天臣控股有限公司
Tesson Holdings Limited

(Incorporated in Bermuda with limited liability)
(於百慕達註冊成立之有限公司)

Stock Code 股份代號: 1201

ANNUAL REPORT 2017 年報

Contents

EXECUTIVE DIRECTORS

Ms. Cheng Hung Mui
Mr. Tin Kong *(Chairman)*
Mr. Zhou Jin
Mr. Chen Dekun
Mr. Tao Fei Hu
Mr. Sheng Siguang

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wang Jinlin
Mr. Ng Ka Wing
Mr. See Tak Wah

AUDIT COMMITTEE

Mr. See Tak Wah *(Chairman)*
Mr. Wang Jinlin
Mr. Ng Ka Wing

REMUNERATION COMMITTEE

Mr. Ng Ka Wing *(Chairman)*
Mr. Tin Kong
Mr. Wang Jinlin
Mr. See Tak Wah

NOMINATION COMMITTEE

Mr. Tin Kong *(Chairman)*
Mr. Wang Jinlin
Mr. Ng Ka Wing
Mr. See Tak Wah

INTERNAL CONTROL COMMITTEE

Mr. Tin Kong *(Chairman)*
Mr. Wang Jinlin
Mr. Ng Ka Wing
Mr. See Tak Wah

COMPANY SECRETARY

Mr. Chan Wei

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN BERMUDA

Conyers Corporate Services (Bermuda) Limited
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BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

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REGISTERED OFFICE

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Bermuda

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China CITIC Bank International Limited
Industrial and Commercial Bank of China

HONG KONG LEGAL ADVISER

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88 Queensway
Hong Kong

AUDITOR

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Hong Kong

WEBSITE

www.tessonholdings.com

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

	For the year ended 31 December				
	2013	2014	2015	2016	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
RESULTS					
Profit/(loss) for the year	(646,976)	105,074	75,407	39,428	**47,295**
Attributable to:					
Owners of the Company	(676,091)	65,171	28,248	6,021	**19,096**
Non-controlling interests	29,115	39,903	47,159	33,407	**28,199**
	(646,976)	105,074	75,407	39,428	**47,295**

	As at 31 December				
	2013	2014	2015	2016	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
ASSETS AND LIABILITIES					
Non-current assets	663,281	631,325	645,755	995,452	**551,561**
Current assets	453,540	468,249	768,850	1,016,051	**2,077,771**
Current liabilities	(803,439)	(694,754)	(311,647)	(592,345)	**(812,933)**
Non-current liabilities	(42,368)	(36,619)	(457,906)	(415,057)	**(432,586)**
Net Assets	271,014	368,201	645,052	1,004,101	**1,383,813**
Attributable to:					
Owners of the Company	(52,703)	10,304	261,848	572,246	**734,657**
Non-controlling interests	323,717	357,897	383,204	431,855	**649,156**
Total Equity	271,014	368,201	645,052	1,004,101	**1,383,813**

On behalf of the board (the "**Board**") of directors (the "**Directors**") , I hereby present the operational results of Tesson Holdings Limited (the **"Company**") together with its subsidiaries (the **"Group**") for the year ended 31 December 2017 to the shareholders of the Company (the "**Shareholders**").

REVIEW

The printing and manufacturing of packaging products (the "**Packaging Printing Business**") was subject to the development bottleneck, and the market shares was in continuous declination. In order to maximize Shareholders' benefits, the Group disposed of the entire Packaging Printing Business at a total consideration of HK$700,000,000 (the "**Disposal**"). Please refer to the announcements of the Company dated 22 September 2017, 30 November 2017, and 2 January 2018, respectively, and the circular of the Company dated 6 November 2017 for further details of the Disposal. The Disposal indicates the completion of the Company's business transformation, and a new chapter in the history of the Company.

The development of new energy automobile and the whole industry chain are driven by the national policy, which has become the national development strategy at the level of the national energy security and industry structure. According to the national policy, the Group has started tapping into the manufacturing and sales of lithium ion motive battery, lithium ion battery module, battery charging devices, battery materials machines and production lines, new energy solution and sales of relevant equipment, investment holding and import and export trading (the "**Lithium Ion Motive Battery Business**") since 2016 and has won the support from local governments Shaanxi and Nanjing. During the year, production lines in phase II production base in Weinan, Shaanxi was put into production, resulting continuous increase of the production capacity of the Group and the emerging of scale benefit. The construction of phase III production base in Weinan, Shaanxi is expected to commence in 2018. The capacity is expected to reach 8GWh upon the construction of all production lines in phase III production base. The system assembly project in Lishui, Nanjing was commenced in March 2018, and an operation, production and research and development headquarter will be set up. It will be an industry-chain benchmark production base with an annual output of 4GWh in power core and system assembly, as well as an annual output of 400,000 sets of battery management system. The newly constructed research and development center and the newly added capacity are expected to be the driving force of the subsequent development of the Group.

PROSPECTS

After two years of investment and deployment in Lithium Ion Motive Battery Business, the Group strives to build up solid foundation in all aspects of power battery business, including development of new products, recruitment of talents, and setting up of automated production line. The overall revenue of the Group from sales is on the stable rise. Comparative advantages have been gradually realised from the previous massive investment. With the further expansion of market share of new energy automobile, the business demand of Lithium Ion Motive Battery Business has been increased. In this case, the Group will seize such valuable opportunity to achieve good performance and bring good returns to the Shareholders with our industry-leading battery product portfolio of the Company.

APPRECIATION

I would like to take this opportunity to express my sincere gratitude to the Board for their support, and for contributions made by the management team and staff in the past year. Finally, I, hereby on behalf of the Board, the management and all employees of the Group, would like to express our heartfelt thanks for the long-time support and trust from the Shareholders, business partners and customers.

Tin Kong
Chairman

Hong Kong, 27 March 2018

MARKET REVIEW

In 2017, with the recovery of global economy, economic operations in the People's Republic of China (the "**PRC**") was maintained within a reasonable range. Benefiting from the continuous release of bonus from supply-side structural reform, during the year, the gross domestic product ("**GDP**") in the PRC registered a historical record of RMB82.7 trillion, representing a year-on-year increase of 6.9%[1], which marked the first increase in growth rate since 2011. During the year, benefiting from the meticulous implementation of the national policy《中國製造2025》("China Manufacturing 2025"*) and the accelerated green innovation and development, new energy vehicles that involve national energy security, environmental protection and reshaping of automotive industry chain are enjoying increasingly explicit long-term development prospects. According to the statistics from the China Association of Automobile Manufacturers, in 2017, 794,000 new energy vehicles were produced and 777,000 vehicles were sold, representing an increase of 53.8% and 53.3%, respectively, from the same period of last year. In 2017, the penetration rate of new energy vehicles in the PRC was about 2% to 3%, while the target penetration rate in 2020 is 7%, presenting huge room for development in the medium and long term.

The update of battery technology is the core driving force of the trend of automobiles. Technological breakthroughs in areas including endurability, charging efficiency, cost and safety have become the key to the industrialization of new energy vehicles. During the year, lithium battery market in the PRC continued to accelerate the transition from lithium ferrous phosphate batteries to ternary lithium batteries. Ternary materials featuring high energy density and good cycle performance have gradually gained a dominant position in the passenger vehicle industry. In the future, with the gradual advancement of the nickelic application, the energy density will further increase. With the fact that the ternary lithium battery bus can apply for listing in the《新能源汽車推廣應用推薦車型目錄》("Catalogue of Recommended Models for the Application and Promotion of New Energy Vehicles"*) since 2017, the restrictions on the use of ternary materials on buses have been cancelled, and Chinese government released preferential subsidy policy for high-energy batteries, the market for ternary material batteries was once in short supply, future expansion of applications is promising.

BUSINESS REVIEW

For the year ended 31 December 2017, the Group engaged in the Packaging Printing Business and the Lithium Ion Motive Battery Business.

[1] *State Statistics Bureau: http://www.stats.gov.cn/tjsj/zxfb/201801/t20180119_1575351.html*

Packaging Printing Business

As the market share of the Packaging Printing Business continued to drop and its development encountered bottleneck, during the year, the Group disposed of the entire Packaging Printing Business to an independent third party at a total consideration of HK$700,000,000. The transaction was officially completed on 2 January 2018. The Disposal led to a significant increase in cash flow of the Group with an expected gain of approximately HK$253,775,000. During the year, the Group was committed to promoting business transformation and sought to comply with the industry entry requirements for the Lithium Ion Motive Battery Business formulated by the Chinese government, to grasp the huge market opportunities for the Lithium Ion Motive Battery Business, and to maximize Shareholder returns in the long run.

Lithium Ion Motive Battery Business

Since the official launch of the Lithium Ion Motive Battery Business in 2015, the Group has continued to make breakthroughs in the lithium battery business. During the year, it achieved sales of approximately HK$390,762,000 (2016: approximately HK$18,038,000) and the earnings before interest, taxes, depreciation and amortisation (the "**EBITDA**") of approximately HK$84,423,000, indicating an encouraging result. The Group has been actively and systematically promoting the overall development of the ternary lithium battery business and research and development ("**R&D**") of related products, through which the Company has strengthened its strategic layout and established an industrial quality resource integration platform, forming an integrated motive ternary lithium battery industry chain integrating R&D, production, sales and service.

In order to focus on the R&D and production of battery packs and battery management systems ("**BMS**") so as to expand the Group's capacity on the Lithium Ion Motive Battery Business, during the year, 天臣新能源（深圳）有限公司 (Tesson New Energy (Shenzhen) Limited*) ("**Tesson Shenzhen**"), a subsidiary of the Group, established a joint venture company with 南方黑芝麻集團股份有限公司 (Nanfang Black Sesame Group Company Limited*) ("**Nanfang Black Sesame**") and 大連智雲自動化裝備股份有限公司 (Dalian Zhiyun Automatic Equipment Company Limited*) ("**Dalian Zhiyun**"). All research and production capabilities of the Nanjing Research Institute for BMS and battery packs are planning to be transferred to the joint venture company. The Lishui government of Nanjing had granted permission to the joint venture company to temporarily lease a plant property located in Nanjing Lishui Economic Development Zone. Please refer to the announcements of the Company dated 26 June 2017 and 10 October 2017 and the circular of the Company dated 9 August 2017, respectively for the details of the establishment of the joint venture company.

The plant was officially launched in December 2017. The factory covers a total area of approximately 13,000 square meters with two battery pack production lines and a BMS production line. It is equipped with thermal simulation test experiment room, BMS test laboratory, battery test laboratory, test production line of battery packs test sample, and other R&D test conditions.

In order to grasp the opportunities of high-speed penetration and development of new energy automotive market in the PRC, the Group actively expanded its production capacity during the year. Phase I and phase II production bases in Weinan, Shaanxi, have been operated. The Group is planning to commence the construction of phase III production base in Weinan, Shaanxi, and the first production base for manufacturing of battery packs in Lishui, Nanjing in 2018.

In the long run, the Group intends to expand its production capacity through the production of high-quality motive battery and the establishment of phase III production base until it is officially recognized as being in compliance with automobile battery specifications. Once achieved, the Group will become one of the major suppliers of motive battery for Chinese auto manufacturers, which enables us to grasp the strong growth of the Chinese electric vehicle market. With the competitive advantage of the Group and the proposed construction and development of phase III production base, the Group has grasped potential sales opportunities with vehicle manufacturers to timely expand the Lithium Ion Motive Battery Business and bring higher profits to the overall business.

PROSPECT

Looking into 2018, the Group will continue to expedite the deployment of full-scale industrial chain of new energy lithium battery, including deploying more resources to research and develop new lithium ion batteries, battery packs and BMS. Among them, battery management is an important part of the motive battery system, accounting for nearly 20% of the total cost of the battery pack. By estimating the remaining battery power, dynamically monitoring the battery status, and identifying faulty batteries, it can effectively improve the battery utilization rate and prevent the battery from overcharging. The market predicts that the market size of China's motive battery system will reach RMB15.7 billion by 2020, and the battery pack market will also grow. In the face of the huge potential of the ternary motive battery market, the Group's research center in Nanjing will more actively cooperate with outstanding universities and scientific research institutes at home and abroad, enabling the Group to always develop battery products with higher technological content in the ternary battery market to always stay one step ahead of the peers in the industry.

Meanwhile, the Group is committed to the direct conversion of advanced products into the driving force for sales growth. In terms of sales network, the Group will employ more sales team employees and expand the scope of target sales network in 2018, and gradually establish a formal partnership with a number of domestic vehicle manufacturers to develop new automaker customer base. The establishment of a stable customer base will benefit the Group's production line to reach maximum production capacity and meet the national requirements for industry access standards.

In addition to promoting the development of core businesses, the Group plans to actively seek quality investment opportunities in the cultural and creative industries. The cultural and creative industries are the commanding heights of the 21st century national soft power competition. As pointed out in the Cultural Industry Development Plan issued by Ministry of Culture of the PRC implemented during 13th Five-Year Plan period[2], it is clear that the cultural industry will become a pillar industry of the national economy by 2020. Relying on such national policy, it is expected that the cultural industry will usher in flourishing development. The Group's investments in cultural and creative businesses endeavor to diversify the Group's sources of income. It is believed that this move will enhance the Group's ability to resist risks and bring additional investment returns.

With regard to the prospects of the ternary lithium battery industry and the Company, the Group is full of confidence that with its continuously optimized development strategy and intensified management team, the Group will be able to gain a foothold among new energy battery manufacturing enterprises and bring quality returns for shareholders.

[2] *Central People's Government: http://www.gov.cn/xinwen/2017-04/20/content_5187654.htm*

FINANCIAL REVIEW

Operating profit and EBITDA of the Lithium Ion Motive Battery Business

	2017	2016
	HK$'000	*HK$'000*
Profit for the year	**47,295**	39,428
Less: Profit from discontinued operations	**(51,570)**	(82,356)
Adjustments for continuing operations:		
Add: Equity settled share-based payment expenses	**5,522**	846
Add: Interest expenses on amounts due to a related company and the Controlling Shareholder	**12,071**	16,571
Add: Imputed interest expense on convertible bonds	**9,707**	–
Add: Loss from the Company and non-operating subsidiaries	**19,037**	15,389
Less: Gain on settlement of amount due to the Controlling Shareholder	**(4,823)**	–
Less: Gain on bargain purchase	**–**	(17,489)
Operating profit/(loss) of the Lithium Ion Motive Battery Business	**37,239**	(27,611)
Add: Finance costs	**2,418**	–
Add: Depreciation	**42,064**	9,397
Add: Amortisation of prepaid land lease payments	**750**	1,743
Add: Amortisation of intangible assets	**1,952**	1,819
EBITDA of the Lithium Ion Motive Battery Business	**84,423**	(14,652)

Notwithstanding that the Group recorded a loss for the year from continuing operations of approximately HK$4,275,000 (2016: approximately HK$42,928,000), excluding the effect of non-operating items, operating profit and EBITDA of the Lithium Ion Motive Battery Business were approximately HK$37,239,000 (2016: loss of approximately HK$27,611,000) and approximately HK$84,423,000 (2016: loss of approximately HK$14,652,000), respectively, which had been increased by HK$64,850,000 and HK$99,075,000, respectively.

Profit of the Packaging Printing Business

In accordance with《中國煙草2017發展報告》("China Tobacco 2017 Development Report"*) issued by the China Tobacco Group, emphasis was placed on destocking and implementation of production control on tobacco products during the year. Eventually, China Tobacco Group had reduced its stock level by more than 10%. Turnover of the Packaging Printing Business was affected and reduced to approximately HK$677,837,000 from approximately HK$781,023,000, leading to a drop in gross profit from approximately HK$238,901,000 to approximately HK$209,938,000 during the year. Besides, a gain on disposal of subsidiaries was recorded in 2016 at approximately HK$3,480,000 which is not recurring in current year. As a result, profit of the Packaging Printing Business decreased from HK$82,356,000 to HK$51,570,000.

Continuing Operations

Revenue and gross profit ratio

Revenue of the continuing operations was primarily from the Lithium Ion Motive Battery Business which was amounted to approximately HK$390,762,000 (2016: approximately HK$18,038,000), representing significant increase of approximately HK$372,724,000. Since 2016 was the investment year for the Lithium Ion Motive Battery Business, revenue from this segment was not significant to the Group. The increasing production scale and advancement in our products brought significant increase in revenue in 2017. Benefited from economies of scales, gross profit margin increased from gross loss of 26.6% to gross profit of 24.5%.

Administrative expenses

Followed by the increase in production scale and establishment of a subsidiary in Nanjing, administrative expenses for the year ended 31 December 2017 increased to approximately HK$79,646,000 from HK$41,496,000 in 2016, which mainly consisted of research and development expenses of approximately HK$13,392,000 (2016: approximately HK$700,000), staff costs (including directors' remuneration) of approximately HK$20,776,000 (2016: approximately HK$14,110,000), depreciation of approximately HK$5,952,000 (2016: approximately HK$693,000) and equity settled share-based payment expenses of approximately HK$5,522,000 (2016: approximately HK$846,000).

Distribution and selling expenses

The distribution and selling expenses had been increased to approximately HK$10,062,000 (2016: approximately HK$1,364,000) mainly due to the increase in transportation cost and commission fee.

Other income

Other income for the year ended 31 December 2017 was approximately HK$12,136,000 (2016: approximately HK$20,071,000), mainly comprised of gain on settlement of amount due to the Controlling Shareholder at approximately HK$4,823,000 (2016: Nil) and government grant of approximately HK$5,486,000 (2016: approximately HK$1,928,000). In 2016, it mainly represented gain from bargain purchase of approximately HK$17,489,000 which was not recurring in 2017.

Finance costs

Finance costs for the year ended 31 December 2017 had been increased to approximately HK$22,623,000 (2016: approximately HK$15,341,000) primarily because of interest charged on convertible bonds issued on 28 February 2017 at 3% per annum, and interest charged on the amounts due to a related company and the Controlling Shareholder since 1 July 2016 at 8% per annum.

Basic and diluted earnings per share

Basic and diluted loss per share of continuing operations in the year ended 31 December 2017 were 0.72 cents (2016: 4.58 cents).

Basic and diluted earnings per share of discontinued operations in the year ended 31 December 2017 were 2.56 cents (2016: 5.40 cents).

In anticipation of the funds required for the development of the Lithium Ion Motive Battery Business, the Board does not recommend the payment of a final dividend for the year.

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained sufficient working capital as at 31 December 2017 with net current assets of approximately HK$1,264,838,000 (31 December 2016: approximately HK$423,706,000) and pledged bank deposits and bank and cash balances in aggregate of approximately HK$75,308,000 (31 December 2016: approximately HK$210,026,000). The gearing ratio of the Group (which was expressed as a percentage of total borrowings excluding the liabilities portion of the convertible bonds over total equity) was about 10.2% as at 31 December 2017 (31 December 2016: 8.67%).

EMPLOYMENT

As at 31 December 2017, the Group had approximately 639 employees for its continuing operations (2016: approximately 510), most of whom were working in the Company's subsidiaries in the PRC. During the year, the total employees' costs including directors' remuneration from continuing operations were approximately HK$71,931,000 (2016: approximately HK$26,468,000).

The Group has developed its human resources policies and procedures based on performance and merit. Employees are rewarded on a performance basis within the general framework of its salary and bonus system. Discretionary bonus is linked to the performance of the Group as well as individual performance. Benefits include staff accommodation, medical schemes, share option scheme, Mandatory Provident Fund for employees in Hong Kong and state-sponsored retirement plans for employees in the PRC. The Group has also developed training programs to its management and employees to promote career advancement of the staffs.

FOREIGN EXCHANGE EXPOSURE

All sales and purchase for the Lithium Ion Motive Battery Business and the Packaging Printing Business are denominated in RMB, the management considers the exposure to exchange risks is minimized. However, the Company faces foreign exchange risk in its fund raising activities in Hong Kong (HK$) and remittance of funds to the subsidiaries in the PRC (RMB). The Board will continue to monitor foreign exchange exposure in the future.

CONTINGENT LIABILITIES

As at 31 December 2017, the Group did not have any material contingent liabilities (2016: Nil).

PLEDGE OF ASSETS

Details of pledged assets as at 31 December 2017 are set out in Note 25 to the consolidated financial statements.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

* *for identification purpose only*

EXECUTIVE DIRECTORS

Ms. Cheng Hung Mui

Ms. Cheng Hung Mui ("**Ms. Cheng**"), aged 47, is a Hong Kong resident and an individual investor. Ms. Cheng was appointed as an executive Director of the Company on 27 June 2014. Ms. Cheng is the beneficial owner and director of Double Key International Limited, the controlling shareholder of the Company.

Mr. Tin Kong

Mr. Tin Kong ("**Mr. Tin**"), aged 57, is a Hong Kong resident. Mr. Tin was appointed as an executive Director of the Company on 27 August 2015. He is the chairman of the Group, the Nomination Committee and the Internal Control Committee, and a member of the Remuneration Committee. Mr. Tin is the director of Double Key International Limited, the controlling shareholder of the Company. He graduated from 北京文化幹部管理學院經濟管理學系 (translated as department of Economics and Management in Beijing Academy of Cultural Administration).

Mr. Zhou Jin

Mr. Zhou Jin ("**Mr. Zhou**"), aged 58, was appointed as an executive Director of the Company on 27 May 1998. Mr. Zhou is a senior economist in the PRC and graduated from the Chinese Academy of Social Sciences with a master's degree in Commerce and Economics. Prior to joining the Group in March 1993 as a general manager, he was engaged in academic and research activities with a school and a governmental bureau respectively in Yunnan Province of the PRC.

Mr. Chen Dekun

Mr. Chen Dekun ("**Mr. Chen**"), aged 55, was appointed as an executive Director of the Company on 25 June 2015. He has more than 30 years of experience in investment, trading and management.

Mr. Tao Fei Hu

Mr. Tao Fei Hu ("**Mr. Tao**"), aged 64, was appointed as an executive Director of the Company on 6 August 2013. Mr. Tao has over 40 years of working experience in production and marketing management in the PRC.

Mr. Sheng Siguang

Mr. Sheng Siguang ("**Mr. Sheng**"), aged 45, was appointed as an executive Director and chief executive officer of the Company on 8 March 2016 and 8 February 2018, respectively. Mr. Sheng also holds directorships in certain subsidiaries of the Company. Mr. Sheng was also in charge of the Lithium Ion Motive Battery Business of the Group. He received a master's degree in industrial economy from Nanjing Southeast University in September 2006. He also graduated from Nanjing University of Aeronautics and Astronautics with an associate degree and a bachelor's degree in applied electronic technology in 1993. Mr. Sheng has served in a major state-owned electronic enterprise in the PRC as the quality manager, head of quality department and head of purchasing department. Mr. Sheng has extensive experience in investment management. Mr. Sheng's spouse, Ms. Wang Jin, is a beneficial owner of Burgeon Max Holdings Limited, one of the Company's substantial shareholders within the meaning of the Securities and Futures Ordinance (Chapter 571 of The Laws of Hong Kong) (the "**SFO**").

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wang Jinlin

Mr. Wang Jinlin ("**Mr. Wang**"), aged 53, was appointed as an independent non-executive Director of the Company on 24 March 2015. He is a member of the Audit Committee, the Remuneration Committee, the Nomination Committee and the Internal Control Committee of the Company. Mr. Wang graduated from Zhejiang University and obtained a bachelor's degree in 1984. He is a senior engineer and used to serve as deputy general manager of Jiaxing Silk Spinning Factory (嘉興絹紡廠), deputy general manager and general manager of Zhejiang Jinying Silk Spinning Co., Ltd. (浙江金鷹絹紡有限公司), and deputy general manager of Zhejiang Jinying Holding Limited, possessing rich experience in corporate management and practice. He was a member of CPPC of Jiaxing, a member of Chinese Silk Industry Association (中國絲綢工業協會) and vice chairman of the silk spinning branch of the Chinese Silk Industry Association.

Mr. Ng Ka Wing

Mr. Ng Ka Wing ("**Mr. Ng**"), aged 61, was appointed as an independent non-executive Director of the Company on 8 March 2016. He is the chairman of the Remuneration Committee and a member of the Audit Committee, the Nomination Committee and the Internal Control Committee of the Company. Mr. Ng has extensive experience in the manufacturing of motor vehicles. Mr. Ng is the managing director of a bus manufacturer and the chairman of Hong Kong Bus Suppliers Association.

Mr. See Tak Wah

Mr. See Tak Wah ("**Mr. See**"), aged 54, was appointed as an independent non-executive Director of the Company on 27 January 2017. He is the chairman of the Audit Committee and a member of the Remuneration Committee, the Nomination Committee and the Internal Control Committee of the Company. Mr. See graduated from the Management School of Waikato University in New Zealand with first class honours in Bachelor of Management Studies. He is a member of the Institute of Chartered Accountants of Australia and New Zealand, a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Hong Kong Institute of Directors. Mr. See has over 32 years of experience in financial and general management as he previously worked as the regional business controller of Nokia Mobile Phones Asia Pacific, the managing director of Nokia Mobile Phones Hong Kong, the chief operating officer of First Mobile Group Holdings Limited and held key management positions in the North Asia offices of Philips and Siemens. In September 2016, Mr. See resigned as an independent non-executive director and ceased to act as the chairman of the audit committee and a member of the nomination committee of Unisplendour Technology (Holdings) Limited (formerly known as Sun East Technology (Holdings) Limited) (Stock Code: 0365).

Mr. See currently runs his own boutique management consultancy practice focusing on business strategies formulation and transformation consultation. In addition, he is currently an independent non-executive director and chairman of audit committee of Chu Kong Petroleum and Natural Gas Steel Pipe Holdings Ltd a company listed on the Main Board on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (Stock Code: 01938).

SENIOR MANAGEMENT

Mr. Chen Weixi

Mr. Chen Weixi ("**Mr. Chen**"), aged 44, was the chief executive officer of the Company since 1 November 2016 and resigned on 31 January 2018. Mr. Chen obtained a bachelor's degree in economics from Renmin University of China, and an EMBA master's degree from the Hong Kong University of Science and Technology. Mr. Chen is a Certified Public Accountant in China, with practising qualification for 20 years. He is also a licensed securities (futures) intermediary in China, and an associate member of the Association of International Accountants (AIA).

Mr. Chan Wei

Mr. Chan Wei ("**Mr. Chan**"), aged 39, is the chief financial officer and company secretary of the Company since 7 March 2016. Mr. Chan resigned as an independent non-executive Director and ceased to act as a member of each of the audit committee, the nomination committee and the remuneration committee of Elegance Optical International Holdings Limited on 17 April 2018 (Stock code: 0907). Before joining the Company, he was working in a listed company as financial controller. Mr. Chan is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of Associate of Chartered Certified Accountants. Mr. Chan obtained the degree of a Bachelor of Science in applied accounting from the Oxford Brookes University. He has over 15 years of experience in auditing, accounting and financial advisory.

Mr. Shen Yun Jiang

Mr. Shen Yun Jiang ("**Mr. Shen**"), aged 38, has been employed as the financial controller of a subsidiary of the Group since September 2017, and is responsible for the financial management and accounting function of the Lithium Ion Motive Battery Business. Mr. Shen is an intermediate economist and a Certified Public Accountant in China. He graduated from the Shanxi University of Finance & Economics with a bachelor's degree in Business Management.

Mr. Chern Guey Lin

Mr. Chern Guey Lin ("**Mr. Chern**"), aged 61, has been employed as the general production manager of a subsidiary of the Group since March 2018, and is responsible for the management of production of the Lithium Ion Motive Battery Business at the phase II production base in Weinan. Mr. Chern graduated from the National Taipei University of Technology with a bachelor's degree in Department of Electrical Engineering. Prior to joining the Group, Mr. Chern has over 37 years of working experience in system integration between electric vehicles and battery packs; and production, technology and operation management of lithium-ion battery automated production lines.

Mr. Zhang Bo Yu

Mr. Zhang Bo Yu ("**Mr. Zhang**"), aged 45, is currently the general production manager of a subsidiary of the Group, and is responsible for the overall management of the production and operation of the Lithium Ion Motive Battery Business at the phase I production base in Weinan. Mr. Zhang graduated from the Tianjin University of Technology with a bachelor's degree in Mechanical Design and Process. He has worked in the battery industry for more than 20 years and was a winner of State Scientific and Technological Progress Award.

Mr. Ma Zhen Zhong

Mr. Ma Zhen Zhong ("**Mr. Ma**"), aged 43, has been employed as the general sales manager of a subsidiary of the Group since November 2015, and is responsible for the overall management of sales of the Lithium Ion Motive Battery Business in Weinan. Mr. Ma graduated from the Liaocheng University with a bachelor's degree in Chemistry. Prior to joining the Group, Mr. Ma has over 16 years of working experience in battery production, operation and management in the PRC.

Mr. Zhao Qi Rong

Mr. Zhao Qi Rong ("**Mr. Zhao**"), aged 42, has been employed as the vice president of a subsidiary of the Group since May 2017, and is responsible for managing the operation of the Lithium Ion Motive Battery Business in Nanjing Research Institute. Mr. Zhao graduated from the Tianjin University of Technology with a bachelor's degree in Chemical Engineering and Technology. He has over 15 years of working experience in the design and production of lithium batteries.

Mr. Niu Wen Tao

Mr. Niu Wen Tao ("**Mr. Niu**"), aged 33, has been employed as the deputy general manager of a subsidiary of the Group since April 2016, and is responsible for product design, development and technical management of battery packs, and construction planning of the battery production line and plant. Mr. Niu holds a college degree in Applied Electronic Technology from Tianjin Modern Vocational Technology College. He has over 10 years of working experience in design and development of battery pack products.

The Board is pleased to present their report and the audited consolidated financial statements of the Group for the year ended 31 December 2017.

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

The Company is a limited liability company incorporated in the Bermuda, and its principal place of business in Hong Kong is Room 1007, Tsim Sha Tsui Centre, West Wing, 66 Mody Road, Tsim Sha Tsui, Kowloon, Hong Kong.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activities of the Group are engaging in Packaging Printing Business and Lithium Ion Motive Battery Business during the year. The principal activities of its principal subsidiaries are set out in Note 39 to the consolidated financial statements. Further discussion and analysis of these activities as required by Schedule 5 to the Companies Ordinance (Chapter 622 of The Laws of Hong Kong), can be found in the Management Discussion and Analysis set out on pages 6 to 12 of this Annual Report.

Furthermore, in 2018, the Group had completed the Disposal of the Packaging Printing Business, and intends to develop and engage in cultural and creative industries as detailed in the announcement of the Company dated 6 March 2018. Save as disclosed therein, there was no other change in form of business up to the date of this report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment during the year are set out in Note 16 to the consolidated financial statements.

CHARGES ON GROUP'S ASSETS

Details of the charges on the Group's assets are set out in Note 25 to the consolidated financial statements.

COMMITMENTS

Details of the commitments of the Group are set out in Notes 36 and 37 to the consolidated financial statements.

SHARE CAPITAL

As at 31 December 2017, the Company's issued share capital is HK$103,631,570 and the total number of its issued ordinary shares is 1,036,315,700 shares of HK$0.10 each.

Details of the movements in share capital of the Company are set out in Note 29 to the consolidated financial statements.

RESERVES AND DISTRIBUTABLE RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out on page 48 of this Annual Report and Note 30 to the consolidated financial statement. The Company had no distributable reserves as at 31 December 2017.

DIRECTORS

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

Executive Directors
Ms. Cheng Hung Mui
Mr. Tin Kong
Mr. Zhou Jin
Mr. Chen Dekun
Mr. Tao Fei Hu
Mr. Sheng Siguang

Independent Non-executive Directors
Mr. Wang Jinlin
Mr. Ng Ka Wing
Mr. See Tak Wah (appointed on 27 January 2017)

By virtue of bye-law 87 of the bye-laws of the Company, Mr. Zhou Jin, Mr. Chen Dekun, Mr. Tao Fei Hu and Mr. Sheng Siguang shall retire by rotation and being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company.

No Director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensations).

DIRECTORS' SERVICE CONTRACTS

Mr. Zhou Jin, an executive Director, was appointed without a fixed term on 27 May 1998. Under the Listing Rule 13.69, Directors' service contracts entered into by the issuer or any of its subsidiaries in accordance with the Rules of Governing the Listing of Securities on the Stock Exchange ("**Listing Rules**") on or before 31 January 2004 are exempt from shareholders' approval under rule 13.68.

Each of Mr. Tao Fei Hu, Ms. Cheng Hung Mui, Mr. Chen Dekun and Mr. Tin Kong, each an executive Director, was entered into a service agreement with the Company for a term of 2 years commencing from 6 August 2013, 27 June 2014, 25 June 2015 and 27 August 2015, respectively.

Mr. Wang Jinlin, an independent non-executive Director, has entered into a service agreement with the Company for a term of 2 years commencing from 24 March 2015.

Mr. Sheng Siguang, an executive Director, and Mr. Ng Ka Wing and Mr. See Tak Wah, both of which are independent non-executive Directors, were appointed on 8 March 2016, 8 March 2016 and 27 January 2017, respectively, without service agreement and specific term.

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

As at 31 December 2017, according to the register kept by the Company pursuant to Section 336 of the SFO and, so far as is known to the Directors, the persons or entities who had an interest or a short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company, or of any other company which is a member of the Group, or in any options in respect of such share capital are as follows:

Long position

Name of shareholder	Capacity	Number of ordinary shares held	Percentage of the Company's issued share capital
Cheng Hung Mui	Interest of controlled corporation	635,887,533 *(Note 1)*	61.36%
Double Key International Limited	Beneficial owner	635,887,533 *(Note 1)*	61.36%
Burgeon Max Holdings Limited	Beneficial owner	100,000,000 *(Note 2)*	9.65%
Lankai Limited	Beneficial owner	100,000,000 *(Note 3)*	9.65%
Wang Jin	Interest of controlled corporation	100,000,000 *(Note 2)*	9.65%
Sheng Siguang	Interest of spouse	100,000,000 *(Note 2)*	9.65%
Wu Siqing	Interest of controlled corporation	100,000,000 *(Note 2)*	9.65%
Li Yujun	Interest of controlled corporation	100,000,000 *(Note 3)*	9.65%

Note 1: The entire issued share capital of Double Key International Limited is owned by Ms. Cheng Hung Mui. Therefore, Ms. Cheng Hung Mui is deemed to be interested in the 635,887,533 shares of the Company ("**Shares**") held by Double Key International Limited pursuant to the SFO.

Note 2: The issued share capital of Burgeon Max Holdings Limited is owned as to 60% by Ms. Wang Jin and 40% by Ms. Wu Siqing. Therefore, Ms. Wang Jin and Ms. Wu Siqing is deemed to be interested in the 100,000,000 Shares interested in by Burgeon Max Holdings Limited pursuant to the SFO. Besides, Mr. Sheng Siguang is the spouse of Ms. Wang Jin and is accordingly deemed to be interested in the shares beneficially owned by Ms. Wang Jin through her controlled corporation, Burgeon Max Holdings Limited, pursuant to the SFO.

Note 3: The entire issued share capital of Lankai Limited is owned by Mr. Li Yujun. Therefore, Mr. Li Yujun is deemed to be interested in the 100,000,000 Shares interested in by Lankai Limited pursuant to the SFO.

Save as disclosed above, as at 31 December 2017, the Company has not been notified by any persons (other than the Directors and chief executive of the Company, whose interests are set out in the section "Directors' and chief executive's interests and short position in the shares and underlying shares" below), who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosable to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITION IN THE SHARES AND UNDERLYING SHARES

As at 31 December 2017, the interests and short positions of the Directors and chief executive of the Company in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and chief executive were deemed or taken to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be recorded in the register therein, or were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by the directors of Company (the "**Model Code**") contained in the Listing Rules were as follows:

(i) Long positions in the issued Shares

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Cheng Hung Mui	Interest of Controlled Corporation	635,887,533 *(Note 1)*	61.36%
Sheng Siguang	Interest of spouse	100,000,000 *(Note 2)*	9.65%

Note 1: The entire issued share capital of Double Key International Limited is owned by Ms. Cheng Hung Mui. Therefore, Ms. Cheng Hung Mui is deemed to be interested in the 635,887,533 Shares held by Double Key International Limited pursuant to the SFO.

Note 2: Mr. Sheng Siguang is the spouse of Ms. Wang Jin who is interested in 100,000,000 Shares. Mr. Sheng Siguang is deemed to be interested in all the Shares in which Ms. Wang Jin is interested in by virtue of the SFO.

(ii) Long positions in the underlying Shares

Some of the Directors and the chief executive of the Company have been granted options under the Company's share option scheme, details of which are set out in the section "Equity-linked agreements – Share Option Scheme" below.

(iii) Long positions in associated corporations

Name of director	Nature of Interest	Name of associated corporation	No. of shares held	Percentage to that associated corporation's issued share capital as at 31 December 2017
Cheng Hung Mui	Corporate interest	Double Key International Limited	100	100%

Save as disclosed above, as at 31 December 2017, none of the Directors or the chief executive of the Company had or was deemed to have any interests or short position in the shares and underlying shares of the Company, or any of its holding companies, subsidiaries or other associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which had been notified to the Company and the Stock Exchange pursuant to the Model Code.

EQUITY-LINKED AGREEMENTS

Share Option Scheme

The Company's share option scheme (the "**Scheme**") was adopted pursuant to the special general meeting of the Company held on 13 June 2012 for the primary purpose of providing incentives to selected participants for their contribution to the Group, and will expire on 12 June 2022. Under the Scheme, the Board may grant options to all Directors of the Company (including independent non-executive Directors) and any fulltime/part time employees of the Group, and any participants from time to time determined by the Board as having contributed or may contribute to the development and growth of the Group to subscribe for shares in the Company.

In each grant of options, the Board may at its discretion determine the specific exercise period and exercise price. The exercise price shall not be less than the highest of (i) the closing price of Shares on the Stock Exchange on the date of the offer of grant; (ii) the average closing price of Shares on the Stock Exchange for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of the Shares.

The total number of Shares available for issue under the Scheme as at 31 December 2017 was 103,631,570 Shares which represented 10% of the total number of ordinary shares of the Company in issue as at 23 May 2017. The number of shares in respect of which options may be granted to any individual is not permitted to exceed 1% of the issued share capital of the Company for the time being.

Pursuant to the Scheme, the Company has granted to certain Directors and eligible participant options to subscribe Shares. Details of which as at 31 December 2017 were as follows:

					Number of Share Options				
Name of director/ employee	Date of Grant	Exercisable period	Exercise Price per Share HK$	Closing Price of the Shares immediately before the Date of Grant HK$	Outstanding options as at 1.1.2017	Granted and accepted during the year	Exercised during the year	Cancelled/ Lapsed during the year	Outstanding options as at 31.12.2017	Approximate percentage of shareholding
Director										
Tin Kong	11/11/2016	11/11/2017 to 10/11/2021	0.85	0.85	600,000	–	–	–	600,000	0.06%
	11/11/2016	11/11/2018 to 10/11/2021	0.85	0.85	600,000	–	–	–	600,000	0.06%
	11/11/2016	11/11/2019 to 10/11/2021	0.85	0.85	800,000	–	–	–	800,000	0.08%
Chen Dekun	11/11/2016	11/11/2017 to 10/11/2021	0.85	0.85	300,000	–	–	–	300,000	0.03%
	11/11/2016	11/11/2018 to 10/11/2021	0.85	0.85	300,000	–	–	–	300,000	0.03%
	11/11/2016	11/11/2019 to 10/11/2021	0.85	0.85	400,000	–	–	–	400,000	0.04%
Sub-total:					3,000,000	–	–	–	3,000,000	
Chief Executive										
Chen Weixi	11/11/2016	11/11/2017 to 10/11/2021	0.85	0.85	600,000	–	–	–	600,000	0.06%
	11/11/2016	11/11/2018 to 10/11/2021	0.85	0.85	600,000	–	–	–	600,000	0.06%
	11/11/2016	11/11/2019 to 10/11/2021	0.85	0.85	800,000	–	–	–	800,000	0.08%
Senior Management (in aggregate)	11/11/2016	11/11/2017 to 10/11/2021	0.85	0.85	5,790,000	–	–	(270,000)	5,520,000	0.53%
	11/11/2016	11/11/2018 to 10/11/2021	0.85	0.85	5,790,000	–	–	(270,000)	5,520,000	0.53%
	11/11/2016	11/11/2019 to 10/11/2021	0.85	0.85	7,720,000	–	–	(360,000)	7,360,000	0.71%
Sub-total:					21,300,000	–	–	(900,000)	20,400,000	
Total:					24,300,000	–	–	(900,000)	23,400,000	

CHANGES OF DIRECTORS' INFORMATION

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes of Directors' information are set out below. Mr. See Tak Wah was appointed as an independent non-executive Director, the chairman of the Audit Committee and a member of the Remuneration Committee, the Nomination Committee and the Internal Control Committee of the Company on 27 January 2017. Save as disclosed above, as at 31 December 2017, there were no changes of Directors' information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the date of this Annual Report, none of the Directors and directors of the Company's subsidiaries, or their respective associates had interests in businesses, other than being a director of the Company and/or its subsidiaries and their respective associates, which compete or are likely to compete either directly or indirectly, with the businesses of the Group as required to be disclosed pursuant to the Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Save as disclosed in this Directors' report and Note 31 to the consolidated financial statements in relation to the Scheme, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable any Directors (including their spouses or children under 18 years of age) to have any right to subscribe for securities of the Company or any of its associated corporations as defined in the SFO or to acquire benefits by means of acquisition of shares in, or debentures of the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS

As at the end of the year ended 31 December 2017 or at any time during the year, there was no contract of significance in relation to the Company's business, to which the Company or any of its subsidiaries was a party, subsisted, and in which a Director had, whether directly or indirectly, a material interest.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors, namely Mr. Wang Jinlin, Mr. Ng Ka Wing and Mr. See Tak Wah, the annual confirmation of their independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all of the independent non-executive Directors are independent.

CONTINUING CONNECTED TRANSACTIONS

Connected sales transactions

During the year, the Group has entered into sales transaction with Yunnan Zhaotong Cigarette Factory, Hongta Tobacco (Group) Company Limited ("**Zhaotong Cigarette Factory**"), which is a subsidiary of Yunnan Hehe (Group) Co., Ltd. (formerly known as Yunnan Hongta Group Company Limited), a 10% equity shareholder in a subsidiary of the Company, amounting to approximately HK$227,587,000. The Stock Exchange has granted conditional waivers to the Company from strict compliance with the requirements of the Listing Rules, and the independent non-executive Directors of the Company have confirmed that these transactions were carried out in compliance with the conditions set out in the waivers granted by the Stock Exchange. In addition, the Group has entered into sales and purchase transactions with fellow subsidiaries of Zhaotong Cigarette Factory, amounting to approximately HK$270,794,000 and HK$37,197,000, respectively.

The independent non-executive Directors confirm that the above transactions have been entered into by the Company in the ordinary and usual course of its business, on normal commercial terms, and in accordance with the terms of the agreement, if any, governing such transactions that are fair and reasonable and in the interests of the Shareholders as a whole.

The auditor of the Company has confirmed to the Board that (i) the above transactions have been approved by the Board; (ii) for transactions involving the provision of goods or services by the Group, these transactions are in accordance with the pricing policies of the Company; (iii) the above transactions have been entered into in accordance with the relevant agreements governing the transactions; and (iv) the aggregate sales amount of approximately HK$498,381,000 have not exceeded the annual cap disclosed in the Company's circular dated 28 June 1999.

MAJOR CUSTOMERS AND SUPPLIERS

Sales to the five largest customers of the Group accounted for approximately 48% of the Group's total revenue for the year. In particular, sales to the largest customer of the Group accounted for approximately 21% of the Group's total revenue for the year.

During the year ended 31 December 2017, approximately 33% of the Group's purchases were attributable to the Group's five largest suppliers. In particular, purchases from the largest supplier of the Group accounted for approximately 16% of the Group's total purchase for the year.

As far as the Directors are aware, neither the Directors nor any of their associates nor any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interests in any of the Group's five largest customers or five largest suppliers.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

INTERESTS IN COMPETING BUSINESS

During the year, none of the Directors had any interests in competing business of the Company which was required to be disclosed pursuant to Rule 8.10 of the Listing Rules.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up 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 regard to the Company's operating results, individual performance and comparable market statistics.

PRE-EMPTIVE RIGHTS

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

RELATED PARTY TRANSACTIONS

Details of the related party transactions undertaken by the Group during the year ended 31 December 2017 are set out in Note 38 to the consolidated financial statements. These related party transactions (i) did not constitute connected transactions/continuing connected transactions or, (ii) constituted connected transactions/continuing connected transactions but were exempted from all disclosure and independent shareholders' approval requirements under the Listing Rules.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group's financial conditions, results of operations and business would be affected by numerous risks and uncertainties including market risk, foreign currency risk, credit risk and liquidity risk. The Group's overall risk management programme is shown in Note 5 to the consolidated financial statements.

RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

Employees

The Group considers employees as the key to success and continues to implement people-oriented policy in human resources management, including the offer of appropriate training programs, performance linked discretionary bonus, and implement a sound and complete performance appraisal system to promote career advancement and opportunity of the staff.

Customers and Suppliers

The Group maintained sound relationships with its customers and suppliers, and did not have material disputes with them during the year ended 31 December 2017.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the year ended 31 December 2017, as far as the Company is aware, there was no material breach of or non-compliance with applicable laws and regulations by the Group that has a significant impact on the business and operations of the Group.

PERMITTED INDEMNITY

In accordance with bye-law 166 of the bye-laws of the Company, the Directors and other officers of the Company shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them, their or any of their heirs, executors or administrators, shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty, in their respective offices or trusts, provided that any such persons has not committed any fraud or dishonesty.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors of the Company, the Company has maintained a sufficient public float as at the latest practicable date prior to the issue of this report.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE ("ESG") SUMMARY

The Group is committed to conducting our business in an environmentally sound manner and has adopted the Environmental, Social and Governance Reporting Guide as required by the Listing Rules. The Board will continue to monitor such policies to ensure the Company remains compliant with the relevant laws and regulations that have a significant impact on the Company in relation to the environment, employment, labor and operation. In addition to carrying out the corporate-wide programs the Company has initiated, all of our employees are required to be familiar with environmental laws and regulations relevant to their employment responsibilities and to comply with them. Details of the above information will be set out in our ESG report which is scheduled to be published within 3 months after the issuance of this Annual Report.

DIVIDENDS

The Board does not recommend the payment of any dividend for the year ended 31 December 2017 (2016: Nil).

DONATION

During the year, the Group made charitable donation amounting to approximately HK$1,143,000.

SUBSIDIARIES

Details of the Company's principal subsidiaries as at 31 December 2017 are set out in Note 39 to the consolidated financial statements.

EVENTS AFTER THE REPORTING PERIOD

Details of the events after the reporting period of the Group are set out in Note 40 to the consolidated financial statements.

AUDITOR

The consolidated financial statements of the Group for the year ended 31 December 2017 was audited by ZHONGHUI ANDA CPA Limited. ZHONGHUI ANDA CPA Limited will retire at the forthcoming annual general meeting and a resolution for their re-appointment as the auditor of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board
Tesson Holdings Limited

Tin Kong
Chairman
Hong Kong, 27 March 2018

CORPORATE GOVERNANCE PRACTICES

The Company's corporate governance practices are based on the principles (the "**Principles**") and code provisions (the "**Code Provisions**") as set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**").

The Company and the Directors strive to follow the internal control manuals and put in place sufficient resources to comply with the CG Code. During the year ended 31 December 2017, save for the deviations disclosed below, the Company has complied with all the applicable provisions set out in the CG Code:

According to Code Provision A.4.1 of the CG Code, non-executive Directors should be appointed for a specific term, subject to re-election. Mr. Ng Ka Wing and Mr. See Tak Wah were appointed as independent non-executive Director on 8 March 2016 and 27 January 2017, respectively. Mr. Ng Ka Wing and Mr. See Tak Wah have not been appointed for a specific term but will be subject to retirement by rotation and eligible for re-election pursuant to the Bye-laws of the Company.

Pursuant to Code Provision A.6.7, independent non-executive Directors and non-executive Directors of the Company should attend general meetings of the Company and develop a balanced understanding of the views of the shareholders. However, one independent non-executive Director was absent from the annual general meeting held on 28 June 2017 and two independent non-executive Directors were absent from the special general meetings of the Company held on 28 February 2017, 29 August 2017 and 23 November 2017, respectively, due to other business commitments. To ensure compliance with this Code Provision in the future, the Company has arranged and will continue to arrange to furnish all Directors with appropriate information on all general meetings of the Company and take all reasonable measures to schedule meetings in such a way that all Directors can attend the general meetings.

The Board will continuously review and improve the corporate governance practices and standards of the Company to ensure that business activities and decision-making processes are regulated in a proper and prudent manner.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuer (the "**Model Code**") as set out in Appendix 10 to the Listing Rules for securities transactions.

Having made specific enquiry of all Directors, the Company reported that the Directors confirmed that they have complied with the required standards set out in the Model Code during the year ended 31 December 2017. The Model Code also applies to other specified senior management of the Group.

BOARD OF DIRECTORS

As at the date of this report, the Board comprises:

Executive Directors:	Ms. Cheng Hung Mui Mr. Tin Kong *(Chairman)* Mr. Zhou Jin Mr. Chen Dekun Mr. Tao Fei Hu Mr. Sheng Siguang
Independent Non-executive Directors:	Mr. Wang Jinlin Mr. Ng Ka Wing Mr. See Tak Wah

The Board comprises of six executive Directors and three independent non-executive Directors. One of the independent non-executive Directors possesses appropriate professional accounting qualifications and financial management expertise. Biographical details of the directors are set out in the section of "Biographical Details of Directors and Senior Management" on pages 13 to 16 of this Annual Report.

The relationships among the members of the Board are disclosed under "Biographical Details of Directors and Senior Management" on pages 13 to 16. Save as disclosed under "Biographical Details of Directors and Senior Management", the Board members have no financial, business, family or other material/relevant relationships with each other. The formation of the Board has met Rule 3.10A of the Listing Rules for the Board to have at least one-third in number of its members comprising independent non-executive Directors.

The main focus of the Board is on the formulation of overall strategies and policies of the Group. The Board also monitors the financial performance and the internal controls of the Group's business operations.

The independent non-executive Directors are from professional background with a broad range of expertise and experience in the fields of accounting, finance, legal and business. Their skills and expertise ensure strong independent views and judgment in the Board. They also serve important function of ensuring and monitoring the basis for an effective corporate governance framework. The Board considers that each independent non-executive Director is independent in character and judgment and that they all meet the independence criteria as set out under Rule 3.13 of the Listing Rules.

All directors are regularly updated on governance and regulatory matters. There is an established procedure for directors to obtain independent professional advice at the expense of the Company in the furtherance of their duties. The Company has also arranged appropriate director and officer liability insurance cover in respect of any potential legal actions that might be taken against its directors.

Directors' Training and Professional Development Programme

The Directors have undergone satisfactory training throughout the year and provided the training record to the Company. During the year ended 31 December 2017, the training records of the Directors are set out below:

		Corporate Governance/update on laws, rules and regulations	
Directors	*Note*	**Read Materials**	**Attend Seminars, Briefings and conferences**
Executive Directors			
Ms. Cheng Hung Mui		✓	✓
Mr. Tin Kong *(Chairman)*		✓	✓
Mr. Zhou Jin		✓	✓
Mr. Chen Dekun		✓	✓
Mr. Tao Fei Hu		✓	✓
Mr. Sheng Siguang		✓	✓
Independent Non-executive Directors			
Mr. Wang Jinlin		✓	✓
Mr. Ng Ka Wing		✓	✓
Mr. See Tak Wah	*1*	✓	✓

Note

1 Mr. See Tak Wah was appointed on 27 January 2017.

Directors' Attendance at the Board Meetings and General Meetings

The individual attendance record of each Director at the Board meetings (not including other ad hoc meetings of the Board held from time to time), certain committee meetings and general meetings during the year ended 31 December 2017 is set out below:

	Attendance/Number of Meetings					
Name of Directors	**Audit Committee Meetings**	**Nomination Committee Meetings**	**Remuneration Committee Meetings**	**Internal Control Committee Meeting**	**Board Meetings**	**General Meetings**
Executive Directors						
Cheng Hung Mui	N/A	N/A	N/A	N/A	1/10	0/4
Tin Kong	N/A	2/2	2/2	1/1	7/10	4/4
Zhou Jin	N/A	N/A	N/A	N/A	0/10	0/4
Chen Dekun	N/A	N/A	N/A	N/A	9/10	4/4
Tao Fei Hu	N/A	N/A	N/A	N/A	0/10	0/4
Sheng Siguang	N/A	N/A	N/A	N/A	8/10	4/4
Independent Non-executive Directors						
Wang Jinlin	2/2	2/2	2/2	1/1	9/10	0/4
Ng Ka Wing	2/2	2/2	2/2	1/1	4/10	3/4
See Tak Wah (appointed on 27 January 2017)	2/2	1/1	1/1	1/1	6/8	2/4

DIRECTORS' AND OFFICERS' INSURANCE

The Company has arranged appropriate insurance cover in respect of potential legal actions against its Directors and Officers.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The positions of the chairman and the chief executive officer of the Company are currently held by separate individuals for the purpose of ensuring an effective segregation of duties and a balance of power and authority, and they are Mr. Tin Kong and Mr. Sheng Siguang respectively.

The roles of Chairman are to provide leadership to the Board and responsible for the effective functioning and ensuring that directors receive adequate, reliable and complete information in timely manner. The Chairman assumes the primary responsibility for ensuring that good corporate governance practices and procedures are established.

The Chief Executive Officer is responsible for administering and managing the Group's business and internal controls, including the implementation of major strategies and initiatives decreed and delegated by the Board.

BOARD COMMITTEES

As at the date of this Annual Report, the Board has established four committees, namely, the audit committee (the "**Audit Committee**"), the nomination committee (the "**Nomination Committee**"), the remuneration committee (the "**Remuneration Committee**") and the internal control committee (the "**Internal Control Committee**"), for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the Company's website and the Stock Exchange's website and are available to shareholders upon request.

Each Board committee consists of a majority of independent non-executive Directors ("**INED**"). The list of the chairman and members of each Board committee as at the date of this Annual Report is set out below:

Audit Committee

Mr. See Tak Wah *(Chairman) (INED)*
Mr. Wang Jinlin *(INED)*
Mr. Ng Ka Wing *(INED)*

Remuneration Committee

Mr. Ng Ka Wing *(Chairman) (INED)*
Mr. Tin Kong *(executive Director)*
Mr. Wang Jinlin *(INED)*
Mr. See Tak Wah *(INED)*

Nomination Committee

Mr. Tin Kong *(Chairman) (executive Director)*
Mr. Wang Jinlin *(INED)*
Mr. Ng Ka Wing *(INED)*
Mr. See Tak Wah *(INED)*

Internal Control Committee

Mr. Tin Kong *(Chairman) (executive Director)*
Mr. Wang Jinlin *(INED)*
Mr. Ng Ka Wing *(INED)*
Mr. See Tak Wah *(INED)*

The Board committees are provided with sufficient resources to perform their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

Pursuant to Rule 3.10 of the Listing Rules, every listed issuer is required to have at least three INED, at least one of whom must have appropriate professional qualifications, or accounting or related financial management expertise. Besides, according to Rule 3.21 of the Listing Rules, every listed issuer must establish an audit committee comprising non-executive directors only. The audit committee must comprise a minimum of three members, at least one of whom is an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2). As a result of the resignation of Mr. Chen Weixi with effect from 1 November 2016, the numbers of INED and the members of the Audit Committee fell below the minimum number as required under Rules 3.10(1) and 3.21 of the Listing Rules respectively, until Mr. See Tak Wah was appointed with effect from 27 January 2017. The resignation of Mr. Chen Weixi constitutes non-compliance of Rule 3.10(1) and Rule 3.21 of the Listing Rules by the Company. Throughout the year, the Board at all times fully complied with Rule 3.10(2) of the Listing Rules that at least one of the independent non-executive Directors has professional qualifications, or accounting or related financial management expertise.

AUDIT COMMITTEE

The majority of the audit committee members must be independent non-executive directors of the listed issuer. The audit committee must be chaired by an independent non-executive director. The Audit Committee currently comprises three independent non-executive Directors. Written terms of reference, which describe the authority and duties of the Audit Committee, have been adopted and posted on the websites of the Company and the Stock Exchange, and are regularly reviewed and updated by the Board.

As at the reporting date, the Audit Committee comprised three members, all the independent non-executive Directors namely, Mr. Wang Jinlin, Mr. Ng Ka Wing and Mr. See Tak Wah as members. The chairman of audit committee is Mr. See Tak Wah who possesses the appropriate professional qualifications or accounting or related financial management expertise. None of the members of the audit committee is a former partner of the Company's existing external auditor. The audit committee has separate and independent access to the advice and services of the senior management of the Company, and is able to seek independent professional advice at the Company's expense upon reasonable request.

The main duties of the Audit Committee include the following:

(a) To review the consolidated financial statements and reports and consider any significant or unusual items raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer or external auditors before submission to the Board.

(b) To review the relationship with the external auditors with reference to the work performed by the external auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditors.

(c) To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

During the year, the Audit Committee has, inter alia, reviewed the accounting standards and practices adopted by the Group and discussed with the management about the internal control and financial reporting matters, including reviewing the annual financial information for the year ended 31 December 2016 and the interim financial information for the six months ended 30 June 2017.

The Group's consolidated financial statements for the year ended 31 December 2017 have been reviewed by the Audit Committee, who is of opinion that such statements comply with applicable accounting standards and legal requirements, and that adequate disclosures have been made.

NOMINATION COMMITTEE

According to the code provision A.5.1 of the CG Code, issuers should establish a nomination committee which is chaired by the chairman of the board or an independent non-executive director and comprises a majority of independent non-executive directors.

The Company has set up a Nomination Committee with its written terms of reference in compliance with the CG Code as set out in Appendix 14 of the Listing Rules to ensure fair and transparent procedures for appointment, re-election and removal of Directors to the Board. The Nomination Committee currently comprises three independent non-executive Directors and one executive Director, and was chaired by an executive Director who is the Chairman of the Board.

The principal responsibilities of the Nomination Committee include reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and make recommendations to the Board regarding any proposed changes; identifying individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of, individuals nominated for directorships; assessing the independence of independent non-executive Directors; making recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors.

The Nomination Committee has reviewed the structure, size and composition of the Board, assessed the independence of independent non-executive Directors and assessed the Board Diversity Policy.

The Nomination Committee formulated the board diversity policy of the Company (the "**Board Diversity Policy**"). The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance. In designing the Board's composition, the Nomination Committee will consider a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

The Nomination Committee will review the Board Diversity Policy, as appropriate, to ensure its effectiveness and discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

The Nomination Committee also monitors the implementation of the Board Diversity Policy and reports to the Board on the achievement of the measurable objectives for achieving diversity under the Board Diversity Policy.

REMUNERATION COMMITTEE

Remuneration Policy for Directors and Senior Management

The remuneration payable to the employees includes salaries and allowances. The Group's remuneration policies are formulated based on the performance of individual employees and are reviewed regularly. Subject to the Group's profitability, the Group may also provide a discretionary bonus to employees as an incentive for their contribution to the Group. The primary goal of the remuneration policy with regard to the remuneration packages of the executive Directors is to enable the Group to retain and motivate the executive Directors by linking their compensation with performance as measured against corporate objectives achieved. Each of the executive Directors is entitled to the remuneration packages including basic salaries and discretionary bonuses.

The primary duties of the Remuneration Committee are to make recommendations to the Board on the Company's policy and structure for all Directors' and senior management remuneration, make recommendations to the Board on the remuneration of non-executive Directors and determine the remuneration packages of individual executive Directors and senior management.

The Company believes that by offering the eligible persons a shareholding stake in the Company, the interests of the eligible persons and the Company will align and thereby provide the eligible persons with additional incentives to improve the Company's performance.

According to the Rule 3.25 of the Listing Rules, an issuer must establish a remuneration committee chaired by an independent non-executive director and comprising a majority of independent non- executive directors, and according to the Rule 3.26 of the Listing Rules, the board of directors must approve and provide written terms of reference for the remuneration committee which clearly establish its authority and duties.

The Company has set up a Remuneration Committee with written terms of reference in compliance with the CG Code as set out in Appendix 14 of the Listing Rules to ensure that there are formal and transparent procedures for setting policies on the remuneration of Directors and senior management. The Remuneration Committee currently comprises three independent non-executive Directors and one executive Director, and was chaired by an independent non-executive Director.

The Remuneration Committee has reviewed the remuneration of the Directors and senior management.

Pursuant to Code Provision B.1.5 of the CG Code, the remuneration of the members of the senior management by band for the year ended 31 December 2017 is set out in note 13 to the consolidated financial statements.

COMPANY SECRETARY

Mr. Chan Wei, the company secretary of the Company, is a full-time employee of the Company. He supports the Board by ensuring information flow within the Board and that the Board policy and procedures are followed. The company secretary is responsible for advising the Board on the corporate governance matters and professional development of the Directors.

According to the requirements of Rule 3.29 of the Listing Rules, the company secretary has taken no less than 15 hours of relevant professional training during the financial year ended 31 December 2017.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board has overall responsibility for the systems of internal control and risk management of the Company and for reviewing their effectiveness on a regular basis, covering financial, operational, compliance controls and risk management functions.

The Board is committed to design and implement effective and sound risk management and internal control systems to safeguard the interests of Shareholders and the Group's assets. The systems are implemented to manage and minimize, rather than eliminate, the risk of failure in operation systems, and to provide reasonable assurance against material misstatement or loss. The Board has delegated to executive management the implementation of the systems of risk management and internal controls and reviewing of all relevant financial, operational, compliance controls and risk management function within an established framework. Our risk management and internal control systems are renewed at least on an annual basis.

For the year ended 31 December 2017, Netis Advisory Limited, an external consultant, has been appointed to assist the Internal Control Committee to review the risk management and internal control systems of the Group. For risk assessment, the management and functional responsible persons are required to evaluate the likelihood and impact of each identified risk item in a risk register. Once significant risks are identified, mitigating measures are required to put in place immediately in order to manage such risks. For internal control review, once areas of improvement have been identified, appropriate measures and follow-up actions are required to be put in place in order to enhance the internal control system.

The Company has put in place the policies and procedures for the handling and dissemination of inside information. The Company regularly reminds the Directors and employees for the due compliance with all policies regarding the inside information and also keeps them for the latest regulatory updates. Before the information is fully disclosed to the public, the Group ensures the information is kept strictly confidential. If the Group believes that the necessary degree of confidentiality cannot be maintained or that confidentiality may have been breached, the Group would immediately disclose the information to the public.

Besides, the Company has set up the risk management team on January 2017 to specifically assess and evaluate the internal control and risk management systems for its subsidiaries in the PRC. The risk management team carried out an internal audit function, which is independent of the Group's daily operation. The Board considered that the Company's internal control and risk management systems are adequate and effective.

DIRECTORS' RESPONSIBILITY STATEMENT

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The Directors acknowledge their responsibility for preparing the consolidated financial statements of the Company for the year ended 31 December 2017.

AUDITOR'S RESPONSIBILITY STATEMENT

The auditor's responsibilities on the consolidated financial statements of the Group is set out in the Independent Auditor's Report on pages 40 to 43 to this Annual Report.

AUDITOR'S REMUNERATION

For the year ended 31 December 2017, the total remuneration of the Group's auditor for statutory audit services was approximately HK$1,810,000. The Group also provided or paid to the Group's auditor of approximately HK$818,000 for non-auditing services. Non-auditing services comprised the review of results announcements and unaudited interim financial statements of the Group, issuance of review report in relation to continuing connected transactions, and services in regard of a very substantial disposal and a major transaction.

SHAREHOLDER RIGHTS

Procedures for Shareholders to convene a Special General Meeting ("SGM")

Pursuant to the Company's bye-laws and the Companies Act 1981 of Bermuda ("**Companies Act**"), registered Shareholders holding not less than one-tenth (10%) of the paid-up capital of the Company carrying the right of voting at general meetings of the Company ("**SGM Requisitionists**") can deposit a written request to convene a SGM at the registered office of the Company ("**Registered Office**"), which is presently situated at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The SGM Requisitionists must state in their request(s) the purposes of the SGM and such request(s) must be signed by all the SGM Requisitionists and may consist of several documents in like form, each signed by one or more of the SGM Requisitionists.

The Share Registrars will verify the SGM Requisitionists' particulars in the SGM Requisitionists' request. Promptly after confirmation from the Share Registrars that the SGM Requisitionists' request is in order, the Company Secretary will arrange with the Board to convene a SGM by serving sufficient notice to all the registered Shareholders in accordance with all the relevant statutory and regulatory requirements. On the contrary, if the SGM Requisitionists' request is verified not in order, the SGM Requisitionists will be advised of the outcome and accordingly, a SGM will not be convened as requested.

The SGM Requisitionists, or any of them representing more than one half of the total voting rights of all of them, may themselves convene a SGM if within twenty-one (21) days of the deposit of the SGM Requisitionists' request, the Board does not proceed duly to convene a SGM provided that any SGM so convened is held within three (3) months from the date of the original SGM Requisitionists' request. A SGM so convened by the SGM Requisitionists shall be convened in the same manner, as nearly as possible, as that in which meetings are to be convened by the Company.

Procedures for Shareholders to put forward proposals at a general meeting

Pursuant to the Companies Act, either any number of the registered Shareholders holding not less than one-twentieth (5%) of the paid-up capital of the Company carrying the right of voting at general meetings of the Company ("**Requisitionists**"), or not less than 100 of such registered Shareholders, can request the Company in writing to (a) give to Shareholders entitled to receive notice of the next general meeting notice of any resolution which may properly be moved and is intended to be moved at that meeting; and (b) circulate to Shareholders entitled to have notice of any general meeting any statement of not more than 1,000 words with respect to the matter referred to in any proposed resolution or the business to be dealt with at that meeting. The requisition signed by all the Requisitionists may consist of several documents in like form, each signed by one or more of the Requisitionists; and it must be deposited at the Registered Office with a sum reasonably sufficient to meet the Company's relevant expenses, not less than six (6) weeks before the meeting in case of a requisition requiring notice of a resolution or not less than one (1) week before the meeting in the case of any other requisition. Provided that if an AGM is called for a date six (6) weeks or less after the requisition has been deposited, the requisition though not deposited within the time required shall be deemed to have been properly deposited for the purposes thereof.

Procedures for directing Shareholders' enquiries to the Board

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:

The Company Secretary
Mr. Chan Wei
Room 1007, Tsim Sha Tsui Centre, West Wing,
66 Mody Road, Tsim Sha Tsui,
Kowloon, Hong Kong
Fax: (852) 3520 3181
Email: info@tessonholdings.com

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

Constitutional Documents

The Bye-laws of the Company has been amended at the 2017 annual general meeting held on 28 June 2017 so as to bring the Bye-laws in line with current practices and procedures that have been adopted by the Company pursuant to relevant requirements of the Listing Rules, to remove certain provisions that are no longer applicable to the Company and to incorporate certain house-keeping amendments. The amendments were disclosed in Appendix III of the Company's circular dated 29 May 2017.

INVESTOR RELATIONS

The Company is committed to enhancing communications and relationships with its investors. Designated senior management maintains an open dialogue with institutional investors and analysts to keep them abreast of the Company's developments.

The Company also maintains a website at www.tessonholdings.com, where updates on the Company's business developments and operations, financial information and news can always be found.

CODE OF CONDUCT

The Company is committed to high standard of business ethics and integrity. A code of conduct is enforced on all employees of the Group. The employees at all levels are expected to act in an honest, diligent and responsible manner. No personal gifts or other forms of advantages from any person or organisation doing business with the Group can be accepted by any employee. Business partners and customers are reminded from time to time that its policy forbids any employee or agent of the Group from accepting any gift from them.

ZHONGHUI

TO THE SHAREHOLDERS OF
TESSON HOLDINGS LIMITED
天臣控股有限公司
(Incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Tesson Holdings Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 44 to 118, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, 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 (the "**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

(i) Property, plant and equipment

Refer to Note 16 to the consolidated financial statements.

The Group tested the amount of property, plant and equipment for impairment. This impairment test is significant to our audit because the balance of property, plant and equipment of HK$499,669,000 as at 31 December 2017 is material to the consolidated financial statements. In addition, the Group's impairment test involves application of judgement and is based on assumptions and estimates.

Our audit procedures included, among others:

- Assessing the reasonableness of the key assumptions;
- Checking the previous revaluation report and assess the historical valuation differences;
- Assessing the Group review procedure to support the accuracy of carrying amounts of property, plant and equipment; and
- Evaluating the Group's impairment assessment.

We consider that the Group's impairment review for property, plant and equipment, other than construction in progress, is supported by the available evidence.

(ii) Trade and other receivables, deposits and prepayments

Refer to Note 21 to the consolidated financial statements.

The Group performed recoverability review on the amounts of trade and other receivables, deposits and prepayments. The implication of recoverability review is significant to our audit because the carrying amount of trade and other receivables, deposits and prepayments of approximately HK$604,276,000 as at 31 December 2017 is material to the consolidated financial statements. In addition, the Group's impairment test involves application of judgement and is based on estimates.

Our audit procedures included, among others:

- Assessing the Group's procedures on granting credit limits and credit periods to customers and debtors;
- Assessing the Group's relationship and transaction history with the customers and debtors;
- Evaluating the Group's recoverability assessment;
- Assessing aging of the debts;

– Checking subsequent settlements and usage of the receivable balance; and

– Assessing the disclosure of the Group's exposure to credit risk in the consolidated financial statements.

We consider that the Group's recoverability review on trade and other receivables, deposits and prepayments is supported by the available evidence.

OTHER INFORMATION

The directors of the Company (the "**Directors**") are responsible for the other information. The other information comprises all the information in the Company's annual report, but does not include the consolidated financial statements and our auditor's report thereon. The other information is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will 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 identified above when it becomes available 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.

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

This description forms part of our auditor's report.

ZHONGHUI ANDA CPA Limited
Certified Public Accountants
Pang Hon Chung
Audit Engagement Director
Practising Certificate Number P05988
Hong Kong, 27 March 2018

	Notes	2017 HK$'000	2016 HK$'000 (Restated)
Continuing operations			
Revenue	7	**390,762**	18,038
Cost of sales		**(294,842)**	(22,836)
Gross profit/(loss)		**95,920**	(4,798)
Other income	8	**12,136**	20,071
Distribution and selling expenses		**(10,062)**	(1,364)
Administrative expenses		**(79,646)**	(41,496)
Profit/(loss) from operations		**18,348**	(27,587)
Finance costs	10	**(22,623)**	(15,341)
Loss before tax		**(4,275)**	(42,928)
Income tax	11	**–**	–
Loss for the year from continuing operations		**(4,275)**	(42,928)
Discontinued operations			
Profit for the year from discontinued operations	33	**51,570**	82,356
Profit for the year	12	**47,295**	39,428
Other comprehensive income/(loss):			
Items that may be reclassified to profit or loss:			
Exchange differences on translating foreign operations		**94,589**	(66,646)
Foreign currency translation reserve reclassified to profit or loss upon disposal of subsidiaries		**–**	(4,951)
		141,884	(32,169)
Items that will not be reclassified to profit or loss:			
Deficit arising on revaluation of property, plant and equipment		**–**	(6,936)
Deferred tax effect arising on revaluation of property, plant and equipment		**–**	280
Total comprehensive income/(loss) for the year		**141,884**	(38,825)

	Notes	2017 HK$'000	2016 HK$'000 (Restated)
Profit for the year attributable to:			
Owners of the Company			
Loss from continuing operations		**(7,447)**	(33,772)
Profit from discontinued operations		**26,543**	39,793
Profit attributable to owners of the Company		**19,096**	6,021
Non-controlling interests			
Profit/(loss) from continuing operations		**3,172**	(5,676)
Profit from discontinued operations		**25,027**	39,083
Profit attributable to non-controlling interests		**28,199**	33,407
		47,295	39,428
Total comprehensive income/(loss) for the year attributable to:			
Owners of the Company		**76,973**	(43,367)
Non-controlling interests		**64,911**	4,542
		141,884	(38,825)
Earnings per share	*15*		
Basic and diluted (HKcents per share)			
From continuing operations		**(0.72)**	(4.58)
From discontinued operations		**2.56**	5.40
From continuing and discontinued operations		**1.84**	0.82

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2017

	Notes	2017 HK$'000	2016 HK$'000
Non-current assets			
Property, plant and equipment	16	**499,669**	768,759
Prepaid land lease payments	17	**30,550**	72,942
Deposits paid for acquisition of property, plant and equipment		**6,260**	121,080
Intangible assets	18	**15,082**	15,916
Available-for-sale financial assets	19	**–**	16,755
		551,561	995,452
Current assets			
Inventories	20	**61,088**	229,459
Trade and other receivables, deposits and prepayments	21	**604,276**	574,508
Prepaid land lease payments	17	**782**	1,665
Held-for-trading investments		**230**	393
Pledged bank deposits	22	**34,294**	77,249
Bank and cash balances	22	**41,014**	132,777
		741,684	1,016,051
Assets held for sale	23	**1,336,087**	–
		2,077,771	1,016,051
Current liabilities			
Trade and other payables	24	**384,012**	426,441
Tax payables		**–**	12,303
Dividend payable to non-controlling shareholders		**–**	3
Borrowings	25	**20,421**	87,128
Amount due to a related company	26	**4,334**	38,515
Amount due to the controlling shareholder	26	**11,751**	27,955
		420,518	592,345
Liabilities directly associated with assets held for sale	23	**392,415**	–
		812,933	592,345
Net current assets		**1,264,838**	423,706
Total assets less current liabilities		**1,816,399**	1,419,158

	Notes	2017 HK$'000	2016 HK$'000
Non-current liabilities			
Amount due to a related company	26	**17,702**	378,117
Amount due to the controlling shareholder	26	**74,456**	–
Borrowings	25	**120,124**	–
Convertible bonds	27	**216,506**	–
Deferred tax liabilities	28	**3,798**	36,940
		432,586	415,057
NET ASSETS		**1,383,813**	1,004,101
Capital and reserves			
Share capital	29	**103,632**	103,632
Reserves	30(a)	**631,025**	468,614
Equity attributable to owners of the Company		**734,657**	572,246
Non-controlling interests		**649,156**	431,855
TOTAL EQUITY		**1,383,813**	1,004,101

The consolidated financial statements on pages 44 to 118 were approved and authorised for issue by the board of directors on 27 March 2018 and are signed on its behalf by:

Tin Kong
Director

Sheng Siguang
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

	Attributable to owners of the Company														
	Share capital *HK$'000*	Capital redemption reserve *HK$'000*	Share premium *HK$'000*	Asset revaluation reserve *HK$'000*	Convertible bond equity reserve *HK$'000*	Enterprise expansion fund *HK$'000*	Reserve fund *HK$'000*	Other reserve *HK$'000*	Capital reserve *HK$'000*	Share-based payment reserve *HK$'000*	Foreign currency translation reserve *HK$'000*	(Accumulated losses)/ retained profits *HK$'000*	Total *HK$'000*	Non-controlling interests *HK$'000*	Total *HK$'000*
At 1 January 2016	59,218	624	291,344	39,282	–	78,817	30,012	79,143	(200)	–	91,618	(408,010)	261,848	383,204	645,052
Total comprehensive (loss)/ income for the year	–	–	–	(1,909)	–	–	–	–	–	–	(47,479)	6,021	(43,367)	4,542	(38,825)
Revaluation surplus released upon impairment/disposal of property, plant and equipment	–	–	–	(8,437)	–	–	–	–	–	–	–	8,437	–	–	–
Dividends distributed to non-controlling interest of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	–	–	(16,603)	(16,603)
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	–	–	89	89
Disposal of subsidiaries	–	–	–	(1,587)	–	–	(1,559)	(2,726)	–	–	–	5,872	–	2,970	2,970
Capital injection from non-controlling interest	–	–	–	–	–	–	–	–	–	–	–	–	–	57,653	57,653
Transfer to enterprise expansion fund	–	–	–	–	–	17,860	–	–	–	–	–	(17,860)	–	–	–
Issue of share under open offer	44,414	–	308,505	–	–	–	–	–	–	–	–	–	352,919	–	352,919
Equity settled share-based transactions	–	–	–	–	–	–	–	–	–	846	–	–	846	–	846
At 31 December 2016	103,632	624	599,849	27,349	–	96,677	28,453	76,417	(200)	846	44,139	(405,540)	572,246	431,855	1,004,101
At 1 January 2017	103,632	624	599,849	27,349	–	96,677	28,453	76,417	(200)	846	44,139	(405,540)	572,246	431,855	1,004,101
Total comprehensive income for the year	–	–	–	–	–	–	–	–	–	–	57,877	19,096	76,973	64,911	141,884
Revaluation surplus released upon disposal of property, plant and equipment	–	–	–	(11,651)	–	–	–	–	–	–	–	11,651	–	–	–
Dividends distributed to non-controlling interest of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	–	–	(21,789)	(21,789)
Capital injection from non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	–	174,179	174,179
Issue of convertible bonds	–	–	–	–	79,916	–	–	–	–	–	–	–	79,916	–	79,916
Transfer to enterprise expansion fund	–	–	–	–	–	17,454	–	–	–	–	–	(17,454)	–	–	–
Equity settled share-based transactions	–	–	–	–	–	–	–	–	–	5,522	–	–	5,522	–	5,522
Lapse of share options	–	–	–	–	–	–	–	–	–	(135)	–	135	–	–	–
	103,632	624	599,849	15,698	79,916	114,131	28,453	76,417	(200)	6,233	102,016	(392,112)	734,657	649,156	1,383,813

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

	2017 *HK$'000*	2016 *HK$'000*
Cash flows from operating activities		
Profit before tax from continued operation	**(4,275)**	(42,928)
Profit before tax from discontinued operation	**64,900**	114,721
	60,625	71,793
Adjustments for:		
Finance costs	**29,592**	16,571
Interest income	**(905)**	(837)
Depreciation	**86,231**	54,024
Amortisation of prepaid land lease payments	**1,798**	2,387
Amortisation of intangible assets	**1,952**	1,819
Gain on settlement of amount due to the controlling shareholder	**(4,823)**	–
Impairment loss on property, plant and equipment on disposal of subsidiaries	**–**	12,495
Gain on bargain purchase	**–**	(17,489)
Reversal of impairment on trade receivables	**(2,534)**	(5,342)
Gain on disposal of subsidiaries	**–**	(3,480)
Fair value changes on held-for-trading investments	**28**	15
Gain on sales of held-for-trading investments	**(136)**	–
Equity settled share-based payment expenses	**5,522**	846
Loss on disposal of property, plant and equipment	**20,341**	4,996
Operating cash flows before working capital changes	**197,691**	137,798
Change in inventories	**8,296**	(75,242)
Change in trade and other receivables, deposits and prepayments	**(382,935)**	(188,246)
Change in trade and other payables	**(18,860)**	152,299
Cash (used in)/generated from operations	**(195,808)**	26,609
Interest received	**905**	837
Tax paid	**(11,690)**	(27,025)
Net cash (used in)/generated from operating activities	**(206,593)**	421

	2017	2016
	HK$'000	*HK$'000*
Cash flows from investing activities		
Acquisition of subsidiaries	**–**	(22,886)
Disposal of subsidiaries	**–**	(64)
Purchase of property, plant and equipment	**(102,599)**	(228,328)
Proceeds from disposal of property, plant and equipment	**1,682**	3,345
Proceeds from sales of held-for-sale investment	**271**	–
Deposits paid for acquisition of property, plant and equipment	**(21,610)**	(105,151)
Changes in pledged bank deposits	**42,955**	(77,249)
Net cash used in investing activities	**(79,301)**	(430,333)
Cash flows from financing activities		
New short-term bank loans raised	**200,102**	176,491
Proceeds from finance lease	**42,043**	–
Proceeds from other borrowings	**120,124**	–
Repayment to the controlling shareholder	**–**	(2,050)
Repayment of bank loans	**(180,683)**	(172,559)
Repayment of finance lease	**(31,472)**	–
Interest paid	**(24,492)**	(5,240)
Capital injection from non-controlling interest	**174,179**	57,653
Dividends distributed to non-controlling interest of subsidiaries	**(21,789)**	(16,603)
Transaction costs paid on issuance of convertible bonds	**(917)**	–
Proceeds from issue of shares	**–**	352,919
Repayment to a related company	**–**	(20,000)
Net cash generated from financing activities	**277,095**	370,611
Net decrease in cash and cash equivalents	**(8,799)**	(59,301)
Cash and cash equivalents at end of year	**132,777**	204,359
Effect of changes in foreign exchange rate	**91**	(12,281)
Cash and cash equivalents at end of year	**124,069**	132,777
Analysis of cash and cash equivalents		
Bank and cash balances	**124,069**	132,777
Representing		
Continuing operations	**41,014**	64,583
Discountinued operations	**83,055**	68,194
	124,069	132,777

1. GENERAL INFORMATION

The Company was incorporated in Bermuda as an exempted company with limited liability. In the opinion of the directors of the Company (the "**Directors**"), the Company's controlling shareholder is Double Key International Limited (the "**Controlling Shareholder**"), a company incorporated in British Virgin Islands with limited liability. The address of its registered office and principal place of business are Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and Room 1007, Tsim Sha Tsui Centre, West Wing, 66 Mody Road, Tsim Sha Tsui, Kowloon, Hong Kong respectively. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

The Company is an investment holding company. During the year, the Group were principally engaged in printing and manufacturing of packaging products (the "**Packaging Printing Business**") and the manufacturing and sale of lithium ion motive battery, lithium ion battery module, battery charging devices, battery materials machines and production lines, new energy solution and sale of relevant equipment, investments holding and import and export trading (the "**Lithium Ion Motive Battery Business**").

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

(a) Adoption of new/revised HKFRSs – effective 1 January 2017

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on 1 January 2017:

– Amendments to HKAS 7 – Disclosure Initiative;

– Amendments to HKAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses; and

– Annual Improvements to HKFRSs 2014-2016 Cycle – Amendments to HKFRS 12, Disclosure of Interests in Other Entities.

The adoption of these amendments did not have significant impact to the results and financial position of the Group.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

(b) New/revised HKFRSs that have been issued but not yet effective

The following new and amendments to HKFRSs have been issued but are not effective for the financial year beginning on 1 January 2017, and have not been early adopted by the Group.

		Effective for annual periods beginning on or after
HKAS 28	Measuring an associate or joint venture at fair value	1 January 2018
HKAS 28 (Amendments)	Long-term interests in associates and joint ventures	1 January 2019
HKAS 40 (Amendments)	Transfers of investment property	1 January 2018
HKFRS 1	Deletion of short-term exemptions for first-time adopters	1 January 2018
HKFRS 2 (Amendments)	Classification and measurement of share-based payment transactions	1 January 2018
HKFRS 4 (Amendments)	Applying HKFRS 9 financial instruments with HKFRS 4 insurance contracts	1 January 2018
HKFRS 9	Financial instruments	1 January 2018
HKFRS 9 (Amendments)	Prepayment features with negative compensation	1 January 2019
HKFRS 10 and HKAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture	To be determined
HKFRS 15	Revenue from contracts with customers	1 January 2018
HKFRS 15 (Amendments)	Clarifications to HKFRS 15	1 January 2018
HKFRS 16	Leases	1 January 2019
HKFRS 17	Insurance contracts	1 January 2021
HK (IFRIC) -Int 22	Foreign currency transactions and advance consideration	1 January 2018
HK (IFRIC) -Int 23	Uncertainty over income tax treatments	1 January 2019
HKFRS 3	Previously held interest in a joint operation	1 January 2019
HKAS 12	Income tax consequences of payment on financial instrument classified as equity	1 January 2019
HKAS 23	Borrowing costs eligible for capitalisation	1 January 2019

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a 5-step approach: (1) identify the contract(s) with customer; (2) identify separate performance obligations in a contract; (3) determine the transaction price; (4) allocate transaction price to performance obligations; and (5) recognise revenue when performance obligation is satisfied. The core principle is that a company should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. It moves away from a revenue recognition model based on an "earnings processes" to an "asset-liability" approach based on transfer of control. HKFRS 15 is effective for an entity's first annual financial statements under HKFRS for a period beginning on or after 1 January 2018, with earlier application permitted. The Group does not plan to early adopt HKFRS 15. The management has assessed the impact on the financial performance and position of the Group resulted from the effectiveness of HKFRS 15 for periods beginning on or after 1 January 2018, and expect it will not have a significant impact.

HKFRS 16 Leases

HKFRS 16 addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from HKFRS 16 is that most operating leases will be accounted for on financial statements position for lessees. The standard replaces HKAS 17 Leases, and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted subject to the reporting entity adopting HKFRS 15 Revenue from contracts with customers at the same time.

The Group is a lessee of various premise, these leases are currently classified as operating leases. HKFRS 16 provides new provisions for the accounting treatment of leases for operating lessees and generally no longer allow them to recognise leases outside of their statements of financial position. Instead almost all leases must be recognised in the form of an asset (for the right-of-use) and a lease liability (for the payment obligation). The new standard will therefore result in an increase in assets and liabilities in the statement of financial position. In the statement of comprehensive income, depreciation on the right-of-use asset and interest expense on the lease liability will be recognised instead of an operating lease expense. The Group does not plan to early adopt HKFRS 16. Based on the Group's undiscounted operating lease commitment of HK$41,747,000 as at 31 December 2017, the amount may therefore need to be recognised as lease liabilities, with corresponding right-of-use, once HKFRS 16 is adopted.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

HKFRS 9 Financial instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets. Debt instruments that are held within a business model whose objective is to hold assets in order to collect contractual cash flows (the business model test) and that have contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (the contractual cash flow characteristics test) are generally measured at amortised cost. Debt instruments that meet the contractual cash flow characteristics test are measured at fair value through other comprehensive income ("**FVTOCI**") if the objective of the entity's business model is both to hold and collect the contractual cash flows and to sell the financial assets. Entities may make an irrevocable election at initial recognition to measure equity instruments that are not held for trading at FVTOCI. All other debt and equity instruments are measured at fair value through profit or loss ("**FVTPL**").

HKFRS 9 includes a new expected loss impairment model for all financial assets not measured at FVTPL replacing the incurred loss model in HKAS 39 and new general hedge accounting requirements to allow entities to better reflect their risk management activities in financial statements.

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at FVTPL, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at FVTPL and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

Measurement of impairment loss on accounts receivable based on an expected credit losses model requires the use of historical data as well as forward looking information and may have an impact to the Group's consolidated financial statements. It is not practicable to provide a reasonable estimate of the effect until the Group performs a detailed review. Adoption of HKFRS 9 currently does not have a material impact on the consolidated financial statements of the Group. The Group does not plan to early adopt HKFRS 9.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

Amendments to HKFRS 10 and HKAS 28 Sale or contribution of assets between an investor and its associate or joint venture

The amendments address an inconsistency between HKFRS 10 and HKAS 28 in the sale and contribution of assets between an investor and its associate or joint venture. A full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary. The amendments were originally intended to be effective for annual periods beginning on or after 1 January 2016. The effective date has now been deferred. Early application of the amendments continues to be permitted. The adoption of these amendments is not expected to have a material impact on the consolidated financial statements of the Group and the Group does not plan to early adopt this amendment.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These consolidated financial statements have been prepared in accordance with HKFRSs, Hong Kong Accounting Standards and Interpretations (hereinafter collectively referred to as the "**HKFRSs**"), and the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

These consolidated financial statements have been prepared under the historical cost convention, except for property, plant and equipment and certain financial instruments, which are measured at revalued amounts or fair values, as explained in the accounting policies set out below. These consolidated financial statements are presented in Hong Kong dollars ("**HK$**") and all values are rounded to the nearest thousand except when otherwise indicated.

The preparation of consolidated financial statements in conformity with HKFRSs requires the use of key assumptions and estimates. It also requires management to exercise its judgments in the process of applying the accounting policies. The areas involving critical judgments and areas where assumptions and estimates are significant to these consolidated financial statements are disclosed in Note 4 to the consolidated financial statements.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Consolidation

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Consolidation (Continued)

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

Business combination and goodwill

The acquisition method is used to account for the acquisition of a subsidiary in a business combination. The cost of acquisition is measured at the acquisition-date fair value of the assets given, equity instruments issued, liabilities incurred and contingent consideration. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received. Identifiable assets and liabilities of the subsidiary in the acquisition are measured at their acquisition-date fair values.

The excess of the cost of acquisition over the Company's share of the net fair value of the subsidiary's identifiable assets and liabilities is recorded as goodwill. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss as a gain on bargain purchase which is attributed to the Company.

Goodwill is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is measured at cost less accumulated impairment losses. The method of measuring impairment losses of goodwill is the same as that of other assets as stated in the accounting policy below. Impairment losses of goodwill are recognised in consolidated profit or loss and are not subsequently reversed. Goodwill is allocated to cash-generating units that are expected to benefit from the synergies of the acquisition for the purpose of impairment testing.

The non-controlling interests in the subsidiary are initially measured at the non-controlling shareholders' proportionate share of the net fair value of the subsidiary's identifiable assets and liabilities at the acquisition date.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currency translation

(a) Functional and presentation currency

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

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

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

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

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

(c) Translation on consolidation

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

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

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

– All resulting exchange differences are recognised in the foreign currency translation reserve.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currency translation (Continued)

(c) Translation on consolidation (Continued)

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

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Assets held for sale and discontinued operations

Assets or disposal group are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the assets or disposal group are available for immediate sale in their present condition. The Group must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Assets or disposal group classified as held for sale are measured at the lower of the assets' or disposal group's previous carrying amount and fair value less costs to sell.

A discontinued operation is a component of the Group, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale in accordance with HKFRS 5. if earlier. It also occurs when the operation is abandoned.

When an operation is classified as discontinued, a single amount is presented in the statement of profit or loss and other comprehensive income, which comprises:

– The post-tax profit or loss of the discontinued operation; and

– The post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group constituting the discontinued operation.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment

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

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

Revaluation increases of property, plant and equipment are recognised in profit or loss to the extent that the increases reverse revaluation decreases of the same asset previously recognised in profit or loss. All other revaluation increases are credited to the asset revaluation reserve as other comprehensive income. Revaluation decreases that offset previous revaluation increases of the same asset remaining in the asset revaluation reserve are charged against the asset revaluation reserve as other comprehensive income. All other decreases are recognised in profit or loss. On the subsequent sale or retirement of a revalued property, plant and equipment, the attributable revaluation increases remaining in the asset revaluation reserve is transferred directly to retained profits.

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

Buildings	Over the shorter of the term of the lease or 25 years
Leasehold improvements	Over the shorter of the term of the lease or 25 years
Plant and Machinery	4%-33%
Office equipment	20%
Motor vehicles	20%

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives of 10 years.

Operating leases

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

Inventories

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

Recognition and derecognition of financial instruments

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

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

Investments are classified as either financial assets at fair value through profit or loss or available-for-sale financial assets.

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

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

(ii) Available-for-sale financial assets

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Trade and other receivables

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

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

Cash and cash equivalents

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

Financial liabilities and equity instruments

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Convertible loans

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

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

Borrowings

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

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

Trade and other payables

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

Equity instruments

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

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

(a) Revenues from the trading and sales of manufactured goods are recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers;

(b) Interest income is recognised on a time-proportion basis using the effective interest method; and

(c) Dividend income is recognised when the shareholders' rights to receive payment are established.

Employee benefits

(a) Employee leave entitlements

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

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

(b) Pension obligations

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

(c) Termination benefits

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-based payments

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

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

Equity-settled share-based payments to consultants are measured at the fair value of the services rendered or if the fair value of the services rendered cannot be reliably measured, at the fair value of the equity instruments granted. The fair value is measured at the date the Group receives the services and is recognised as an expense.

Borrowing costs

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

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

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

Government grants

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

Government grants that become receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Research and development expenses

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally generated intangible asset arising from the Group's development activities is recognised only if all of the following conditions are met:

(a) An asset is created that can be identified;

(b) It is probable that the asset created will generate future economic benefits; and

(c) The development cost of the asset can be measured reliably.

Internally generated intangible assets are stated at cost less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis over their estimated useful lives. Where no internally generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Taxation

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (Continued)

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

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

Related parties

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

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

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Company or of a parent of the Company.

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

- (i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Related parties (Continued)

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

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.

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

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

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

Segment reporting

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of assets

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions and contingent liabilities

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

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

Events after the reporting period

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

4. CRITICAL JUDGEMENTS AND KEY ESTIMATES

Critical judgements in applying accounting policies

In the process of applying the accounting policies, the Directors have made the following judgements that have the most significant effect on the amounts recognised in the consolidated financial statements.

(a) Deferred tax for withholding tax

Under the Enterprice Income Tax Law of the People's Republic of China ("**PRC**"), withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January, 2008 onwards. Deferred tax has been provided for in the consolidated financial statements in respect of the undistributed earnings of the Group's PRC subsidiaries to the extent that such earnings are estimated to be distributed in the foreseeable future. The Group is able to control the timing of the reversal of these temporary differences and it is probable that these temporary differences will not reverse in the foreseeable future.

4. CRITICAL JUDGEMENTS AND KEY ESTIMATES (CONTINUED)

Key sources of estimation uncertainty

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

(a) Property, plant and equipment and depreciation

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

(b) Impairment of property, plant and equipment

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets exceeds its recoverable amount. The recoverable amount is determined with reference to the fair value less costs of disposal and present value of estimated future cash flows. Where the fair value less costs of disposal and future cash flows are less than expected or there are unfavourable events and change in facts and circumstance which result in revision of fair value less costs of disposal and future estimate cash flows, a material impairment loss may arise.

(c) Impairment loss for bad and doubtful debts

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

4. CRITICAL JUDGEMENTS AND KEY ESTIMATES (CONTINUED)

Key sources of estimation uncertainty (Continued)

(d) Net realisable value of inventories

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

5. FINANCIAL RISK MANAGEMENT

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

(a) Foreign currency risk

The Group has minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in the functional currencies of the Group entities of HK$ and Renminbi ("**RMB**"). The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

(b) Credit risk

The Group's maximum exposure to credit risk in the event that counterparties fail to perform their obligations at the end of the reporting period in relation to each class of recognised financial assets is the carrying amounts of those assets as stated in the consolidated statement of financial position. The Group's credit risk is primarily attributable to its trade receivable, other receivables, deposits and prepayments. In order to minimise credit risk, the management review the recoverable amount of each individual receivable regularly to ensure that adequate impairment losses are recognised for irrecoverable receivable. In this regard, the management consider that the Group's credit risk is significantly reduced.

At the end of the reporting period, the Group had certain concentration of credit risk as approximately 32% (2016: 42%) and 91% (2016: 74%) of the Group's trade receivables were due from the Group's largest customer and the five largest customers, respectively.

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk

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

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

	Carrying amounts	Total contractual undiscounted cash flow				
		Total	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
31 December 2017						
Trade and other payables	**384,012**	**384,012**	**384,012**	**–**	**–**	**–**
Borrowings	**140,545**	**158,865**	**24,326**	**3,604**	**130,935**	**–**
Amount due to the Controlling Shareholder	**86,207**	**138,369**	**10,330**	**9,926**	**27,793**	**90,320**
Amount due to a related company	**22,036**	**33,902**	**3,461**	**2,360**	**6,608**	**21,473**
Convertible bonds	**216,506**	**466,562**	**9,000**	**9,000**	**27,000**	**421,562**
	849,306	**1,181,710**	**431,129**	**24,890**	**192,336**	**533,355**
31 December 2016						
Trade and other payables	426,441	426,441	426,441	–	–	–
Dividend payable to non-controlling shareholders	3	3	3	–	–	–
Short-term bank loans	87,128	88,158	88,158	–	–	–
Amount due to the Controlling Shareholder	27,955	27,955	27,955	–	–	–
Amount due to a related company	416,632	754,645	66,547	50,702	142,448	494,948
	958,159	1,297,202	609,104	50,702	142,448	494,948

(d) Interest rate risk

As the Group has no significant interest-bearing assets and liabilities, the Group's operating cash flows are substantially independent of changes in market interest rates. The Group's amounts due to a related company and the Controlling Shareholders, and borrowings bear interests at fixed interest rates.

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Fair values

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

(f) Financial instruments by category

The carrying amounts of each of the category of the Group's financial instruments at the end of the year are as follows:

	2017	2016
	HK$'000	*HK$'000*
Financial assets		
Financial assets at fair value through profit or loss, held-for-trading	**230**	393
Available-for-sale financial assets	**–**	16,755
Loans and receivables (including cash and cash equivalents)	**482,545**	721,454
Financial liabilities		
Financial liabilities at amortised cost	**849,306**	958,159

6. FAIR VALUE MEASUREMENTS

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

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

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

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

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

6. FAIR VALUE MEASUREMENTS (CONTINUED)

(a) Disclosures of level in fair value hierarchy:

	2017			
	Fair value measurements using:			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Recurring fair value measurements:				
Financial assets at fair value through profit or loss				
Listed securities in Hong Kong	**230**	**–**	**–**	**230**

	2016			
	Fair value measurements using:			
	Level 1	Level 2	Level 3	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Recurring fair value measurements:				
Financial assets at fair value through profit or loss				
Listed securities in Hong Kong	393	–	–	393
Property, plant and equipment (excluding construction in progress)	–	–	720,334	720,334
	393	–	720,334	720,727

6. FAIR VALUE MEASUREMENTS (CONTINUED)

(b) Reconciliation of property, plant and equipment measured at fair value based on level 3:

	2016
	HK'000
At 1 January	483,354
Addition	221,147
Total gains or losses recognised in other comprehensive income	(6,936)
Disposal	(14,747)
Impairment	(12,495)
Depreciation	(54,024)
Transfer	132,996
Exchange difference	(28,961)
At 31 December	720,334
Include gains or losses for assets held as at 31 December 2016	(6,936)

The total gains or losses recognised in other comprehensive income are presented in deficit arising on revaluation of property, plant and equipment in the statement of profit or loss and other comprehensive income.

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 31 December 2016:

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

6. FAIR VALUE MEASUREMENTS (CONTINUED)

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 31 December 2016: (Continued)

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

Description	Valuation technique	Unobservable inputs	Range	Effect on fair value for increase of inputs	Fair value 2016 *HK$'000*
Buildings	Direct comparison	Market value that properties can be sold	RMB3,100-7,200/m²	Increase	
	Depreciated replacement cost	Current cost of replacing the improvement	RMB1,100-2,000/m²	Increase	236,495
Plant and machinery, motor vehicles, office equipment	Direct comparison and depreciated replacement cost	Market value for similar assets	RMB439,017	Increase	483,839

7. REVENUE

The Group's revenue was derived from packaging printing products sold and lithium ion motive battery products sold during the year.

	2017 *HK$'000*	2016 *HK$'000*
Packaging printing products	**677,837**	781,023
Lithium ion motive battery products	**390,762**	18,038
	1,068,599	799,061
Representing		
Continuing operations	**390,762**	18,038
Discontinued operations *(Note 33)*	**677,837**	781,023
	1,068,599	799,061

8. OTHER INCOME

	2017	2016
	HK$'000	*HK$'000*
Net exchange gains	**299**	260
Interest income	**905**	837
Government grants	**8,497**	9,299
Dividend income	**760**	2,145
Proceeds from disposal of scrap materials	**2,156**	1,656
Gain on bargain purchase *(Note 32a)*	**–**	17,489
Gain on settlement of amount due to the Controlling Shareholder	**4,823**	–
Others	**2,367**	1,196
	19,807	32,882
Representing		
Continuing operations	**12,136**	20,071
Discontinued operations *(Note 33)*	**7,671**	12,811
	19,807	32,882

9. SEGMENT INFORMATION

The Group's reportable segments are strategic business units that offer different products. They are managed separately because each business unit requires different technology and marketing strategies. During the years ended 31 December 2017 and 2016, the Group's revenue was derived from the Packaging Printing Business, the discontinued operations, and the Lithium Ion Motive Battery Business, the continuing operations.

Segment profits or losses do not include impairment loss on property, plant and equipment on disposal of subsidiaries, gain on disposal of subsidiaries, gain on bargain purchase and unallocated corporate income and expenses. Segment assets do not include unallocated corporate assets. Segment liabilities do not include unallocated corporate liabilities.

9. SEGMENT INFORMATION (CONTINUED)

Information about profit or loss, assets and liabilities of the reportable segments:

	Discontinued operations	Continuing operations	
	Packaging Printing Business	Lithium Ion Motive Battery Business	Total
	HK$'000	*HK$'000*	*HK$'000*
Year ended 31 December 2017			
Revenue from external customers	**677,837**	**390,762**	**1,068,599**
Segment profit	**56,843**	**37,239**	**94,082**
Depreciation	**43,866**	**42,064**	**85,930**
Amortisation of prepaid land lease payments	**1,048**	**750**	**1,798**
Other material non-cash item:			
Reversal of impairment of trade receivables	**2,534**	**–**	**2,534**
Additions to segment non-current assets	**121,955**	**280,470**	**402,425**
At 31 December 2017			
Segment assets	**1,336,081**	**1,092,088**	**2,428,169**
Segment liabilities	**392,415**	**494,492**	**886,907**
Year ended 31 December 2016			
Revenue from external customers	781,023	18,038	799,061
Segment profit/(loss)	97,410	(27,611)	69,799
Depreciation	44,627	9,397	54,024
Amortisation of prepaid land lease payments	644	1,743	2,387
Other material non-cash item:			
Reversal impairment of trade receivables	5,342	–	5,342
Additions to segment non-current assets	82,083	396,046	478,129
At 31 December 2016			
Segment assets	1,235,742	721,147	1,956,889
Segment liabilities	356,198	204,666	560,864

9. SEGMENT INFORMATION (CONTINUED)

Reconciliations of revenue, profit or loss, assets and liabilities of the reportable segments:

	2017	2016
	HK$'000	*HK$'000*
Revenue		
Total revenue of reportable segments	**1,068,599**	799,061
Reclassification of discontinued operations	**(677,837)**	(781,023)
Consolidated revenue from continuing operations for the year	**390,762**	18,038
Profit or loss		
Total profit of reportable segments	**94,082**	69,799
Impairment loss on property, plant and equipment on disposal of subsidiaries	**–**	(12,495)
Gain on disposal of subsidiaries	**–**	3,480
Gain on bargain purchase	**–**	17,489
Corporate and unallocated loss	**(46,787)**	(38,845)
Reclassification of discontinued operations	**(51,570)**	(82,356)
Consolidated loss of the continuing operations for the year	**(4,275)**	(42,928)
Assets		
Total assets of reportable segments	**2,428,169**	1,956,889
Corporate and unallocated assets	**201,163**	54,614
Consolidated total assets	**2,629,332**	2,011,503
Liabilities		
Total liabilities of reportable segments	**886,907**	560,864
Corporate and unallocated liabilities	**358,612**	446,538
Consolidated total liabilities	**1,245,519**	1,007,402

9. SEGMENT INFORMATION (CONTINUED)

Geographical information

All the Group's revenue are derived from the PRC.

Information about revenue from the Group's one (2016: three) customer individually contributing over 10% of total revenue of the Group is as follows:

	2017	2016
	HK$'000	*HK$'000*
Customer A	**227,587**	275,749
Customer B	**N/A**	105,977
Customer C	**N/A**	85,987

Notes:

1. The customers belong to the Packaging Printing Business.

2. Customer B and C did not contribute more than 10% of the total revenue of the Group during the year.

In presenting the geographical information, revenue is based on the location of the customers. At the end of the year, the non-current assets of the Group excluding available-for-sale financial assets were located as follows:

	2017	2016
	HK$'000	*HK$'000*
Non-current assets		
Hong Kong	**1,722**	802
The PRC	**549,839**	977,895
	551,561	978,697

10. FINANCE COSTS

	2017	2016
	HK$'000	*HK$'000*
Interest expenses on bank loans	**5,901**	5,240
Imputed interest expense on convertible bonds	**9,707**	–
Interest expenses on amounts due to a related company and the Controlling Shareholder	**12,071**	16,571
Finance lease charge	**1,913**	–
	29,592	21,811
Amount capitalised	**–**	(5,240)
	29,592	16,571
Representing		
Continuing operations	**22,623**	15,341
Discontinued operations *(Note 33)*	**6,969**	1,230
	29,592	16,571

11. INCOME TAX

	2017	2016
	HK$'000	*HK$'000*
PRC Enterprise Income Tax for the year	**12,821**	26,211
Under-provision of PRC Enterprise Income Tax in prior year	**1,410**	3,841
	14,231	30,052
Deferred tax *(Note 28)*	**(901)**	2,313
	13,330	32,365
Representing		
Continuing operations	**–**	–
Discontinued operations *(Note 33)*	**13,330**	32,365
	13,330	32,365

11. INCOME TAX (CONTINUED)

No provision for Hong Kong profits tax was required since the Group has no assessable profit in Hong Kong for the years presented.

According to the Law of the PRC on Enterprise Income Tax, the tax rate for certain PRC subsidiaries of the Company is 25% from 1 January 2008 onwards. Yunnan Qiaotong Package Printing Company Limited are qualified for the tax benefit of China's Western Campaign in the PRC and are entitled to a preferential PRC Enterprise Income Tax rate of 15%. The effective period was years 2013 to 2020 which is approved by the PRC tax authorities in 2013. Tesson New Energy (Weinan) Limited and Shanxi Leaders Battery Co., Ltd. are qualified for the tax benefit of China's Western Campaign and are entitled to a preferential PRC Enterprise Income Tax rate of 15% during year of 2017.

For continuing operations, no provision for PRC Enterprise Income Tax was required due to the utilisation of tax loss brought forward from prior years.

The reconciliation between the income tax and the loss before tax is as follows:

	2017	2016
	HK$'000	*HK$'000*
		(Restated)
Loss before tax from continuing operations	**(4,275)**	(42,928)
Notional tax on profit before tax calculated at the PRC statutory rate	**(1,069)**	(10,732)
Tax effect of non-taxable income	**(2,111)**	(867)
Tax effect of non-deductible expenses	**6,172**	1,072
Utilisation of previously unrecognised tax losses	**(9,637)**	–
Tax effect of tax losses not recognised	**9,103**	6,859
Effect of different tax rates in other tax jurisdictions and tax concessions	**(2,458)**	3,668
Income tax for the year	**–**	–

12. PROFIT FOR THE YEAR

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

	2017	2016
	HK$'000	*HK$'000*
Continuing operations		
Auditor's remuneration	**1,810**	1,680
Cost of inventories sold	**294,842**	22,836
Depreciation	**42,365**	9,397
Amortisation of prepaid land lease payments	**750**	1,743
Minimum lease payments under operating leases in respect of office premises	**2,780**	1,711
Amortisation of intangible assets	**1,952**	1,819
Research and development expenses	**13,392**	700
Staff costs (including directors' remuneration – *Note 13*):		
Salaries, bonus and allowances	**71,931**	26,468
Equity-settled share-based payment expenses	**5,522**	846

	2017	2016
	HK$'000	*HK$'000*
Discontinued operations		
Cost of inventories sold	**467,899**	542,122
Depreciation	**43,866**	44,627
Amortisation of prepaid land lease payments	**1,048**	644
Minimum lease payments under operating leases in respect of office premises	**–**	2,844
Reversal of impairment on trade receivables	**(2,534)**	(5,342)
Loss on disposal of property, plant and equipment	**20,341**	4,996
Impairment loss on property, plant and equipment on disposal of subsidiaries	**–**	12,495
Research and development expenses	**18,753**	16,259
Staff costs (including directors' remuneration – *Note 13*):		
Salaries, bonus and allowances	**134,838**	103,653

13. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS

The emoluments of each Director were as follows:

	Notes	Fees HK$'000	Salaries and other benefits HK$'000	Equity-settled share-based payment HK$'000	Retirement benefits scheme contributions HK$'000	Total HK$'000
Executive Directors						
Ms. Cheng Hung Mui		180	720	–	18	918
Mr. Tin Kong		180	470	463	18	1,131
Mr. Chen Dekun		180	455	232	–	867
Mr. Zhou Jin		180	124	–	–	304
Mr. Tao Fei Hu		180	319	–	–	499
Mr. Sheng Siguang	1	180	1,663	–	–	1,843
Independent Non-Executive Directors						
Mr. Ng Ka Wing	1	180	–	–	–	180
Mr. Wang Jinlin		180	–	–	–	180
Mr. See Tak Wah	2	167	–	–	–	167
Total for the year ended 31 December 2017		1,607	3,751	695	36	6,089

13. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS (CONTINUED)

	Notes	Fees *HK$'000*	Salaries and other benefits *HK$'000*	Equity-settled share-based payment *HK$'000*	Retirement benefits scheme contributions *HK$'000*	Total *HK$'000*
Executive Directors						
Ms. Cheng Hung Mui		180	360	–	17	557
Mr. Zhang Xiao Feng	*3*	77	191	–	9	277
Mr. Tin Kong		180	470	70	36	756
Mr. Chen Dekun		180	455	35	–	670
Mr. Zhou Jin		180	125	–	–	305
Mr. Tao Fei Hu		180	249	–	–	429
Mr. Sheng Siguang	*1*	147	2,135	–	–	2,282
Independent Non-Executive Directors						
Mr. Ng Ka Wing	*1*	147	–	–	–	147
Mr. Chen Weixi	*4*	147	–	–	–	147
Mr. Ho Chun Chung, Patrick	*5*	80	60	–	–	140
Mr. Lee Kwong Yiu	*5*	80	60	–	–	140
Mr. Wang Jinlin		180	–	–	–	180
Chief executive officer						
Mr. Chen Weixi	*4*	–	200	70	5	275
Total for the year ended 31 December 2016		1,758	4,305	175	67	6,305

Notes:

1. Appointed as a director with effect from 8 March 2016.
2. Appointed as a director with effect from 27 January 2017.
3. Resigned as a director with effect from 4 March 2016.
4. Appointed as a director with effect from 8 March 2016 and resigned as a director with effect from 1 November 2016, and appointed as the chief executive officer with effect from 1 November 2016.
5. Resigned as a director with effect from 26 April 2016.

13. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS (CONTINUED)

The five highest paid employees during the year included three (2016: two) directors, details of whose remuneration are set out in information above. Details of the remuneration of the remaining two (2016: three) non-directors, highest paid employees for the year are as follows:

	2017	2016
	HK$'000	*HK$'000*
Salaries and other benefits	**3,036**	2,115
Retirement benefits scheme contributions	**36**	20
	3,072	2,135

The number of non-directors, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2017	2016
Emolument bands		
Nil – HK$1,000,000	**–**	3
HK$1,000,001 – HK$1,500,000	**1**	–
HK$1,500,001 – HK$2,000,000	**1**	–

During the years ended 31 December 2017 and 2016, no emoluments were paid by the Group to the five highest paid individuals, including directors, as an inducement to join the Group or as compensation for loss of office other than those disclosed above. In addition, during the years ended 31 December 2017 and 2016, no directors waived any emoluments.

14. DIVIDENDS

The Directors do not recommend the payment of any dividend for the year ended 31 December 2017 (2016: Nil).

15. EARNINGS PER SHARE

(a) From continuing and discontinued operations

Basic earnings per share

The calculation of basic earnings per share attributable to owners of the Company is based on the profit for the year of approximately HK$19,096,000 (2016: HK$6,021,000) attributable to owners of the Company and the weighted average number of 1,036,315,700 (2016: 736,932,969) ordinary shares in issue during the year.

Diluted earnings per share

No diluted earnings per share is presented as the Company did not have any dilutive potential ordinary shares during the two years ended 31 December 2017 and 2016.

(b) From continuing operations

Basic loss per share

The calculation of basic loss per share from continuing operation attributable to owners of the Company is based on the loss for the year of approximately HK$7,447,000 (2016: HK$33,772,000) attributable to owners of the Company and the denominator used is the same as that detailed above for basic earnings per share.

Diluted loss per share

No diluted loss per share is presented as the Company did not have any dilutive potential ordinary shares during the two years ended 31 December 2017 and 2016.

(c) From discontinued operations

Basic earnings per share

The calculation of basic earnings per share from discontinued operation attributable to owners of the Company is based on the profit for the year of approximately HK$26,543,000 (2016: HK$39,793,000) attributable to owners of the Company and the denominator used is the same as that detailed above for basic earning per share.

Diluted earnings per share

No diluted earnings per share is presented as the Company did not have any dilutive potential ordinary shares during the two years ended 31 December 2017 and 2016.

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings *HK$'000*	Leasehold improvements *HK$'000*	Plant and machinery *HK$'000*	Motor vehicles *HK$'000*	Office equipment *HK$'000*	Construction in progress *HK$'000*	Total *HK$'000*
Cost or valuation							
At 1 January 2016	127,733	–	448,293	4,852	13,801	88,173	682,852
Currency realignment	(11,919)	–	(30,157)	(662)	(550)	(5,696)	(48,984)
Additions	975	–	127,014	3,822	3,394	98,363	233,568
Disposals	–	–	(23,611)	(345)	(1,391)	–	(25,347)
Acquisition of subsidiaries	34,904	–	49,345	292	1,401	581	86,523
Disposal of subsidiaries	(8,558)	–	–	–	–	–	(8,558)
Transfers	132,996	–	–	–	–	(132,996)	–
Reclassified arising on revaluation	(39,636)	–	(101,938)	(5,197)	(4,524)	–	(151,295)
At 31 December 2016 and 1 January 2017	236,495	–	468,946	2,762	12,131	48,425	768,759
Currency realignment	20,319	–	32,792	651	462	3,651	57,875
Additions	66,638	165	324,127	2,255	4,444	6,338	403,967
Disposals	(4,324)	–	(21,001)	(625)	(536)	–	(26,486)
Transfers	3,761	3,051	7,628	–	–	(14,440)	–
Reclassified to assets held for sale	(276,037)	–	(372,358)	–	(12,073)	–	(660,468)
At 31 December 2017	46,852	3,216	440,134	5,043	4,428	43,974	543,647
Accumulated depreciation and impairment							
At 1 January 2016	21,964	–	82,034	3,960	3,367	–	111,325
Currency realignment	(1,321)	–	(12,555)	(249)	(202)	–	(14,327)
Charge for the year	11,131	–	38,901	2,203	1,789	–	54,024
Impairment	–	–	12,215	255	25	–	12,495
Disposals	–	–	(16,537)	(255)	(229)	–	(17,021)
Disposal of subsidiaries	(2,137)	–	–	–	–	–	(2,137)
Eliminated on revaluation	(29,637)	–	(104,058)	(5,914)	(4,750)	–	(144,359)
At 31 December 2016 and 1 January 2017	–	–	–	–	–	–	–
Currency realignment	776	6	2,570	125	106	–	3,583
Charge for the year	18,590	135	61,587	926	4,993	–	86,231
Disposals	–	–	(308)	(7)	(218)	–	(533)
Reclassified to assets held for sale	(17,260)	–	(23,870)	–	(4,173)	–	(45,303)
At 31 December 2017	2,106	141	39,979	1,044	708	–	43,978
Carrying amounts							
At 31 December 2017	44,746	3,075	400,155	3,999	3,720	43,974	499,669
At 31 December 2016	236,495	–	468,946	2,762	12,131	48,425	768,759

16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

There was no impairment loss on property, plant and equipment during the year (2016: approximately HK$12,495,000 which was arising from a subsidiary disposed). Property, plant and equipment with an aggregate carrying amount of HK$65,847,000 (2016: Nil) were pledged to secure the other borrowing of the Group *(Note 25)*.

Had all the categories of the Group's property, plant and equipment, other than construction in progress, been carried at cost less accumulated depreciation, the carrying values of property, plant and equipment would have been stated as follows:

	2017			2016		
	Cost	**Accumulated depreciation and impairment**	**Carrying amounts**	Cost	Accumulated depreciation and impairment	Carrying amounts
	HK$'000	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*
Building	**28,487**	**1,767**	**26,720**	337,411	93,161	244,250
Leasehold improvements	**3,216**	**141**	**3,075**	–	–	–
Plant and machinery	**439,832**	**35,867**	**403,965**	715,985	487,616	228,369
Motor vehicles	**5,182**	**1,385**	**3,797**	21,303	14,614	6,689
Office equipment	**4,635**	**664**	**3,971**	20,124	13,583	6,541
	481,352	**39,824**	**441,528**	1,094,823	608,974	485,849

17. PREPAID LAND LEASE PAYMENTS

	2017	2016
	HK$'000	*HK$'000*
Analysed for reporting purposes as:		
Non-current asset	**30,550**	72,942
Current asset	**782**	1,665
	31,332	74,607

18. INTANGIBLE ASSETS

	Patent *HK$'000*
Cost	
Acquisition of subsidiaries during the year	**18,705**
Currency realignment	**(1,046)**
At 31 December 2016 and 1 January 2017	**17,659**
Currency realignment	**1,320**
At 31 December 2017	**18,979**
Accumulated amortisation and impairment	
Amortisation for the year	**1,819**
Currency realignment	**(76)**
At 31 December 2016 and 1 January 2017	**1,743**
Amortisation for the year	**1,952**
Currency realignment	**202**
At 31 December 2017	**3,897**
Carrying amount	
At 31 December 2017	**15,082**
At 31 December 2016	**15,916**

As at 31 December 2017, patent represented the costs in relation to the design and specification of the battery products held by a subsidiary of the Company. It is stated at costs less accumulated amortization and impairment. The amortization is charged on straight line basis over its estimated useful life of 10 years. The average remaining amortisation period of the patent is 8.33 years (2016: 9.33 years).

19. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2017	2016
	HK$'000	*HK$'000*
Unlisted investments		
– Investments outside Hong Kong *(note)*	**–**	16,755

Note:

The unlisted investments outside Hong Kong were classified as assets held for sale as at 31 December 2017. They represented investments in a bank in the PRC. The investments were measured at cost less accumulated impairment at the end of the years as the Directors are of the opinion that their fair values cannot be measured reliably.

20. INVENTORIES

	2017	2016
	HK$'000	*HK$'000*
Raw materials	**17,550**	124,306
Work in progress	**9,522**	31,125
Finished goods	**34,016**	74,028
	61,088	229,459

No inventory of the Group was pledged as at 31 December 2017 (2016: approximately HK$46,302,000) *(Note 25)*.

21. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2017	2016
	HK$'000	*HK$'000*
Trade receivables	**218,309**	410,558
Less: impairment losses	**–**	(7,299)
	218,309	403,259
Bills receivable	**163,755**	17,135
Down payment in relation to acquisition of land *(Note 40)*	**156,161**	–
Value-added tax receivables	**35,754**	53,051
Prepayment, deposits and other receivables	**30,297**	101,063
	604,276	574,508

No trade receivables of the Group was pledged to a bank to secure bank loans as at 31 December 2017 (2016: approximately HK$72,936,000) *(Note 25)*.

Trade and bills receivable

The Group allows an average credit period of 30 to 180 days to its trade customers. The following is an aging analysis of trade and bills receivables, net of allowance for doubtful debts, presented based on the invoice date at the end of the years:

	2017	2016
	HK$'000	*HK$'000*
0 to 60 days	**129,306**	284,299
61 to 90 days	**55,829**	101,646
Over 90 days	**196,929**	34,449
	382,064	420,394

21. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (CONTINUED)

Impairment of trade receivables

The movements in impairment losses of trade receivables are as follows:

	2017	2016
	HK$'000	*HK$'000*
At beginning of the year	**7,299**	19,593
Reversal of impairment on trade receivables	**(2,534)**	(5,342)
Disposal of subsidiaries	**–**	(5,764)
Currency realignment	**–**	(1,188)
Reclassified to assets held for sale	**(4,765)**	–
At the end of the year	**–**	7,299

There is no provision for individually impaired trade receivables (2016: HK$7,299,000) which are due to long outstanding or default of payments. The Group does not hold any collateral over these balances. Impaired amounts were directly written off against trade receivables when there was no expectation of recovering any amount.

Trade receivables that are not impaired

The aging analysis of trade debtors that are neither individually nor collectively considered to be impaired is as follows:

	2017	2016
	HK$'000	*HK$'000*
Neither past due nor impaired	**102,202**	292,745
Less than 60 days past due	**55,829**	107,348
Over 60 days past due	**60,278**	3,166
	218,309	403,259

Trade receivables that were not past due relate to a wide range of customers who has no recent history of default. The Group does not hold any collateral over these balances.

Trade receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the management believes that no impairment allowance 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.

22. PLEDGED BANK DEPOSITS AND BANK AND CASH BALANCES

The Group's pledged bank deposits represented deposits pledged to bank to secure bills payable.

At the end of year, bank and cash balances of the Group denominated in RMB amounted equivalent to approximately HK$9,873,000 (2016: HK$122,564,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations.

Bank balances carry average interest rate of 0.01% (2016: 0.01%) per annum.

23. ASSETS OF AND LIABILITIES DIRECTLY ASSOCIATED WITH ASSETS HELD FOR SALE

On 22 September 2017, the Group entered into a sales and purchase agreement (the "**SPA**") with an independent third party, AMVIG Investment Limited (the "**Purchaser**"), to dispose of its 100% interest in a wholly-owned subsidiary, Outstanding Viewpoint Limited ("**OVL**"), and its subsidiaries (the "**Disposal Group**").

The disposal was completed on 2 January 2018 and the Group discontinued its Packaging Printing Business.

Since the Disposal Group is expected to be sold within twelve months, the assets and liabilities of the Disposal Group are classified as assets held for sale and liabilities directly associated with assets held for sale, and are presented separately in the consolidated statement of financial position.

The proceeds of disposal are expected to exceed the net carrying amount of the relevant assets and liabilities and, accordingly, no impairment loss has been recognised on the classification of these operations as held for sale.

23. ASSETS OF AND LIABILITIES DIRECTLY ASSOCIATED WITH ASSETS HELD FOR SALE (CONTINUED)

The major classes of assets and liabilities comprising the Disposal Group classified as held for sale at 31 December 2017 are as follows:

	HK$'000
Property, plant and equipment	**615,165**
Prepaid land lease payments	**47,027**
Deposits paid for acquisition of property, plant and equipment	**16,251**
Available-for-sale financial assets	**18,019**
Inventories	**177,027**
Trade and other receivables, deposits and prepayments	**379,543**
Bank and cash balances	**83,055**
Total assets classified as held for sale	**1,336,087**
Trade and other payables	**240,329**
Tax payables	**15,878**
Borrowings	**104,075**
Deferred tax liabilities	**32,133**
Total liabilities directly associated with assets classified as held for sale	**392,415**
Net assets of the Disposal Group	**943,672**

At 31 December 2017, cumulative income or expense recognised in other comprehensive income relating to the disposal group classified as held for sale amounted to HK$70,383,000.

24. TRADE AND OTHER PAYABLES

	2017	2016
	HK$'000	*HK$'000*
Trade payables	**81,178**	174,629
Bills payable	**34,294**	77,236
Amounts payable on acquisition of property, plant and equipment	**189,176**	70,265
Deposits received for disposal of subsidiaries *(Note 40a)*	**30,000**	–
Accruals and other payables	**49,364**	104,311
	384,012	426,441

The aging of bills payable at the end of years fall within 60 days.

At 31 December 2017, bills payable totalling HK$34,294,000 (2016: HK$77,236,000) were secured by pledged bank deposits of HK$34,294,000 (2016: HK$77,249,000).

An aging analysis of the trade payables at the end of the years, based on invoice dates, is as follows:

	2017	2016
	HK$'000	*HK$'000*
0 to 60 days	**55,433**	104,027
61 to 90 days	**16,215**	26,718
Over 90 days	**9,530**	43,884
	81,178	174,629

25. BORROWINGS

	2017	2016
	HK$'000	*HK$'000*
Bank loans	**9,850**	87,128
Obligation under finance lease	**10,571**	–
Other borrowing	**120,124**	–
	140,545	87,128
Analysed as:		
Secured	**10,571**	67,022
Unsecured	**129,974**	20,106
	140,545	87,128

At 31 December 2017, obligation under finance lease is secured by certain equipments with an aggregate carrying amount of HK$65,847,000, the remaining borrowings are unsecured. At 31 December 2016, the secured bank borrowings of the Group were secured by (i) pledged inventories with an aggregate carrying amount of approximately HK$46,302,000; and (ii) assignment of trade receivable of approximately HK$72,963,000.

Other borrowing of approximately HK$120,124,000 represented advance from the Weinan government for the purpose of development of the Lithium Ion Motive Battery Business.

As at 31 December 2017 and 2016, all borrowings are denominated in RMB.

The effective interest rates per annum at the end of the years were as follows:

	2017	2016
Borrowings:		
fixed-rate	**3% – 5.87%**	4.42%

26. AMOUNTS DUE TO A RELATED COMPANY/THE CONTROLLING SHAREHOLDER

On 28 February 2017, Cloud Apex Global Limited agreed to assign all rights, titles, benefits and interests of approximately HK$382,728,000 debt to the Controlling Shareholder and the Controlling Shareholder agreed to subscribe for the convertible bonds in an aggregate principal amount of HK$300,000,000 (the "**Convertible Bonds**") issued by the Company as detailed in Note 27.

As at 31 December 2017, amount due to the Controlling Shareholder of approximately HK$78,662,000, and principal amount of approximately HK$19,669,000 due to a related company are unsecured, interest bearing at 8% per annum, and are repayable by annual equal instalments from 30 June 2017 to 30 June 2036 together with the related interests thereon. The Company, at its discretion, may either make early repayment or request to defer repayment in accordance with the initial repayment schedule if the Company does not have sufficient funds or if such deferral of repayment is agreed between the Company and the respective party.

As at 31 December 2016, amount due to a related company is unsecured, interest bearing at 8% per annum, and repayable by annual equal instalments from 30 June 2017 to 30 June 2036. Amount due to the Controlling Shareholder is unsecured, non-interest bearing, and had no fixed term of repayment.

27. CONVERTIBLE BONDS

On 28 February 2017, the Company issued the Convertible Bonds in an aggregate principal amount of HK$300,000,000 with a coupon rate of 3% to the Controlling Shareholder, payable quarterly in arrears. The Convertible Bonds will mature from the date of issue to 30 June 2036 representing maturity period of 19.3 years, and can be converted into a maximum of 187,500,000 conversion shares of the Company at the conversion price of HK$1.6 per conversion shares upon full exercise of the conversion rights by the end on the third anniversary to the date of issue of the Convertible Bonds.

The Convertible Bonds recognised in the consolidated statement of financial position had been split between liability element and equity component, and are calculated as follows:

	Liability component *HKD'000*	Equity component *HKD'000*	Total *HKD'000*
At 28 February 2017	215,012	80,165	295,177
Transaction costs	(668)	(249)	(917)
Issue of Convertible Bonds	214,344	79,916	294,260
Imputed interest expense	9,707	–	9,707
Interest payable	(7,545)	–	(7,545)
At 31 December 2017	216,506	79,916	296,422

The interest charged for the year is calculated by applying an effective interest rate of 5.36% to the liability component for the 10 month period since the bonds were issued.

The Directors estimate the fair value of the equity and liability components of the convertible bonds at the issuance date with reference to the independent valuation performed by an independent valuer, Ascent Partners Valuation Service Limited by discounting the future cash flows at the specific discount rate under level 2 fair value measurement.

28. DEFERRED TAX

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

	Revaluation of property, plant and equipment *HK$'000*	Depreciation allowances in excess of related PRC tax depreciation *HK$'000*	Undistributed earnings of subsidiaries *HK$'000*	Others *HK$'000*	Total *HK$'000*
At 1 January 2016	11,764	17,368	6,337	40	35,509
– (Credit)/charge to consolidated statement of profit or loss	(564)	2,877	–	–	2,313
– Credit to other comprehensive income for the year	(280)	–	–	–	(280)
– Disposal of subsidiaries	(602)	–	–	–	(602)
At 31 December 2016 and 1 January 2017	10,318	20,245	6,337	40	36,940
– (Credit)/charge to consolidated statement of profit or loss	(2,577)	1,676	–	–	(901)
– Currency realignment	(108)	–	–	–	(108)
– Transfer to liabilities directly associated with assets held for sale *(Note 23)*	(3,835)	(21,921)	(6,337)	(40)	(32,133)
At 31 December 2017	3,798	–	–	–	3,798

At the end of the year, subject to the agreements with the tax authority, the Group has unused tax losses of approximately HK$143,172,000 (2016: HK$119,386,000) for subsidiaries incorporated in Hong Kong available for offset against future profits of approximately HK$143,172,000 (2016: HK$119,386,000) and such tax losses may be carried forward indefinitely. No deferred tax asset has been recognised for these tax losses due to the unpredictability of future profit streams of those subsidiaries.

Under the Enterprise Income Tax Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred tax has been provided for in the consolidated financial statements in respect of the undistributed earnings of the Group's PRC subsidiaries to the extent that such earnings are estimated to be distributed in the foreseeable future. At the end of the year, the aggregate amount of the undistributed earnings of the Group's PRC subsidiaries which the corresponding deferred taxation has not been provided for in the consolidated financial statements amounted to approximately HK$228,074,000 (2016: HK$176,915,000), as the Group is able to control the timing of the reversal of these temporary differences and it is probable that these temporary differences will not reverse in the foreseeable future.

29. SHARE CAPITAL

		Number of shares	*HK$'000*
Authorised:			
Ordinary shares of HK$0.10 each			
At 1 January 2016		1,000,000,000	100,000
Increase of authorised share capital		1,000,000,000	100,000
At 31 December 2016, 1 January 2017 and 31 December 2017		2,000,000,000	200,000
Issued and fully paid:			
At 1 January 2016		592,180,400	59,218
Open offer	*note*	444,135,300	44,414
At 31 December 2016, 1 January 2017 and 31 December 2017		1,036,315,700	103,632

Note

Completion of the open offer took place on 9 September 2016 pursuant to which 444,135,300 offer shares were issued under the open offer on the basis of three offer share for every four shares held by the qualifying shareholders at the subscription price of HK$0.80 per offer share. Accordingly, the Company's issued share capital was increased by approximately HK$44,414,000 and its share premium account was increased by approximately HK$308,505,000. Net proceeds from the issues were approximately HK$352,919,000, after deduction of expenses of approximately HK$2,389,000.

Capital management

The Group's primary objective when managing capital is to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost. The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maximise the return to the shareholders through the optimisation of the debt and equity balance.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the payment of dividends, issue new shares, buyback shares, raise new debts, redeem existing debts or sell assets to reduce debts.

30. RESERVES

(a) The amounts of the Group's reserves and movements therein are presented in the consolidated statement of profit or loss and other comprehensive income and consolidated statement of changes in equity.

(b) Reserves of the Company

	Share premium *HK$'000*	Capital redemption reserve *HK$'000*	Contributed surplus *HK$'000*	Share-based payment reserve *HK$'000*	Convertible bond equity reserve *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
At 1 January 2016	291,344	624	29,509	–	–	(276,143)	45,334
Loss for the year	–	–	–	–	–	(32,493)	(32,493)
Issue of share under open offer	308,505	–	–	846	–	–	309,351
At 31 December 2016	599,849	624	29,509	846	–	(308,636)	322,192
At 1 January 2017	599,849	624	29,509	846	–	(308,636)	322,192
Loss for the year	–	–	–	–	–	(38,316)	(38,316)
Issue of convertible bonds	–	–	–	–	79,916	–	79,916
Equity settled share-based transactions	–	–	–	5,522	–	–	5,522
Lapse of share options	–	–	–	(135)	–	–	(135)
At 31 December 2017	599,849	624	29,509	6,233	79,916	(346,952)	369,179

(c) Nature and purpose of reserves of the Group

(i) Share premium

Share premium represents premium arising from the issue of shares at a price in excess of their par value per share and is not distributable but may be applied in paying up unissued shares of the Company to be issued to the shareholders of the Company as fully paid bonus shares or in providing for the premiums payable on repurchase of shares.

(ii) Capital redemption reserve

Capital redemption reserve arose from the reduction of the nominal value of the issued share capital of the Company upon the cancellation of the repurchased shares.

30. RESERVES (CONTINUED)

(c) Nature and purpose of reserves of the Group (Continued)

(iii) Capital reserve

Capital reserve represents the difference between the nominal value of the shares of the acquired subsidiaries and the nominal value of the Company's shares issued for the acquisition at the time of the group reorganisation in 1998.

(iv) Share-based payment reserve

The share-based payment reserve represents the fair value of the actual or estimated number of unexercised share options granted to employees and directors of the Group recognised in accordance with the accounting policy adopted for share-based payments in Note 3 to the consolidated financial statements.

(v) Contributed surplus

The contributed surplus of the Company represents the difference between the consolidated shareholders' funds of Kith Limited at the date on which it was acquired by the Company, and the nominal amount of the Company's shares issued for the acquisition at the time of the group reorganisation in 1998.

Under the Companies Act of Bermuda, the contributed surplus account of the Company is available for distribution. However the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

– it is, or would after the payment be, unable to pay its liabilities as they become due; or

– the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

30. RESERVES (CONTINUED)

(c) Nature and purpose of reserves of the Group (Continued)

(vi) Foreign currency translation reserve

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

(vii) Asset revaluation reserve

Assets revaluation reserve has been set up and are dealt with in accordance with the accounting policies adopted for property, plant and equipment in Note 3 to the consolidated financial statements.

(viii) Convertible bond equity reserve

The convertible bonds equity reserve represents the value of the unexercised equity component of convertible bonds issued by the Company recognised in accordance with the accounting policy adopted for convertible bonds in Note 3 to the consolidated financial statements.

(ix) Enterprise expansion fund and reserve fund

The enterprise expansion fund and reserve fund are set up by subsidiaries established and operated in the PRC by way of appropriation from the profit after taxation in accordance with the relevant laws and regulations in the PRC. Pursuant to the "Accounting Regulations of the People's Republic of China for Enterprises with Foreign Investment", if approvals are obtained from the relevant government authorities, the enterprise expansion fund can be used to increase the capital of the relevant PRC subsidiaries and the reserve fund can be used in setting off deficit or to increase the capital of the relevant PRC subsidiaries.

(x) Other reserve

Other reserves represent the amount of enterprise expansion fund capitalised by the relevant PRC subsidiaries and the difference between the net proceeds received or paid after deducting the transaction costs and the adjustment to the non-controlling interests resulted from the equity transaction with non-controlling interests.

31. EQUITY-SETTLED SHARE OPTION SCHEME

The Company operates a share option scheme (the "**Scheme**") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants include the full-time and part-time employees, executives, officers, directors, business consultants, agents, legal and financial advisers of the Company and the Company's subsidiaries. The Scheme became effective on 13 June 2012 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

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

Details of the share options are as follows:

	Number
Options granted in 2016	24,300,000

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

	Weighted average exercise price *HK$*	Number of share options
At 1 January 2016	–	–
Granted during the year	0.85	24,300,000
Outstanding at 31 December 2016 and 1 January 2017	0.85	24,300,000
Lapsed during the year	0.85	(900,000)
Outstanding at 31 December 2017	0.85	23,400,000
Exercisable at		
31 December 2016		–
31 December 2017		7,020,000

31. EQUITY-SETTLED SHARE OPTION SCHEME (CONTINUED)

Details of the specific categories of options are as follows:

Categories	Date of grant	Vesting period	Exercise period	Exercise price *HK$*
2016A	11/11/2016	1 year	11/11/2017 to 10/11/2021	0.85
2016B	11/11/2016	2 years	11/11/2018 to 10/11/2021	0.85
2016C	11/11/2016	3 years	11/11/2019 to 10/11/2021	0.85

The options outstanding at the end of the year have a weighted average remaining contractual life of 3.86 years (2016: 4.86 years) and the exercise price is HK$0.85 (2016: HK$0.85). The share options were granted on 11 November 2016. The estimated fair values of the options on those dates are approximately HK$10,473,000.

These fair values were calculated using the Binomial model. The inputs into the model are as follows:

Weighted average share price	HK$0.85
Weighted average exercise price	HK$0.85
Expected volatility	63%
Expected life	2-4 years
Risk free rate	0.84%
Expected dividend yield	0%

Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous 4 years. The expected life used in the model has been adjusted, based on the Group's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

32. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Acquisition of subsidiaries

On 28 January 2016, the Group acquired 100% equity interest of Shaanxi Leaders Battery Co., Ltd. and its subsidiary (the "**Acquired Group**") at a cash consideration of approximately RMB19,496,000 (approximately HK$23,068,000) to Shaanxi Shunqian Energy Technology Co., Ltd. and Shaanxi Jinwen New Energy Co., Ltd, the independent third parties. The Acquired Group is principally engaged in manufacturing and sale of lithium-ion batteries, battery packs, chargers and battery materials. Details of the above acquisition are set out in the announcement of the Company dated 3 January 2016.

The fair value of the identifiable assets and liabilities of the Acquired Group with reference to the independent valuation as performed by independent valuer, Ascents Partners Valuation Limited as at its date of acquisition was as follows:

	HK$'000
Net assets acquired:	
Property, plant and equipment	86,523
Prepaid land lease payments	31,946
Intangible asset	18,705
Inventories	1,650
Trade and other receivables	17,574
Bank and cash balances	182
Trade and other payables	(115,934)
Total identifiable net assets at fair value	40,646

32. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(a) Acquisition of subsidiaries (Continued)

	HK$'000
Goodwill arising from acquisition	
Consideration transferred	23,068
Add: Non-controlling interests	89
Less: Fair value of identifiable net assets acquired	(40,646)
Gain on bargain purchase	(17,489)
Satisfied by:	
Cash	23,068
Net cash outflow on acquisition of subsidiaries	
Consideration paid in cash	(23,068)
Less: Bank and cash balances acquired	182
	(22,886)

If the acquisition had been completed on 1 January 2016, total Group revenue for the period would have been approximately HK$779,061,000 and profit for the period would have been approximately HK$78,955,000. The proforma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2016, nor is it intended to be a projection of future results. The cost in relation to this acquisition was approximately HK$179,000.

The fair value of the trade and other receivables acquired is HK$17,574,000. The gross amount due under the contracts is HK$17,574,000.

32. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(b) Disposal of subsidiaries

On 8 December 2016, the Group disposed 100% of the issued share capital of Grand Vista Investments Limited and its subsidiaries for a cash consideration of US$4 (equivalent to approximately HK$31) to Courage Forever Limited, an independent third party.

Net assets at the date of disposal were as follows:

	HK$'000
Property, plant and equipment	6,421
Prepaid land lease payments	1,794
Inventories	1,960
Trade and other receivables	1,146
Bank and cash balances	64
Trade payables	(7,111)
Accruals and other payables	(3,774)
Dividend payable to non-controlling shareholders	(1,397)
Deferred tax liabilities	(602)
Net liabilities disposed of：	(1,499)
Release of foreign currency translation reserve	(4,951)
Non-controlling interests	2,970
Gain on disposal of subsidiaries	(3,480)
Net cash outflow arising on disposal:	
Bank and cash balances disposed of	(64)

32. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(c) Major non-cash transaction

(i) During the year, the amount due to the Controlling Shareholder of approximately HK$300,000,000 was settled by the issuance of Convertible Bonds as detailed in Notes 26 and 27.

(ii) During the year, other receivables of approximately HK$40,000,000 was settled by the the amounts due to the Controlling Shareholders and other payments, amounting to approximately HK$32,020,000 and HK$7,980,000 respectively.

(d) Changes in liabilities arising from financing activities

The following table shows the Group's changes in liabilities arising from financing activities during the year:

	Borrowings *HK$'000*	Amount due to a related company *HK$'000*	Amount due to the Controlling Shareholder *HK$'000*	Convertible bonds *HK$'000*	Total liabilities from financing activities *HK$'000*
At 1 January 2017	87,128	416,632	27,955	–	531,715
Changes in cash flows	150,114	(5,462)	(10,498)	(917)	133,237
Non-cash changes					
– Transfer to amount due to the Controlling Shareholder	–	(382,728)	382,728	–	–
– Transfer to liabilities directly associated with assets held for sale	(104,075)	–	–	–	(104,075)
– Settlement by issuance of Convertible Bonds	–	–	(300,000)	300,000	–
– Gain on settlement of amount due to the Controlling Shareholder	–	–	–	(4,823)	(4,823)
– Settlement by transfer of other receivables	–	(7,980)	(32,020)	–	(40,000)
– Transfer to convertible bond equity reserve	–	–	–	(79,916)	(79,916)
– Interest expenses	–	1,574	10,497	–	12,071
– Imputed interest expense	–	–	–	9,707	9,707
– Interest payable	–	–	7,545	(7,545)	–
– Exchange differences	7,378	–	–	–	7,378
At 31 December 2017	140,545	22,036	86,207	216,506	465,294

33. DISCONTINUED OPERATIONS

As detailed in Note 23, the Group discontinued its Packaging Printing Business. The results and cash flows of the discontinued operations for the years ended 31 December 2017 and 2016, which have been included in consolidated financial statement, are as follows:

	2017	2016
	HK$'000	*HK$'000*
Revenue	**677,837**	781,023
Cost of sales	**(467,899)**	(542,122)
Gross profit	**209,938**	238,901
Other income	**7,671**	12,811
Distribution and selling expenses	**(4,832)**	(5,685)
Administrative expenses	**(143,442)**	(138,898)
Profit from operations	**69,335**	107,129
Reversal of impairment on trade receivables	**2,534**	5,342
Gain on disposal of subsidiaries	**–**	3,480
Profit from operations	**71,869**	115,951
Finance costs	**(6,969)**	(1,230)
Profit before tax	**64,900**	114,721
Income tax expense	**(13,330)**	(32,365)
Profit for the year	**51,570**	82,356
Operating cash flows	**179,481**	113,559
Investing cash flows	**(181,568)**	(76,104)
Financing cash flows	**16,948**	(19,136)
Total cash flows	**14,861**	18,319

For the purpose of presenting discontinued operations, the comparative consolidated statement of comprehensive income and the related notes have been re-presented as if the operations discontinued during the year had been discontinued at the beginning of the comparative period.

34. SUMMARISED FINANCIAL POSITION OF THE COMPANY

	2017 *HK$'000*	2016 *HK$'000*
Non-current assets		
Investments in subsidiaries	**44,089**	44,089
Current assets		
Amounts due from subsidiaries	**738,880**	827,246
Other receivables, deposits and prepayments	**1,455**	414
Bank and cash balances	**30,596**	11,247
	770,931	838,907
Current liabilities		
Accruals and other payables	**41,208**	15,366
Amounts due to subsidiaries	**5,833**	31,124
Amount due to a related company	**–**	24,280
Amount due to the Controlling Shareholder	**4,206**	27,954
	51,247	98,724
Net current assets	**719,684**	740,183
Non-current liabilities		
Convertible bonds	**216,506**	–
Amount due to the Controlling Shareholder	**74,456**	–
Amount due to a related company	**–**	358,448
	290,962	358,448
NET ASSETS	**472,811**	425,824
Capital and reserves		
Share capital	**103,632**	103,632
Reserves	**369,179**	322,192
TOTAL EQUITY	**472,811**	425,824

35. CONTINGENT LIABILITIES

At the end of the year, the Group and the Company did not have any significant contingent liabilities (2016: Nil).

36. LEASE COMMITMENTS

At the end of the year, the total future minimum lease payments under non-cancellable operating leases in respect of certain office premises and machinery are analysed as follows:

	2017	2016
	HK$'000	*HK$'000*
Within one year	**7,968**	4,374
In the second to fifth year inclusive	**25,199**	20,677
After five years	**8,580**	11,556
	41,747	36,607

37. CAPITAL COMMITMENTS

The Group's capital commitments at the end of the year are as follows:

	2017	2016
	HK$'000	*HK$'000*
Contracted but not provided for		
– Property, plant and equipment	**74,236**	382,821

38. RELATED PARTY TRANSACTIONS

	2017	2016
	HK$'000	*HK$'000*
Interest expense on amount due to a related company *(Notes 10 and 26)*	**1,574**	16,571
Interest expenses on Convertible Bonds and amount due to the Controlling Shareholder *(Notes 10, 26 and 27)*	**20,204**	–

Key management personnel remuneration

The emoluments of the Company's Directors, who are also identified as members of key management of the Group, are set out in Note 13.

39. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

The table below lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the financial position of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

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

Name	Place of incorporation/ registration	Issued/ paid-up capital	Percentage of the Company's indirect ownership interest 2017	2016	Principal activities
勁富投資有限公司 Gainful Investments Limited	Hong Kong	HK$4	**100%**	100%	Investment holding
雲南僑通包裝印刷有限公司* Yunnan Qiaotong Package Printing Co., Ltd. *#	The PRC	US$38,000,000	**60%**	60%	Printing and manufacturing of packaging products
安徽僑豐包裝印刷有限公司* Anhui Qiaofeng Package Printing Co., Ltd. *#	The PRC	US$9,380,000	**54.8%**	54.8%	Printing and manufacturing of packaging products
昭通新僑彩印有限責任公司** Zhaotong Xinqiao Printing Co., Ltd. **#	The PRC	RMB6,200,000	**60%**	60%	Printing and manufacturing of packaging products
天臣新能源(深圳)有限公司** Tesson New Energy (Shen Zhen) Limited **#	The PRC	RMB450,000,000	**88.89%**	–	Trading of lithium ion battery products
天臣新能源(渭南)有限公司** Tesson New Energy (Weinan) Limited **#	The PRC	RMB450,000,000 (2016: RMB300,000,000)	**88.89%**	–	Manufacturing of lithium ion battery products
陝西力度電池有限公司** Shaanxi Leaders Battery Co., Ltd.**#	The PRC	RMB75,275,523	**88.89%**	–	Manufacturing of lithium ion battery products
天臣新能源研究南京有限公司** Tesson New Energy Research (Nanjing) Limited **#	The PRC	RMB150,000,000 (2016: RMB106,000,000)	**88.89%**	–	Research and development centre

39. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (CONTINUED)

The Company directly holds the interest in Kith Limited. All other interests above are indirectly held by the Company.

The following table shows information of subsidiaries that have non-controlling interests ("**NCI**") material to the Group. The summarised financial information represents amounts before inter-company eliminations.

Name	**Yunnan Qiaotong Package Printing Co., Ltd.#^**		**Anhui Qiaofeng Package Printing Co., Ltd.#**		**Tesson New Energy (Shen Zhen) Limited#^**		**Tesson New Energy Limited#^**	
	2017	2016	**2017**	**2016**	**2017**	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Principal place of business and country of incorporation	**PRC**		**PRC**		**PRC**		**PRC**	
% of ownership interests and voting rights held by NCI	**40%**	40%	**45.2%**	45.2%	**11.11%**	11.11%	**46.67%**	N/A
At 31 December:								
Non-current assets	**671,943**	526,285	**79,513**	75,671	**484,661**	392,692	**187,398**	–
Current assets	**513,060**	560,989	**98,725**	72,797	**697,516**	328,455	**208,394**	–
Current liabilities	**(341,483)**	(267,964)	**(18,798)**	(45,038)	**(592,573)**	(204,666)	**(22,578)**	–
Net assets	**843,520**	819,310	**159,440**	103,430	**589,604**	516,481	**373,214**	–
Accumulated NCI	**337,408**	327,724	**72,067**	46,750	**65,505**	57,381	**174,179**	–
Year ended 31 December:								
Revenue	**591,943**	664,175	**85,894**	115,647	**390,762**	18,038	**–**	–
Profit	**57,124**	110,918	**4,817**	(12,775)	**17,150**	(27,611)	**2,714**	–
Total comprehensive income	**116,178**	60,714	**16,038**	(20,509)	**77,168**	(36,225)	**–**	–
Profit allocated to NCI	**22,850**	44,367	**2,177**	(5,774)	**1,905**	(2,883)	**1,267**	–
Dividends distributed to NCI	**15,808**	13,991	**5,981**	2,612	**–**	–	**–**	–
Net cash generated from/(used in) operating activities	**98,384**	104,414	**48,737**	(11,972)	**113,378**	94,008	**(2,714)**	–
Net cash (used in)/generated from investing activities	**(139,279)**	(83,953)	**(9,664)**	(2,272)	**(296,718)**	(485,865)	**2,877**	–
Net cash generated from financing activities	**16,948**	4,190	**–**	–	**140,545**	520,080	**–**	–
Net (decrease)/increase in cash and cash equivalents	**(23,947)**	24,651	**39,073**	(14,244)	**(42,795)**	128,223	**163**	–

* These companies are sino-foreign equity joint ventures established in the PRC.

** These companies are limited liability company established in the PRC.

\# The English name is for identification purpose only.

^ Included its subsidiaries.

40. EVENTS AFTER THE REPORTING PERIOD

(a) On 22 September 2017, the Company and the Purchaser entered into the SPA pursuant to which the Company has conditionally agreed to sell and the Purchaser has conditionally agreed to acquire the 100% interest of OVL, and all the debts owed and payable by the Disposal Group to the Group which remain outstanding on or at any time prior to completion of the disposal, at the consideration of HK$700,000,000 payable by the Purchaser in accordance with the terms and conditions of the SPA. All conditions precedent to the SPA have been fulfilled and completion took place on 2 January 2018. Upon completion, the Company has ceased to hold any equity interest in OVL, and accordingly the Disposal Group has ceased to be subsidiaries and/or associated companies of the Company.

(b) On 29 December 2017, the Group had paid RMB130,000,000 (approximately HK$156,161,000) deposit to the Nanjing government for bidding a piece of land in Lishui, Nanjing. As at the date of this report, no agreement had been entered into between the Group and the Nanjing government.

41. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 27 March 2018.

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