and practices prevailing in the jurisdictions in which the Group operates.

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

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

- when the deferred tax liability 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 taxable temporary differences associated with investments in subsidiaries and associates, where 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 and associates, 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 each 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 recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably on the following bases:

(a) *Sales of goods*

Income from the sale of goods is recognised, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) *Interest income*

Interest income is recognised, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts over the expected life of the financial instrument to the net carrying amount of the financial asset.

(c) *Income from energy management contracts*

Income from energy management contracts are recognised as income from the sale of energy saving equipment and maintenance service income.

(i) Income from the sale of energy saving equipment

Revenue from the sale of energy saving equipment is recognised as sales income when the installation work and the inspection procedures have been completed, and the energy saving revenue sharing has been agreed by the Group and the customer (Note 5).

(ii) Maintenance service income

Maintenance service income is recognised on a straight-line basis over the terms of the maintenance contracts.

(d) *Rental income*

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

(e) *Dividend income*

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee retirement benefits

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the consolidated statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the consolidated statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Borrowing costs

Borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

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 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 statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. 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 certain 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 the presentation currency of the Company which is the Hong Kong dollar at the exchange rates prevailing at the end of each reporting period and their statements of profit or loss are translated into Hong Kong dollar 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.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

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 JUDGEMENT AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgement

In the process of applying the Group's accounting policies, management has made the following judgement, apart from those involving estimations, which has the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Income taxes

Significant judgements on the future tax treatment of certain transactions are required in determining income tax provisions. The Company carefully evaluates tax implications of transactions and tax provisions are recorded accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation.

Estimation uncertainty

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2017 was HK$11,672,000 (2016: HK$11,672,000). Further details are given in note 16 to the financial statements.

4. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Estimation of fair value of investment properties

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including:

(a) current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences;

(b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

(c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

The carrying amount of investment properties at 31 December 2017 was HK$2,350,822,00 (2016: Nil). Further details, including the key assumptions used for fair value measurement and a sensitivity analysis, are given in note 15 to the financial statements.

Provision for inventories

The Group makes provision for inventories based on consideration of obsolescence of raw materials and the net realisable value of finished goods. The identification of inventory obsolescence and estimated selling price in the ordinary course of business require the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of inventories and provision in the year in which such estimate is changed. Further details are given in note 19 to the financial statements.

Useful lives and residual values of property, plant and equipment

In determining the useful life and residual value of an item of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from the previous estimation. Useful lives and residual values are reviewed at each financial year end based on changes in circumstances. The carrying amounts of property, plant and equipment at 31 December 2017 and 2016 were HK$240,115,000 and HK$227,449,000, respectively. Further details are given in note 13 to the financial statements.

4. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Estimated impairment provision for trade receivables

Management determines the provision for impairment of trade and other receivables. This estimate is based on the credit history of its customers and the current market condition. Management reassesses the provision at the end of each reporting period.

Significant judgement is exercised on the assessment of the collectability of trade receivables from each customer. In making its judgement, management considers a wide range of factors such as results of follow-up procedures performed by sales personnel, customer payment trends including subsequent payments and customers' financial positions. If the financial conditions of the customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in note 27 to the financial statements.

Recognition of revenue from energy management contract

The Group recognises revenue from energy management contracts when the installation work has been completed and the inspection and energy saving revenue sharing confirmation has been signed by the Group and the customer (Note 5). The energy saving revenue sharing period is usually for a period of 60 months. The energy saving revenue shared by the Group is recognised as sales of energy saving equipment and maintenance service income.

In determining the maintenance service income to be recognised, management is required to estimate the annual maintenance costs and the profitability of such service so as to estimate the maintenance service income to be deferred at the commencement of the energy management contract. Actual maintenance costs may differ from these estimates.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

5. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has four reportable operating segments as follows:

(a) the electronic products segment – the manufacturing and trading of electronic products, plastic moulds, plastic and other components for electronic products;

(b) the biodiesel products segment – the trading of biodiesel products and provision of energy efficient gas stoves in Hong Kong;

(c) the energy saving business segment – the provision of energy saving business solutions to customers; and

(d) the investment properties segment – the provision of property rental services to customers.

Management assesses the performance of the operating segments based on a measure of operating profit/loss (before interest and tax and unallocated operating costs).

All sales between segments are eliminated on consolidation. All segment revenue reported is derived from external parties.

Segment assets exclude cash and cash equivalents, prepayments and deposits and tax recoverable as these assets are managed on a group basis.

Segment liabilities exclude accruals and other payables as these liabilities are managed on a group basis.

5. OPERATING SEGMENT INFORMATION (Continued)

	Electronic products HK$'000	Biodiesel products HK$'000	Energy saving business HK$'000	Investment properties HK$'000	Total HK$'000
Year ended 31 December 2017					
Segment revenue:					
Sales to external customers	1,235,370	3,828	31,195	–	1,270,393
Revenue from services	–	–	4,828	–	4,828
Rental income	–	–	–	65,698	65,698
Total revenue	1,235,370	3,828	36,023	65,698	1,340,919
Segment results					
Operating profit before interest and tax	147,223	422	1,728	28,389	177,762
Gain on changes in fair value of investment properties	–	–	–	121,104	121,104
Gain on bargain purchase	–	–	–	6,263	6,263
Gain on deemed disposal of partial interests in an associate	8,370	–	–	–	8,370
Share of profits and losses of associates	(794)	–	–	–	(794)
Finance costs	(10,031)	–	–	(111,681)	(121,712)
Interest income	1,398	–	2,499	–	3,897
Income tax expense	(29,586)	–	–	(35,521)	(65,107)
	116,580	422	4,227	8,554	129,783
Unallocated operating costs					(10,814)
Profit for the year					118,969
Segment assets	953,475	2,932	98,956	2,462,756	3,518,119
Unallocated:					
Cash and cash equivalents					27
Prepayments and deposits					1,255
Total assets					3,519,401
Segment liabilities	633,259	230	7,516	2,328,432	2,969,437
Unallocated:					
Other payables and accruals					1,104
Total liabilities					2,970,541
Other segment information:					
Investments in associates	37,324	–	–	–	37,324
Depreciation and amortisation	(16,627)	(185)	(6,367)	(56)	(23,235)
Capital expenditure*	27,869	6	–	2,351,931	2,379,806
Gain on changes in fair value of investment properties	–	–	–	121,104	121,104
Gain on bargain purchase	–	–	–	6,263	6,263
Gain on deemed disposal of partial interests in an associate	8,370	–	–	–	8,370

* Capital expenditure consists of additions to property, plant and equipment and investment properties, including assets from the acquisition of subsidiaries.

5. OPERATING SEGMENT INFORMATION (Continued)

	Electronic products HK$'000	Biodiesel products HK$'000	Energy saving business HK$'000	Total HK$'000
Year ended 31 December 2016				
Segment revenue:				
Sales to external customers	1,015,877	3,084	2,946	1,021,907
Revenue from services	–	–	1,643	1,643
Total revenue	1,015,877	3,084	4,589	1,023,550
Segment results				
Operating profit/(loss) before interest and tax	124,628	(1,210)	(5,759)	117,659
Share of profits and losses of associates	(3,135)	–	–	(3,135)
Finance costs	(9,155)	–	–	(9,155)
Interest income	798	–	1,373	2,171
Income tax expense	(21,848)	–	–	(21,848)
	91,288	(1,210)	(4,386)	85,692
Unallocated operating costs				(9,102)
Profit for the year				76,590
Segment assets	893,687	2,850	95,291	991,828
Unallocated:				
Cash and cash equivalents				97,557
Prepayments and deposits				194
Total assets				1,089,579
Segment liabilities	595,478	780	5,669	601,927
Unallocated:				
Other payables and accruals				1,001
Total liabilities				602,928
Other segment information:				
Investments in associates	30,507	–	–	30,507
Depreciation and amortisation	(15,283)	(307)	(3,732)	(19,322)
Capital expenditure*	209,297	10	–	209,307
Fair value gain on derivative instruments – transactions not qualifying as hedges	3,876	–	–	3,876

* Capital expenditure consists of additions of property, plant and equipment.

5. OPERATING SEGMENT INFORMATION (Continued)

Geographical information

(a) Revenue from external customers

	2017	2016
	HK$'000	HK$'000
The United States	**606,986**	527,619
Hong Kong	**303,449**	202,738
Europe	**197,437**	207,792
Mainland China	**197,758**	65,201
Other overseas countries	**35,289**	20,200
	1,340,919	1,023,550

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

Information about major customers

For the year ended 31 December 2017, revenues of approximately HK$448,470,000 (2016: HK$392,449,000) were derived from a single external customer. These revenues were attributable to the electronic products segment.

(b) Non-current assets

	2017	2016
	HK$'000	HK$'000
Hong Kong	**251,539**	259,182
Mainland China	**2,425,752**	36,224
	2,677,291	295,406

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

6. PROFIT BEFORE TAX

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

	Notes	2017 HK$'000	2016 HK$'000 (Restated)
Cost of inventories sold and services provided		**721,878**	543,869
Depreciation	*13*	**17,024**	15,786
Amortisation of prepaid land lease payments	*14*	**50**	50
Auditors' remuneration		**2,050**	2,092
Amortisation of non-current prepayments	*21*	**6,161**	3,486
Written-off non-current prepayments		**–**	920
Impairment of trade receivables	*20*	**688**	–
Written-off of inventories to net realisable value	*19*	**9,510**	284
Minimum lease payments under operating leases		**17,670**	15,592
Employee benefit expense (excluding directors' and chief executive's remuneration (note 8)):			
Wages and salaries		**198,382**	179,915
Pension scheme contributions		**1,031**	1,042
Staff welfare and allowances		**13,969**	13,496
		213,382	194,453
Gain on changes in fair value of investment properties	*15*	**(121,104)**	–
Gain on bargain purchase	*30*	**(6,263)**	–
Gain on deemed disposal of partial interests in an associate		**(8,370)**	–
Losses on disposal of property, plant and equipment		**1**	138
Foreign exchange differences, net		**6,161**	(7,644)
Realised loss on derivative instruments – net		**–**	1,688
Fair value gain on derivative instruments – transactions not qualifying as hedges		**–**	(3,876)
Fair value gain on equity investments at fair value through profit or loss		**–**	(171)
Realised gain on disposal of equity investments at fair value through profit or loss		**(5)**	–
Interest income from bank deposits		**(1,429)**	(801)
Interest income from long term receivables		**(2,468)**	(1,370)

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2017 HK$'000	2016 HK$'000
Interest on bank loans and other borrowings	**121,652**	9,048
Interest element of finance leases	**60**	107
Total finance costs	**121,712**	9,155

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, 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:

	2017 HK$'000	2016 HK$'000
Fees	**1,590**	1,118
Other emoluments		
Salaries and benefits in kind	**12,237**	11,144
Discretionary bonuses	**3,955**	4,415
Pension scheme contributions	**78**	72
	16,270	15,631
	17,860	16,749

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

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2017 HK$'000	2016 HK$'000
Mr. Yau Ming Kim, Robert	294	280
Mr. Pang Kwong Wah	293	280
Mr. Yen Yuen Ho, Tony	293	108
Mr. Lin Kam Sui *	171	–
Mr. Leung Kam Wah**	–	171
	1,051	839

There were no other emoluments payable to the independent non-executive directors during the year (2016: Nil).

* Mr. Lin Kam Sui was appointed as an independent non-executive director on 1 June 2017.

** Mr. Leung Kam Wah resigned as an independent non-executive director on 12 August 2016.

(b) Executive directors and non-executive directors

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses[2] HK$'000	Estimated money value of other benefits[1] HK$'000	Employer's contribution to a retirement benefit scheme HK$'000	Total HK$'000
2017						
Executive directors:						
Mr. Lam Yin Kee *(Note (i))*	–	4,963	3,155	1,800	18	9,936
Ms. Yeung Po Wah	–	1,419	200	–	18	1,637
Ms. Liu Jing	–	630	100	–	–	730
Mr. So Kin Hung	–	1,342	100	–	18	1,460
Mr. Lam Chee Tai, Eric	–	1,733	300	–	18	2,051
Mr. Meng Fei *(Note (iii))*	–	350	100	–	6	456
	–	10,437	3,955	1,800	78	16,270
Non-executive directors:						
Mr. Fan, William Chung Yue	294	–	–	–	–	294
Mr. Lau Fai Lawrence *(Note (ii))*	245	–	–	–	–	245
	539	10,437	3,955	1,800	78	16,809

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

(b) Executive directors and non-executive directors (Continued)

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses[2] HK$'000	Estimated money value of other benefits[1] HK$'000	Employer's contribution to a retirement benefit scheme HK$'000	Total HK$'000
2016						
Executive directors:						
Mr. Lam Yin Kee *(Note (i))*	–	4,580	3,815	1,800	18	10,213
Ms. Yeung Po Wah	–	1,339	200	–	18	1,557
Ms. Liu Jing	–	500	100	–	–	600
Mr. So Kin Hung	–	1,290	100	–	18	1,408
Mr. Lam Chee Tai, Eric	–	1,635	200	–	18	1,853
	–	9,344	4,415	1,800	72	15,631
Non-executive director:						
Mr. Fan, William Chung Yue	279	–	–	–	–	279
	279	9,344	4,415	1,800	72	15,910

1 Other benefits represent rental paid by the Group for the quarters of the directors.

2 Discretionary bonuses are determined by the remuneration committee and the Board of the Company having regard to the Company's and individual directors' performance.

Notes:

(i) Mr. Lam Yin Kee is also the chief executive officer of the Group.

(ii) Mr. Lau Fai Lawrence was appointed on 1 June 2017.

(iii) Mr. Meng Fei was appointed on 1 June 2017.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two directors (2016: two), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining three (2016: three) highest paid employees who are neither a director nor chief executive of the Company during the year are as follows:

	2017 **HK$'000**	2016 HK$'000
Salaries, allowances and benefits in kind	**3,209**	3,611
Performance related bonuses	**3,000**	3,000
Pension scheme contributions	**54**	54
	6,263	6,665

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	2017	2016
HK$1,000,001 to HK$1,500,000	**–**	–
HK$1,500,001 to HK$2,000,000	**–**	–
HK$2,000,001 to HK$2,500,000	**3**	2
HK$2,500,001 to HK$3,000,000	**–**	1
	3	3

10. INCOME TAX

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

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Pursuant to the PRC Income Tax Law and the respective regulations, the subsidiaries which operate in Mainland China are subject to Corporate Income Tax ("CIT") at a rate of 25% (2016: 25%) on the taxable income.

	2017 **HK$'000**	2016 HK$'000
Current – Mainland China	**21,059**	14,293
Current – Hong Kong	**11,632**	8,057
Overprovision in prior years	**(319)**	(8)
Deferred *(note 27)*	**32,735**	(494)
Total tax charge for the year	**65,107**	21,848

10. INCOME TAX (Continued)

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates to the effective tax rates, are as follows:

	2017		2016	
	HK$'000	**%**	HK$'000	%
Profit before tax	**184,076**		98,438	
Tax at the statutory tax rates	**30,373**	**16.5**	16,242	16.5
Effect of different taxation rates in other countries	**10,887**	**5.9**	4,781	4.9
Income not subject to tax	**(3,049)**	**(1.7)**	(1,411)	(1.4)
Expenses not deductible for tax	**4,342**	**2.4**	1,529	1.6
Overprovision in prior years	**(319)**	**(0.2)**	(8)	–
Tax losses not recognised	**23,842**	**13.0**	1,111	1.1
Utilisation of previously unrecognised tax losses	**(954)**	**(0.5)**	(309)	(0.4)
Others	**(15)**	**–**	(87)	(0.1)
Tax charge at the Group's effective tax rate	**65,107**	**35.4**	21,848	22.2

11. DIVIDENDS

	2017	2016
	HK$'000	HK$'000
Interim – HK3.0 cents (2016: HK5.0 cents) per ordinary share	**28,383**	22,481
Proposed final – HK5.0 cents (2016: HK8.0 cents) per ordinary share	**47,306**	42,050
	75,689	64,531

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 946,116,360 (2016: 826,066,456) in issue during the year. The weighted average number of ordinary shares is adjusted to reflect the effect of 420,496,160 bonus shares issued by the Company on the basis of eight bonus shares for every ten shares held by the shareholders on 9 June 2017. The issue of the bonus shares was completed on 23 June 2017. The weighted average number of ordinary shares in issue for the prior year was restated on the assumption that the bonus issue had been in place in the prior year.

The calculations of basic and diluted earnings per share are based on:

	2017	2016
	HK$'000	HK$'000
Earnings		
Profit attributable to ordinary equity holders of the parent	**110,998**	71,758

	Number of shares	
	2017	2016
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**946,116,360**	826,066,456
Basic earnings per share (HK cents)	**11.73 cents**	8.69 cents

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2017 and 2016.

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Furniture and fixtures HK$'000	Office equipment HK$'000	Plant and machinery HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2017								
At 31 December 2016 and at 1 January 2017:								
Cost	200,618	7,243	18,842	70,531	60,297	17,708	–	375,239
Accumulated depreciation	(9,164)	(5,859)	(13,366)	(56,156)	(52,834)	(10,411)	–	(147,790)
Net carrying amount	191,454	1,384	5,476	14,375	7,463	7,297	–	227,449
At 1 January 2017, net of accumulated depreciation	191,454	1,384	5,476	14,375	7,463	7,297	–	227,449
Additions	–	1,064	3,699	5,552	5,130	1,569	11,748	28,762
Acquisition of subsidiaries	–	164	58	–	–	–	–	222
Disposals	–	(56)	(376)	(969)	–	(44)	–	(1,445)
Depreciation *(note 6)*	(6,368)	(444)	(1,426)	(3,806)	(2,578)	(2,402)	–	(17,024)
Exchange realignment	–	63	373	1,375	135	205	–	2,151
At 31 December 2017, net of accumulated depreciation	185,086	2,175	7,804	16,527	10,150	6,625	11,748	240,115
At 31 December 2017:								
Cost	200,618	7,510	22,061	73,801	68,477	19,001	11,748	403,216
Accumulated depreciation	(15,532)	(5,335)	(14,257)	(57,274)	(58,327)	(12,376)	–	(163,101)
Net carrying amount	185,086	2,175	7,804	16,527	10,150	6,625	11,748	240,115

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Buildings HK$'000	Furniture and fixtures HK$'000	Office equipment HK$'000	Plant and machinery HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2016							
At 31 December 2015 and at 1 January 2016:							
Cost	8,581	12,140	22,302	79,420	62,448	16,029	200,920
Accumulated depreciation	(2,795)	(10,402)	(17,441)	(64,756)	(58,121)	(9,857)	(163,372)
Net carrying amount	5,786	1,738	4,861	14,664	4,327	6,172	37,548
At 1 January 2016, net of accumulated depreciation	5,786	1,738	4,861	14,664	4,327	6,172	37,548
Additions	192,036	595	2,305	5,220	5,675	3,476	209,307
Disposals	–	(401)	(156)	(499)	(25)	(25)	(1,106)
Depreciation *(note 6)*	(6,368)	(424)	(1,230)	(3,300)	(2,313)	(2,151)	(15,786)
Exchange realignment	–	(124)	(304)	(1,709)	(201)	(176)	(2,514)
At 31 December 2016, net of accumulated depreciation	191,454	1,384	5,476	14,376	7,463	7,296	227,449
At 31 December 2016:							
Cost	200,618	7,243	18,842	70,531	60,297	17,708	375,239
Accumulated depreciation	(9,164)	(5,859)	(13,366)	(56,156)	(52,834)	(10,411)	(147,790)
Net carrying amount	191,454	1,384	5,476	14,375	7,463	7,297	227,449

As at 31 December 2017, the aggregate cost and accumulated depreciation of property, plant and equipment held by the Group under finance leases amounted to HK$2,630,000 (2016: HK$4,882,000) and HK$1,381,000 (2016: HK$2,398,000), respectively. The lease terms are between 4 and 5 years.

At 31 December 2017, the Group's leasehold property with a carrying amount of HK$179,600,000 (2016: HK$185,800,000) was pledged as security for the Group's bank loans, as further detailed in note 26 (b) to the financial statements.

14. PREPAID LAND LEASE PAYMENTS

	2017 HK$'000	2016 HK$'000
Carrying amount at 1 January	**1,670**	1,720
Recognised during the year *(note 6)*	**(50)**	(50)
Carrying amount at 31 December	**1,620**	1,670

The Group's leasehold land is situated in Shenzhen and held under a medium term lease.

15. INVESTMENT PROPERTIES

	Note	2017 HK$'000	2016 HK$'000
Carrying amount at 1 January		**–**	–
Acquisition from business combination	*30*	**2,132,942**	–
Net gain on fair value adjustment	*6*	**121,104**	–
Exchange Realignments		**96,776**	–
Carrying amount at 31 December		**2,350,822**	–

The Group's investment properties are held under long term leases and are commercial shopping mall situated in Chaoyang District in Beijing, Mainland China. The investment properties were leased to third parties under operating leases.

Details of the Group's investment properties pledged to secure the Group's interest-bearing bank loans are set out in note 26(b).

All investment properties were revalued at the end of the year based on valuations performed by the independent qualified valuer, LCH (Asia-Pacific) Surveyors Limited, an industry specialist in investment property valuation with appropriate qualifications and experience. The valuation for completed investment properties was arrived at by considering the capitalised income to be derived from the existing tenancies and the reversionary potential of the properties, where appropriate, by reference to market evidence of transaction prices for the similar properties in the same locations and conditions.

As at the date of this report, the Group has obtained the real estate certificates for all the above investment properties.

15. INVESTMENT PROPERTIES (Continued)

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment properties:

Recurring fair value measurement for:	Fair value measurement as at the end of each reporting period using			
	Quoted prices in active markets (Level 1) HK$'000	Significant observable Inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
As at 31 December 2017				
Commercial properties	–	–	**2,350,822**	**2,350,822**

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 (2016: Nil).

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

	Investment properties HK$'000
Carrying amount at 24 January 2017 ("Acquisition Date" in note 30)	2,132,942
Net gain on fair value adjustment recognised in other operating income in profit or loss	121,104
Exchange Realignments	96,776
Carrying amount at 31 December 2017	2,350,822

Below is a summary of the valuation techniques used and the key inputs to the valuation of investment properties:

	Valuation techniques	Significant unobservable inputs	Range or weighted average as at 31 December 2017
Commercial properties	Income approach in particular,	Term yields	6.4%
	Term and Reversionary ("T & R") method	Market yields	6.4%

15. INVESTMENT PROPERTIES (Continued)

Fair value hierarchy (Continued)

The T & R Method measures the value of the properties as the total of term value and reversionary value, which have taken into account the rental income derived from the existing leases with due allowance for the reversionary income potential of the leases. The term value was estimated based on the existing rents and tenancy periods as stated in the lease agreements and the term yields during the term periods. The reversionary value was estimated based on the market rents of the properties, market yields and the reversionary periods which were estimated as the periods from the expiration dates of the existing tenancies to the end of the land use right.

The term yields were developed based on independent research on the sales and rental evidence of the comparable properties in the market and the consideration of lower risk exposure during the term periods. The market yields were developed based on research on the sales and rental evidence of the properties in the Beijing market. The market rents were estimated based on the market rents of comparable properties in the neighbourhood and with reference to the term rents of the last tenancy periods.

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at the end of the reporting period:

	Increase/(decrease) in significant unobservable inputs %	(Decrease)/increase in fair value by HK$'000
Year ended 31 December 2017		
Term yields	**2/(2)**	**(146,455)/169,869**
Market yields	**2/(2)**	**(187,739)/243,343**

During the twelve months ended 31 December 2017, the Group has recorded a gain in fair value of investment properties in the amount of approximately HK$121,104,000. The increase in fair value of investment properties was due to the increase of future rental income, since the T & R method considers the rental receivable from the lease agreement existed as at the valuation date.

16. GOODWILL

	2017 HK$'000	2016 HK$'000
At 1 January:		
Cost	**19,931**	19,931
Accumulated impairment	**(8,259)**	(8,259)
Net carrying amount	**11,672**	11,672
Cost at 1 January, net of accumulated impairment	**11,672**	11,672
Impairment provided during the year	**–**	–
Cost and net carrying amount at 31 December	**11,672**	11,672
At 31 December:		
Cost	**19,931**	19,931
Accumulated impairment	**(8,259)**	(8,259)
Net carrying amount	**11,672**	11,672

Impairment testing of goodwill

The net carrying amount of goodwill relates to the excess of consideration paid and the fair value of net assets acquired from the acquisition of one subsidiary, namely Southchina Engineering and Manufacturing Limited ("Southchina"). The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 3 to the financial statements. Management considers Southchina as one separate industrial products cash-generating unit (the "CGU"). The recoverable amount of the CGUs is determined based on a value-in-use calculation. This calculation uses pre-tax cash flow projections based on financial budgets of Southchina, approved by management covering a five year period. The pre-tax discount rate of 13% (2016: 13%) has been applied to the cash flow projections for Southchina to reflect specific risks relating to the CGU.

16. GOODWILL (Continued)

Impairment testing of goodwill (Continued)

Assumptions were used in the value in use calculation of the CGU for 31 December 2017. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

(a) Budgeted turnover, operating expenses and finance costs were projected with reference to the expected earnings from the manufacturing and trading of plastic moulds and plastic and electronic accessories for Southchina.

(b) For the business environment, there will be no change in the existing political, legal, regulatory, fiscal or economic conditions, bases or rates of taxation or duties in Hong Kong, or any other countries in which Southchina operates.

(c) Management determined budgeted gross margin based on past performance and its expectations for the market development. The discount rates used are pre-tax and reflect specific risks relating to the business.

The values assigned to the key assumption on market development of the CGU, discount rates and purchase price inflation are consistent with external information sources.

In the opinion of the Company's directors, any reasonably possible change in the other key assumptions on which the recoverable amount is based would not cause the CGU's carrying amount to exceed its recoverable amount.

17. INVESTMENTS IN ASSOCIATES

	2017	2016
	HK$'000	HK$'000
Share of net assets	**37,324**	30,507

17. INVESTMENTS IN ASSOCIATES (Continued)

Particulars of the associates are as follows:

Name	Particulars of issued shares held/ registered capital contributed	Place of registration and business	Percentage of ownership interest attributable to the Group	Principal activities
Yichun Yilian Print Tech Co., Ltd. ("Yichun Yilian")	Contributed RMB14,700,00 as registered capital	PRC/Mainland China	42.34%	Manufacturing of printers and accessory products and provision of on-line printing services
P2 Mobile Technologies Ltd. ("P2MT")	8,778 ordinary shares	Hong Kong	32.53%	Wireless communication products and software development
Iotronics Wireless Limited ("Iotronics")	100 ordinary shares	Hong Kong	28.57%	Wireless communication products and software development
Good Smart Electronics Technology Limited ("Good Smart")	290 ordinary shares	Hong Kong	29.00%	Investment holding and trading

17. INVESTMENTS IN ASSOCIATES (Continued)

(i) Yichun Yilian

Yichun Yilian is a private limited liability company established on 7 November 2014. It is registered in Mainland China and is a technology company focusing on researching and manufacturing of intelligent laser printers. In 2017, the Group's shareholding in Yichun Yilian has been reduced from 49.00% to 42.34% as two new investors had invested in Yichun Yilian.

The following table illustrates the summarised financial information in respect of Yichun Yilian adjusted for any differences in accounting policies and reconciled to the carrying amount in the consolidated financial statements:

	2017	2016
	HK$'000	HK$'000
Current assets	**111,055**	28,150
Non-current assets	**26,188**	6,450
Current liabilities	**(60,339)**	(6,848)
Non-current liabilities	**–**	–
Net assets	**76,904**	27,752
Proportion of the Group's ownership	**42.34%**	49.00%
Carrying amount of the investment	**24,560**	15,414

	2017	2016
	HK$'000	HK$'000
Revenue	**54,302**	5,505
Profit/(loss) for the year	**3,624**	(6,147)
Other comprehensive loss	**(960)**	–
Total comprehensive income/(loss) for the year	**2,664**	(6,147)

17. INVESTMENTS IN ASSOCIATES (Continued)

(ii) P2MT

P2MT is a private limited liability company established on 18 September 2008. It is a Hong Kong based wireless technology company focusing on wireless communication products and software development.

In 2015, the Group acquired 5.69% interests in P2MT for HK$5,000,000 which were accounted for as available-for-sale investments. In 2016, the Group's interests in P2MT increased to 33.71% by acquiring additional shares at a total consideration of HK$10,215,000. As a result, the Group can exercise significant influence over P2MT and P2MT has become an associate of the Group since then. As at the acquisition date, the fair value of net assets was equivalent to the investment cost. In 2017, due to the investment of new shareholders in P2MT, the Group's shareholding in it was changed to 32.53%.

The following table illustrates the summarised financial information in respect of P2MT adjusted for any differences in accounting policies and reconciled to the carrying amount in the consolidated financial statements:

	2017	2016
	HK$'000	HK$'000
Current assets	**20,666**	30,394
Non-current assets	**46,133**	37,957
Current liabilities	**(18,870)**	(21,030)
Non-current liabilities	**(6,411)**	(2,548)
Net assets	**41,518**	44,773
Proportion of the Group's ownership	**32.53%**	33.71%
Carrying amount of the investment	**13,506**	15,093

	2017	2016
	HK$'000	HK$'000
Revenue	**12,095**	2,127
Loss for the year	**(4,880)**	(365)
Other comprehensive income	**–**	–
Total comprehensive loss for the year	**(4,880)**	(365)

17. INVESTMENTS IN ASSOCIATES (Continued)

(iii) Iotronics

Iotronics was registered in Hong Kong. It was established in October 2016. At the time of establishment, the Group held 57.14% shares of Iotronics with an investment amount of HK$100. On 29 December 2016, Iotronics issued additional shares, which resulted in the Group's shareholding ratio dropping to 28.57%.

The following table illustrates the summarised financial information in respect of Iotronics adjusted for any differences in accounting policies and reconciled to the carrying amount in the consolidated financial statements:

	2017 **HK$'000**
Current assets	**136**
Non-current assets	**1,719**
Current liabilities	**–**
Non-current liabilities	**(2,620)**
Net assets	**(765)**
Proportion of the Group's ownership	**28.57%**
Carrying amount of the investment	**(216)**

	2017 **HK$'000**
Revenue	**–**
Loss for the year	**(765)**
Other comprehensive income	**–**
Total comprehensive loss for the year	**(765)**

17. INVESTMENTS IN ASSOCIATES (Continued)

(iv) Good Smart

Good Smart Electronics Technology Limited was set up in June 2017. The Group has acquired 29.00% interests in it. This associate did not have any income during the year ended 31 December 2017.

The following table illustrates the summarised financial information in respect of Good Smart adjusted for any differences in accounting policies and reconciled to the carrying amount in the consolidated financial statements:

	2017 HK$'000
Current assets	5,169
Non-current assets	36
Current liabilities	(7,018)
Non-current liabilities	–
Net assets	(1,813)
Proportion of the Group's ownership	29.00%
Carrying amount of the investment	(526)

	2017 HK$'000
Revenue	–
Loss for the year	(1,812)
Other comprehensive income	–
Total comprehensive loss for the year	(1,812)

18. LONG TERM RECEIVABLES

	2017 HK$'000	2016 HK$'000
Non-current		
Gross receivables	**23,382**	4,739
Less: unearned income	**(5,578)**	(1,198)
	17,804	3,541
Current		
Gross receivables	**35,049**	21,430
Less: unearned income	**(2,525)**	(1,757)
	32,524	19,673
Long term receivables	**50,328**	23,214

Long term receivables represent the present value of the income receivables under energy management contracts. The difference between the gross receivable and the present value of the receivable is recognised as unearned income.

19. INVENTORIES

	2017 HK$'000	2016 HK$'000
Raw materials	**162,292**	104,882
Work in progress	**45,748**	62,234
Finished goods	**59,214**	55,086
	267,254	222,202
Provision against slow-moving and obsolete inventories	**(20,913)**	(11,403)
	246,341	210,799

19. INVENTORIES (Continued)

Movements in the provision against slow-moving and obsolete inventories are as follows:

	2017 HK$'000	2016 HK$'000
At 1 January	**11,403**	11,119
Amount provided during the year *(note 6)*	**9,510**	284
At 31 December	**20,913**	11,403

20. TRADE RECEIVABLES

	2017 HK$'000	2016 HK$'000
Trade receivables	**201,181**	185,101
Impairment	**(688)**	–
	200,493	185,101

The Group's trading terms with its customers are mainly on credit. The credit period is generally 30 to 90 days. As at 31 December 2017, the Group's largest customer accounted for approximately 20.1% of total trade receivables (31 December 2016: 13.6%). This customer has long term trading relationship with the Group with no defaults in the past and hence the Group does not consider there is any significant credit risk in this regard. The Group's other trade receivables related to a large number of diversified customers. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An aging analysis of the trade receivables as at the end of the year, based on the invoice date, is as follows:

	2017 HK$'000	2016 HK$'000
Within 1 month	**109,250**	114,290
1 to 2 months	**55,410**	45,204
2 to 3 months	**32,939**	18,825
Over 3 months	**2,894**	6,782
	200,493	185,101

20. TRADE RECEIVABLES (Continued)

The movements in provision for impairment of trade receivables are as follows:

	2017	2016
	HK$'000	HK$'000
At beginning of year	**–**	–
Impairment losses recognised *(note 6)*	**(688)**	–
	(688)	–

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of HK$688,000 (2016: Nil) with a carrying amount before provision of HK$688,000 (2016: Nil).

The aging analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

	2017	2016
	HK$'000	HK$'000
Neither past due nor impaired	**155,657**	173,640
Less than 1 month past due	**38,043**	10,494
1 to 3 months past due	**6,793**	967
	200,493	185,101

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 that 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.

As at 31 December 2017, the Group's trade receivables of approximately HK$1.0 million (2016: HK$3.1 million) were pledged with banks to secure banking facilities granted to the Group (Note 26(b)).

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2017 HK$'000	2016 HK$'000
Prepayments*	**139,314**	26,149
Deposits and other receivables	**33,943**	26,261
Loans to associates **	**20,709**	1,000
Due from non-controlling shareholders of a subsidiary	**1,006**	1,144
	194,972	54,554
Non-current portion:	**17,934**	20,567
Current portion:	**177,038**	33,987

* Prepayments also included:

(i) prepaid fees to an independent third party for services relating to negotiation and execution of energy saving projects in the PRC, which were amortised to the cost of sales amounting to HK$6,161,000 (2016: HK$3,486,000);

(ii) prepaid fees amounting to HK$108,879,000 (31 December 2016: nil) to an independent third party for an renovation service for investment properties in the PRC.

** Details of loans to associates are as follows:

(i) the loan of HK$1,000,000 (31 December 2016: HK$1,000,000) granted to P2MT bears interest at 3% per annum and is repayable in two years. During the year, the interest income generated from the loan was HK$30,000 (2016: HK$5,000);

(ii) the loan of HK$12,048,000 (31 December 2016: Nil) granted to Yichun Yilian bear interest at 4.35% per annum and is repayable in one year. During the year, the interest income generated from the loan was HK$251,000 (2016: Nil);

(iii) the loan of HK$1,745,000 (31 December 2016: Nil) granted to Iotronics is non-interest-bearing and repayable on demand; and

(iv) the loan of HK$5,916,000 (31 December 2016: Nil) granted to Good Smart is non-interest-bearing and repayable on demand.

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2017 HK$'000	2016 HK$'000
Listed equity investments, at market value	–	427

The above equity investments at 31 December 2016 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.

23. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2017 HK$'000	2016 HK$'000
Cash and bank balances	118,438	264,702
Time deposits	62,746	77,625
	181,184	342,327
Less: Pledged time deposits for bank and other borrowings *(note 26 (b))*	(8,720)	(8,698)
Cash and cash equivalents	172,464	333,629
Cash and bank balances denominated in		
– Renminbi ("RMB")	65,250	143,187
– United States dollars ("US$")	66,060	133,170
– HK$	41,040	56,461
– Other currencies	114	811
Cash and cash equivalents	172,464	333,629

The RMB is not freely convertible into other currencies. However, under PRC Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of 3 to 6 months depending on the immediate cash requirements of the Group, and earn interest at the respective time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

As at 31 December 2017, the Group's fixed deposits denominated in HK$ of approximately HK$6.7 million (as at 31 December 2016: HK$6.7 million) and bank deposits denominated in US$ of approximately HK$2 million (as at 31 December 2016: HK$2 million) were pledged with banks to secure banking facilities granted to the Group (Note 26(b)).

24. TRADE AND BILLS PAYABLES

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

	2017	2016
	HK$'000	HK$'000
Within 30 days	**76,853**	92,201
31 to 60 days	**86,694**	79,553
61 to 90 days	**34,399**	20,182
Over 90 days	**13,943**	10,201
	211,889	202,137

The trade payables are non-interest-bearing and are normally settled on terms of 30 to 90 days.

25. OTHER PAYABLES AND ACCRUALS

	2017	2016
	HK$'000	HK$'000
Deposits received from customers	**39,231**	16,621
Other payables	**20,961**	8,165
Salary and welfare payables	**30,725**	28,693
Due to non-controlling shareholders of a subsidiary	**–**	174
Accruals	**10,076**	9,416
	100,993	63,069

Other payables are non-interest-bearing and are due to mature within one year.

26. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2017			2016		
	Effective interest rate (%)	**Maturity**	**HK$'000**	Effective interest rate (%)	Maturity	HK$'000
Current						
Bank overdraft – secured	**0–1 over prime rate**	**On demand**	**580**	0–1 over prime rate	On demand	3,761
Bank overdraft – unsecured	**0–1 under prime rate and 2.35 over HIBOR**	**On demand**	**18,954**	–	–	–
Trust receipt loans – secured	**2–2.25 over HIBOR**	**On demand**	**2,240**	2–2.25 over HIBOR	On demand	1,532
Bank loans – secured	**1.55–3 over HIBOR**	**On demand**	**73,924**	1.55–3 over HIBOR	On demand	82,913
Bank loans – unsecured	**1–3.5 over HIBOR**	**On demand**	**243,036**	1–3.5 over HIBOR	On demand	236,792
Current portion of long term bank loans – secured	**6.4–8.5**	**2018**	**240,125**	–	–	–
Finance lease payables	**3.9**	**2018**	**408**	3–5	2017	740
			579,267			325,738
Non-current						
Finance lease payables	**3.9**	**2019**	**423**	3–5	2019	1,097
Long term bank loans – secured	**6.4–8.5**	**2020**	**1,560,812**	–	–	–
			1,561,235			1,097
			2,140,502			326,835

26. INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

(a) The Group's bank overdraft, trust receipt loans and bank loans were due for repayment as follows:

	2017	2016
	HK$'000	HK$'000
Analysed into:		
Bank and other loans repayable:		
Within one year	**501,314**	202,835
In the second year	**617,117**	51,519
In the third to fifth years	**1,021,240**	70,644
	2,139,671	324,998

The amounts due set out above are based on the scheduled repayment dates set out in the loan agreements without considering any repayment on demand clause.

Some of the banking facilities are subject to the fulfilment of covenants relating to certain financial ratios, as are commonly found in lending arrangements with financial institutions. If the Group was to breach the covenants, the drawn down facilities would become repayable on demand. In addition, certain of the Group's bank loan arrangements contain clauses which give the lender the right at its sole discretion to demand immediate repayment at any time irrespective of whether the Group has complied with the covenants and met the scheduled repayment obligations.

The Group regularly monitors its compliance with these covenants, is up to date with the scheduled repayments of the bank loans and does not consider it probable that the respective banks will exercise their discretion to demand repayment for so long as the Group continues to meet these requirements. During the year ended 31 December 2017, none of the lenders had exercised their rights to demand immediate repayment of the drawn down facilities, either at their sole discretion or due to any breach of covenants.

The carrying amounts of the Group's interest-bearing bank and other borrowings are denominated in HK$ and RMB.

(b) The bank and other borrowings were secured by the following:

(i) the pledge of the Group's fixed deposits denominated in HK$ of approximately HK$6.7 million (as at 31 December 2016: HK$6.7 million) and bank deposits denominated in US$ of approximately HK$2 million (as at 31 December 2016: HK$2 million);

(ii) the Group's trade receivables of HK$1.0 million (as at 31 December 2016: HK$3.1 million);

(iii) the Group's leasehold property in Hong Kong of HK$179.6 million (as at 31 December 2016: HK$185.8 million);

(iv) the Group's investment properties in Beijing, Mainland China of HK$2,350.8 million (as at 31 December 2016: Nil); and

(v) the banking facilities granted to a subsidiary, Southchina, were also secured by personal guarantees given by its non-controlling shareholders.

26. INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

(c) As at 31 December 2017, the Group's total available banking facilities amounted to approximately HK$2,451 million (as at 31 December 2016: HK$673 million), of which approximately HK$312 million (as at 31 December 2016: HK$344 million) was unutilised.

(d) The Group's finance lease liabilities were repayable as follows:

	Minimum lease payments 2017 HK$'000	Minimum lease payments 2016 HK$'000	**Present value of minimum lease payments 2017 HK$'000**	Present value of minimum lease payments 2016 HK$'000
Amounts payable:				
Within one year	**431**	800	**408**	740
In the second year	**432**	582	**423**	551
In the third to fifth years, inclusive	**–**	556	**–**	546
Total minimum finance lease payments	**863**	1,938	**831**	1,837
Future finance charges	**(32)**	(101)		
Total net finance lease payables	**831**	1,837		
Portion classified as current liabilities	**(408)**	(740)		
Non-current portion	**423**	1,097		

27. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

Deferred tax assets

	Related depreciation in excess of depreciation allowance	Provision	Total
	HK$'000	HK$'000	HK$'000
At 1 January 2016	957	1,541	2,498
Deferred tax credited to the statement of profit or loss during the year *(note 10)*	287	110	397
Gross deferred assets at 31 December 2016 and 1 January 2017	**1,244**	**1,651**	**2,895**
Deferred tax credited to the statement of profit or loss during the year *(note 10)*	**110**	**2,103**	**2,213**
Gross deferred assets at 31 December 2017	**1,354**	**3,754**	**5,108**

Deferred tax liabilities

	Depreciation allowance in excess of related depreciation	Revaluation of investment properties	Total
	HK$'000	HK$'000	HK$'000
At 1 January 2016	1,248	–	1,248
Deferred tax credited to the statement of profit or loss during the year *(note 10)*	(97)	–	(97)
Gross deferred liabilities at 31 December 2016 and 1 January 2017	**1,151**	**–**	**1,151**
Acquisition of subsidiaries	**–**	**443,217**	**443,217**
Exchange differences	**–**	**18,997**	**18,997**
Deferred tax charged/(credited) to the statement of profit or loss during the year (note 10)	**(573)**	**35,521**	**34,948**
Gross deferred liabilities at 31 December 2017	**578**	**497,735**	**498,313**

27. DEFERRED TAX (Continued)

For presentation purposes, certain deferred assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2017 HK$'000	2016 HK$'000
Net deferred tax assets recognised in the consolidated statement of financial position	**4,530**	1,859
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(497,735)**	(115)

Deferred tax assets have not been recognised in respect of the following items:

	2017 HK$'000	2016 HK$'000
Tax losses	**151,574**	56,361

The above tax losses are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of the above items as it is not considered probable that taxable profits will be available against which the above items can be utilised. Except for the estimated tax losses of HK$16,342,000 (2016: HK$23,647,000) expiring within five years, the remaining tax losses have no expiry.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2017, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK$ 21,611,000 at 31 December 2017 (2016: HK$14,025,000).

28. SHARE CAPITAL

	2017 **HK$'000**	2016 HK$'000
Issued and fully paid:		
946,116,360 (2016: 525,620,200) ordinary shares	**9,461**	5,256

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	**Share capital** HK$'000	**Share premium account** HK$'000	**Total** HK$'000
At 1 January 2016	449,620,200	4,496	169,614	174,110
Issue of new shares	76,000,000	760	111,979	112,739
At 31 December 2016 and 1 January 2017	**525,620,200**	**5,256**	**281,593**	**286,849**
Issue of new shares *(a)*	**420,496,160**	**4,205**	**(4,205)**	**–**
At 31 December 2017	**946,116,360**	**9,461**	**277,388**	**286,849**

Note:

(a) On 23 June 2017, the Company issued 420,496,160 bonus shares on the basis of eight bonus shares for every ten shares then existing.

29. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 65 of this annual report.

Reserve fund

In accordance with the Company Law of the PRC, certain subsidiaries of the Group which are domestic enterprises are required to allocate 10% of their profit after tax, as determined in accordance with the relevant PRC accounting standards, to their respective statutory surplus reserves until the reserves reach 50% of their respective registered capital. Subject to certain restrictions set out in the Company Law of the PRC, part of the statutory surplus reserve may be converted to increase share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

30. BUSINESS COMBINATION

On 19 September 2016, the Company has entered an agreement with Bonroy International Group Limited for the acquisition of 100% equity interest in Bonroy Limited and its subsidiaries (the "Bonroy Group"). Pursuant to the agreement, the proposed cash consideration for the Bonroy Group is US$1. The principal asset of the Bonroy Group is the investment properties known as "the Pretty Shopping Centre".

On 24 January 2017 (the "Acquisition Date"), the Group completed the acquisition of Bonroy Group. The Bonroy Group is engaged in the operation of the investment properties, the Pretty Shopping Centre, in Beijing. The Pretty Shopping Centre was pledged as security for the bank and other borrowings of RMB1.5 billion in aggregate, and the fair value of the Pretty Shopping Centre was approximately RMB 1.85 billion (approximately equal to HK$2.13 billion) as at the Acquisition Date pursuant to the property valuation carried out by the independent property valuer using the T & R Method of the income approach.

The fair values of the identifiable assets and liabilities of the Bonroy Group as at the Acquisition Date were as follows:

	Notes	**Fair value recognised on acquisition** HK$'000
Investment properties	*15*	2,132,942
Property, plant and equipment	*13*	222
Intangible assets		106
Cash and bank balances		1,720
Other receivables		89,706
Interest payable		(9,064)
Other payable and accruals		(35,535)
Tax payable		(4,098)
Long term loan		(1,726,519)
Deferred tax liabilities	*27*	(443,217)
Total identifiable net assets at fair value		6,263
Gain on bargain purchase		6,263
Satisfied by cash		–

The Group incurred transaction costs of approximately HK$7.0 million for this acquisition. These transaction costs have been expensed and were included in administrative expenses in the consolidated statement of profit or loss. The gain on bargain purchase of HK$6.26 million was included in other operating income in the consolidated statement of profit or loss.

30. BUSINESS COMBINATION (Continued)

An analysis of the cash flows in respect of the acquisition of the Bonroy Group is as follows:

	HK$'000
Cash consideration	–
Cash and bank balances acquired	1,720
Net inflow of cash and cash equivalents included in cash flows from investing activities	1,720

Since the acquisition, the Bonroy Group contributed HK$65,698,000 to the Group's revenue and caused a net profit of HK$8,554,000 to the consolidated profit of the Group for the year ended 31 December 2017.

31. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases various offices, warehouses and quarters under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

At 31 December 2017, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2017	2016
	HK$'000	HK$'000
Within one year	**19,845**	16,600
In the second to fifth years, inclusive	**27,836**	32,990
After five years	**3,694**	5,805
	51,375	55,395

32. COMMITMENTS

In addition to the operating lease commitments detailed in note 31 above, the Group had the following capital commitments at the end of the reporting period:

	2017	2016
	HK$'000	HK$'000
Contracted, but not provided for:		
Land and buildings	**5,745**	–
Plant and machinery	**5,916**	–
	11,661	–

33. RELATED PARTY TRANSACTIONS AND BALANCES

(1) In addition to the transactions detailed elsewhere in the financial statements, the Group had the following material transactions with related parties during the year:

	2017	2016
	HK$'000	HK$'000
Sales of goods to an associate, Yichun Yilian (i)	**17,343**	7,401
Sales of LED lighting equipment to an associate, Yichun Yilian (ii)	**65**	–
Rental expenses paid to Profit Home Investments Limited (iii)	**1,800**	1,800

(i) Alltronics Tech. Mftg. Limited ("ATM"), a wholly-owned subsidiary of the Group, purchased printers and toners from a supplier in Japan and then sold them to Yichun Yilian at a mark up based on the mutual agreement between the parties.

(ii) Alltronics Energy Saving (Shenzhen) Limited, a wholly-owned subsidiary of the Group, sold LED lighting equipment to Yichun Yilian at a mark up based on the mutual agreement between the parties.

(iii) Ms. Yeung Po Wah and Mr. Lam Chee Tai, Eric are executive directors of the Company, and have 60% and 20% equity interests in Profit Home Investments Limited, respectively. The rental was determined according to the negotiation with the counterparties. This related party transaction also constitutes a continuing connected transaction as defined in Chapter 14A of the Listing Rules.

(2) Compensation of key management personnel of the Group

	2017	2016
	HK$'000	HK$'000
Fees	**1,590**	1,118
Salaries and other short-term employee benefits	**31,910**	30,685
Pension costs – defined contribution plans	**240**	252
Total compensation paid to key management personnel	**33,740**	32,055

Further details of directors' and the chief executive's emoluments are included in note 8 to the financial statements.

(3) Outstanding balances with related parties

(i) Details of the Group's loans to its associates as at the end of the reporting period are included in note 21 to the financial statements.

34. FINANCIAL INSTRUMENTS BY CATEGORY

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

2017	**Loans and receivables HK$'000**	**Total HK$'000**
Financial assets		
Trade receivables	**200,493**	**200,493**
Financial assets included in deposits and other receivables	**55,658**	**55,658**
Cash and cash equivalents	**172,464**	**172,464**
Pledged deposits	**8,720**	**8,720**
Long term receivables	**50,328**	**50,328**
	487,663	**487,663**

2017	**Financial liabilities at amortised cost HK$'000**
Financial liabilities	
Interest-bearing bank and other borrowings	**2,140,502**
Trade and bills payables	**211,889**
Financial liabilities included in other payables and accruals	**40,528**
	2,392,919

2016	Held for trading HK$'000	Loans and receivables HK$'000	Total HK$'000
Financial assets			
Trade receivables	–	185,101	185,101
Financial assets included in deposits and other receivables	–	28,405	28,405
Cash and cash equivalents	–	333,629	333,629
Pledged deposits	–	8,698	8,698
Financial assets at fair value through profit or loss	427	–	427
Long term receivables	–	23,214	23,214
	427	579,047	579,474

34. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

2016	Financial liabilities at amortised cost HK$'000
Financial liabilities	
Interest-bearing bank and other borrowings	326,835
Trade and bills payables	202,137
Financial liabilities included in other payables and accruals	24,960
	553,932

35. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

At 31 December 2017 and 2016, the fair values of the Group's financial assets and financial liabilities approximated to their respective carrying amounts.

Management has assessed that the fair values of cash and cash equivalents, pledged bank deposits, trade and bills receivables, derivative financial instruments, financial assets included in prepayments, deposits and other receivables, trade and bills payables, financial liabilities included in other payables and accruals, and interest-bearing bank and other borrowings approximate to their respective carrying amounts largely due to the short term maturities of these instruments.

The Group's corporate finance team headed by the chief financial officer is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The corporate finance team reports directly to the audit committee. At each reporting date, the corporate finance team analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The fair values of the non-current portion of long term receivables, finance lease payables, interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for finance lease payables and interest-bearing bank and other borrowings as at 31 December 2017 was assessed to be insignificant. The fair values of listed equity investments are based on quoted market prices.

35. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2017	**Fair value measurement using quoted prices in active markets (Level 1) HK$'000**
Equity investments at fair value through profit or loss	–

As at 31 December 2016	Fair value measurement using quoted prices in active markets (Level 1) HK$'000
Equity investments at fair value through profit or loss	427

Liabilities measured at fair value:

The Group did not have any financial liabilities measured at fair value as at 31 December 2017(2016: Nil).

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 (2016: Nil).

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise interest-bearing bank loans and other borrowings, and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables, other receivables, trade and bills payables, and other payables, which arise directly from its operations.

The Group also enters into derivative transactions, including forward currency contracts. The purpose is to manage the currency risks arising from the Group's operations.

The main risks arising from the Group's financial instruments are foreign currency risk, interest risk, credit risk and liquidity risk. The directors review and agree policies for managing each of these risks and they are summarised below.

Foreign currency risk

The Group has transactional currency exposures. These exposures arise from sales in currencies other than the units' functional currencies. Approximately 78.3% and 88.2% of the Group's sales were denominated in currencies other than the functional currencies of the operating units making the sale for the years ended 31 December 2017 and 2016 respectively, whilst all inventory costs were denominated in the units' functional currencies.

The following table demonstrates the sensitivity at the end of the year to a reasonably possible change in the RMB exchange rate, with all other variables held constant, of the Group's profit before tax and the Group's equity.

	Increase/ (decrease) in exchange rate	**Increase/ (decrease) in profit before tax**	**Increase/ (decrease) in equity***
	%	HK$'000	HK$'000
As at 31 December 2017			
If HK$ weakens against RMB	**5**	**465**	**8,661**
If HK$ strengthens against RMB	**(5)**	**(465)**	**(8,661)**
As at 31 December 2016			
If HK$ weakens against RMB	5	(600)	(6,351)
If HK$ strengthens against RMB	(5)	600	6,351

* Excluding retained profits

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets except its bank deposits, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arose from interest-bearing bank and other borrowings, which were at variable rates and expose the Group to cash flow interest-rate risk.

Fixed rate interest-bearing bank and other borrowings expose the Group to fair value interest-rate risk.

The Group regularly seeks out the most favourable interest rates available for its bank deposits and interest-bearing bank and other borrowings. Information relating to interest rates of the Group's bank balances, deposits and interest-bearing bank and other borrowings is disclosed in notes 23 and 26, respectively.

As at 31 December 2017, if interest rates on interest-bearing bank borrowings had been 100 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been HK$16,342,000 lower/higher (2016: HK$3,268,000 lower/higher), mainly as a result of higher/lower interest expense on interest-bearing bank borrowings.

Credit risk

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

The credit risk of the Group's other financial assets, which mainly comprise cash and cash equivalents, pledged deposits, and financial assets included in prepayments, deposits and other receivables, arise from default of the counterparty, with a maximum exposure equal to the carrying amounts of these financial assets.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. The Group had certain concentrations of credit risk as 53.4% and 52.3% of the Group's trade receivables were due from the Group's five largest customers as at 31 December 2017 and 2016, respectively.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 20 to the financial statements.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk

The Group's policy is to regularly monitor its liquidity requirements, its compliance with lending covenants and its relationship with its bankers to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's bank borrowings and other financial liabilities, based on undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates prevailing at the end of the reporting period) and the earliest date the Group can be required to pay.

Specifically, for term loans which contain a repayment on demand clause which can be exercised at the bank's sole discretion, the maturity analysis shows the cash outflow based on agreed scheduled repayments set out in the loan agreements. The amounts include interest payments computed using contractual rates. As a result, these amounts are greater than the amounts disclosed in the maturity analysis set out in note 26. Taking into account the Group's financial position, the directors do not consider that it is probable that the bank will exercise its discretion to demand immediate repayment. The directors believe that such term loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements. If the lenders were to invoke their unconditional rights to call the loans, the full amounts of the loans, together with interests, will be repayable immediately. The maturity analysis for obligations under finance leases is prepared based on the scheduled repayment dates.

The maturity profile of financial liabilities as at 31 December 2017 and 2016, based on the contractual undiscounted payments, is as follows:

	2017		
	Less than 1 year HK$'000	**Over 1 year HK$'000**	**Total HK$'000**
Interest-bearing bank and other borrowings	**582,555**	**1,737,953**	**2,320,508**
Trade and bills payables	**211,889**	**–**	**211,889**
Financial liabilities included in other payables and accruals	**40,528**	**–**	**40,528**
	834,972	**1,737,953**	**2,572,925**

	2016		
	Less than 1 year HK$'000	Over 1 year HK$'000	Total HK$'000
Interest-bearing bank and other borrowings	207,410	127,771	335,181
Trade and bills payables	202,137	–	202,137
Financial liabilities included in other payables and accruals	24,960	–	24,960
	434,507	127,771	562,278

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management

As at 31 December 2017, the Group has net debts (being total bank and other borrowings net of cash and cash equivalents) of approximately HK$1,968.0 million. The total equity was approximately HK$548.9 million. As at 31 December 2016, the Group did not have a net debt position. The net debts at December 2017 were mainly due to the bank loans of HK$1,800.9 million (RMB1,500 million) acquired from the Bonroy Group during the year. These bank loans are secured by the Group's investment properties with a carrying value of HK$2,350.8 million as at 31 December 2017.

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the maintaining appropriate debt and equity balance. The directors of the Company review the capital structure of the Group on a regular basis. As part of this review, the directors consider the cost of capital and the risks associates with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through various alternatives including the payment of dividends, new share issues and share buy-backs as well as the issue of new debts or the redemption of existing debts.

37. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

	Bank and other loans HK$'000	Finance lease payables HK$'000
At 1 January 2017	319,705	1,837
Changes from financing cash flows	(2,744)	(1,006)
Foreign exchange movement	74,417	–
Increase arising from acquisition of subsidiaries	1,726,519	–
At 31 December 2017	2,117,897	831

38. CONTINGENT LIABILITIES

On 15 November 2016, 北京金馬長城房產建設有限責任公司 (Beijing Jinma Changcheng Real Estate Construction Co., Ltd.*) ("Jinma Changcheng") as plaintiff instituted litigation against Beijing Wan Heng Da Investment Company Limited ("Beijing Wan Heng Da"), a wholly-owned subsidiary of the Bonroy Group, as defendant in respect of the dispute on possession of properties, requesting (i) Beijing Wan Heng Da to vacate the premises located at 2-05, 2-06, second floor of the Pretty Shopping Centre, the venue of 286.09 sq.m. at the West Exit on the first floor of Pretty Shopping Centre, the venue with an additional floor area of 501.74 sq.m. on the elevated corridor on the first floor of the Pretty Shopping Centre and the venue with an additional floor area of 212.02 sq.m. at the west-side tunnel on the second floor of the Pretty Shopping Centre (the "Disputed Properties"); (ii) payment of a daily occupation fee of RMB19,719.3 by Beijing Wan Heng Da for the period from 1 January 2016 and until the date of actual relocation; and (iii) costs of the litigation in respect of the case to be borne by Beijing Wan Heng Da. As at the date of this report, the above litigation is pending to be heard by court and the final court decision has not been made. Taking into consideration of the legal opinion prepared by the legal advisor of Beijing Wan Heng Da, the directors believe that the claims made by Jinma Changcheng are without legal grounds and will not have a material impact on the financial statements of Beijing Wan Heng Da and the Group.

39. EVENTS AFTER THE REPORTING PERIOD

On 1 January 2018, the Group has entered into a new tenancy agreement for its investment properties with a new tenant for a period of ten years. The Group had total future minimum lease receivables under non-cancellable operating leases amounted to HKD1,821,615,000.

40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2017	2016
	HK$'000	HK$'000
NON-CURRENT ASSETS		
Prepayments, deposits and other receivables	**1,033**	–
Investment in an associate	**13,506**	15,093
Amounts due from subsidiaries	**304,830**	214,461
Investments in subsidiaries	**9,975**	9,975
Total non-current assets	**329,344**	239,529
CURRENT ASSETS		
Prepayments, deposits and other receivables	**221**	1,194
Cash and cash equivalents	**27**	97,557
Total current assets	**248**	98,751
CURRENT LIABILITIES		
Amount due to a subsidiary	**630**	–
Other payables	**1,104**	1,001
Total current liabilities	**1,734**	1,001
NET CURRENT (LIABILITIES)/ASSETS	**(1,486)**	97,750
Net assets	**327,858**	337,279
EQUITY		
Share capital	**9,461**	5,256
Reserves *(note)*	**318,397**	332,023
Total equity	**327,858**	337,279

40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note:

A summary of the Company's reserves is as follows:

	Share premium HK$'000	Capital redemption reserve HK$'000	Retained profits HK$'000	Total HK$'000
Balance at 1 January 2016	169,614	42	56,352	226,008
Total comprehensive income for the year	–	–	38,998	38,998
Issue of shares	111,979	–	–	111,979
Interim 2016 dividend paid	–	–	(22,481)	(22,481)
Final 2015 dividend paid	–	–	(22,481)	(22,481)
At 31 December 2016 and 1 January 2017	**281,593**	**42**	**50,388**	**332,023**
Total comprehensive income for the year	**–**	**–**	**61,012**	**61,012**
Bonus issue of shares	**(4,205)**	**–**	**–**	**(4,205)**
Interim 2017 dividend paid	**–**	**–**	**(28,383)**	**(28,383)**
Final 2016 dividend paid	**–**	**–**	**(42,050)**	**(42,050)**
At 31 December 2017	**277,388**	**42**	**40,967**	**318,397**

41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 March 2018.

FIVE-YEAR FINANCIAL SUMMARY

The following table summarises the results, assets and liabilities of the Group for each of the five years ended 31 December 2017:

	Year ended 31 December				
	2017	2016	2015	2014	2013
Results	**HK$'000**	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**1,340,919**	1,023,550	886,305	957,451	775,882
Profit before income tax	**184,076**	98,438	59,590	61,727	54,630
Income tax expense	**(65,107)**	(21,848)	(15,521)	(14,881)	(12,964)
Profit for the year	**118,969**	76,590	44,069	46,846	41,666
Non-controlling interests	**(7,971)**	(4,832)	(2,659)	(1,614)	3,966
Profit attributable to owners of the Company	**110,998**	71,758	41,410	45,232	45,632
Assets and liabilities					
Total assets	**3,519,401**	1,089,579	729,240	556,107	553,890
Total liabilities	**(2,970,541)**	(602,928)	(367,826)	(311,013)	(309,259)
Total equity	**548,860**	486,651	361,414	245,094	244,631

Note:

(1) The results of the Group for each of the two years ended 31 December 2017 and 2016 and its assets and liabilities as at 31 December 2017 and 2016 are those set out on pages 61 to 64 of this report and are presented on the basis as set out in note 2 to the consolidated financial statements.