



TIAN CHANG GROUP HOLDINGS LTD.

天 長 集 團 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability) (於開曼群島註冊成立之有限公司)

Stock Code 股份代號 : 2182

2017
Annual Report
年報



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Chan Tsan Lam (*Chairman*)
Mr. Cheng Chak
Ms. Chan Yin Yan

Independent Non-Executive Directors

Mr. Lo Ka Ki
Mr. Hung Chun Leung
Mr. Chan Bing Kai

COMPANY SECRETARY

Ms. Poon Po Han Lisa (*FCCA, ACIS, ACS*)

AUTHORISED REPRESENTATIVES

Mr. Chan Tsan Lam
Ms. Poon Po Han Lisa

AUDIT COMMITTEE

Mr. Lo Ka Ki (*Chairman*)
Mr. Hung Chun Leung
Mr. Chan Bing Kai

REMUNERATION COMMITTEE

Mr. Chan Bing Kai (*Chairman*)
Mr. Chan Tsan Lam
Mr. Lo Ka Ki

NOMINATION COMMITTEE

Mr. Chan Tsan Lam (*Chairman*)
Mr. Hung Chun Leung
Mr. Lo Ka Ki

REGISTERED OFFICE

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

WEBSITE OF THE COMPANY

www.hktcgroup.com

PRINCIPAL PLACE OF BUSINESS IN THE PEOPLE'S REPUBLIC OF CHINA ("PRC")

Dongjiang Hi-New Tech
Ind. Park, Huicheng District
Shuikou Town, Huizhou
Guangdong Province, PRC

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Workshop Unit 6
13th Floor, Block B
Hoi Luen Industrial Centre
55 Hoi Yuen Road
Kwun Tong
Hong Kong

COMPLIANCE ADVISER

Innovax Capital Limited
Room 2002, 20/F
Chinachem Century Tower
178 Gloucester Road
Wanchai
Hong Kong

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22 Hopewell Centre
183 Queen's Road East
Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
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Grand Cayman KY1-1111
Cayman Islands

AUDITOR

Mazars CPA Limited
Certified Public Accountants
42nd Floor, Central Plaza
18 Harbour Road
Wanchai
Hong Kong

LEGAL ADVISER AS TO HONG KONG LAWS

Loeb & Loeb LLP
21st Floor, CCB Tower
3 Connaught Road Central
Hong Kong

PRINCIPAL BANKERS

Bank of China
The Hongkong and Shanghai Banking Corporation

STOCK CODE

2182

CHAIRMAN'S STATEMENT

TO THE SHAREHOLDERS

On behalf of the board (the “**Board**”) of directors (the “**Directors**”) of Tian Chang Group Holdings Ltd. (the “**Company**”), I am pleased to present the annual report of the Company and its subsidiaries (together, the “**Group**”) for the year ended 31 December 2017.

BUSINESS REVIEW

As a well-established provider of integrated plastic solutions in the PRC, the Group operates business through two segments. The integrated plastic solutions segment is engaged in mould design and fabrication services as well as plastic component design and manufacturing services. The e-cigarettes products segment is engaged in the manufacturing and sales of e-cigarettes products under the brand name of “**blu**”. The Group distributes its products within the domestic market and to overseas markets, including Europe, Asia and the United States.

During the year, the Group’s total revenue amounted to approximately HK\$572.9 million, representing a year-on-year increase of approximately 3.1% (2016: HK\$555.6 million). The Group recorded a gross profit of approximately HK\$134.0 million (2016: HK\$128.2 million) with a gross profit margin of approximately 23.4% (2016: 23.1%).

The Group recorded a profit for the year attributable to owners of the Company of approximately HK\$20.1 million (2016: HK\$33.9 million). Basic earnings per share were approximately HK4.32 cents (2016: HK7.28 cents).

During the year, the Group recorded capital expenditure of approximately HK\$33.0 million mainly for the construction of phase II of the Group’s new site in Huizhou (which was completed in February 2018). It is expected that the expanded manufacturing capacity will enable the Group to meet market demand and to support the Group’s business growth.

The shares of the Company were listed on the Main Board of the Stock Exchange (the “**Listing**”) on 8 March 2018 (the “**Listing Date**”) by way of a global offering, raising gross proceeds of approximately HK\$110.0 million.

FUTURE PLAN AND PROSPECTS

In view of the expected increase in market demand for integrated plastics solutions in the PRC and e-cigarettes products globally in the future, the Group plans to capture such market growth through capacity expansion and equipment upgrade.

The construction of phase II of the Group’s new site in Huizhou was completed in February 2018. It is expected that the expanded manufacturing capacity will be able to support the Group’s business growth.

CHAIRMAN'S STATEMENT

The Group plans to continue to invest in high-grade and advanced equipment to support the growth of its operations. As labour costs increase in the PRC, the Group intends to increase its capital investments and efforts in further automating its production processes by purchasing equipment to replace certain manual processes. The Group believes that automation will enhance the quality of its products and the efficiency of its production processes. The Group also plans to purchase advanced mould fabrication and plastic injection equipment to enhance its overall technical capabilities and improve its production efficiency.

Moving ahead, the Group plans to further improve its research and development capabilities by continuing to focus on research and development efforts to develop process-related know-how to improve product quality and its production efficiency and save production cost. In addition, the Group intends to further research on methods to enhance automation of its production processes to reduce labour cost and increase precision level of its products. The Group also intends to further research on and develop plastic injection mould fabrication as well as plastic injection moulding methodology to accommodate innovative product designs in its various downstream industries. The Group intends to expand its research and development efforts and capabilities by hiring more research and development personnel and purchasing equipment and materials necessary for its research and development efforts.

APPRECIATION

On behalf of the Board, I would like to express my most sincere gratitude towards the continual support from the shareholders and the valuable contributions of the staff. The management team will continue to fulfill its duties to create more values for the shareholders.

Chan Tsan Lam

Chairman

Hong Kong, 28 March 2018

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS SEGMENT ANALYSIS

Integrated Plastic Solutions

The income of the integrated plastic solutions business division was mainly derived from (i) the design and fabrication of plastic injection moulds; and (ii) design and manufacturing of plastic components employing the plastic injection moulds fabricated internally or by our subcontractors.

The Group is able to specifically engineer and fabricate, with cavities plastic injection moulds, to shape the plastic components in accordance with the desired and customised design, features and specifications. The Group has the technical capabilities to fabricate moulds that meet the MT1 precision level as defined by the “National Standard of the People’s Republic of China GB/T14486-2008-Dimensional Tolerances for Moulded Plastic Parts”, which is the highest precision level in the national guidelines. By utilising the plastic injection process and applying the plastic injection moulds fabricated by the Group or, in limited cases, external subcontractors, the Group manufactures plastic components for office furniture, office electronic products, home appliances, communication products and automobiles.

Manufacturing of E-cigarettes Products

The Group manufactured e-cigarettes products as an original equipment manufacturer (“OEM”) under the brand name of “blu” for LOEC, Inc., (“LOEC”) before June 2015 and primarily for Fontem thereafter. Such e-cigarettes products included disposable e-cigarettes, refillable e-cigarettes, battery rods and clearomisers.

FINANCIAL REVIEW

Revenue

Revenue for the year ended 31 December 2017 was approximately HK\$572.9 million, representing an increase of approximately HK\$17.3 million, or approximately 3.1%, from approximately HK\$555.6 million for the year ended 31 December 2016.

The integrated plastic solutions segment revenue for the year ended 31 December 2017 was approximately HK\$321.9 million, representing an increase of approximately HK\$17.8 million, or approximately 5.9%, from segment revenue of HK\$304.1 million for the year ended 31 December 2016. This increase was primarily due to increase in sales to the Group’s major customers during the year.

The e-cigarettes products segment revenue for the year ended 31 December 2017 was approximately HK\$251.0 million, which was similar to that for the year ended 31 December 2016 (2016: HK\$251.5 million).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (Continued)

Gross Profit

Gross profit for the year ended 31 December 2017 was approximately HK\$134.0 million, representing an increase of approximately HK\$5.8 million, or approximately 4.5%, from approximately HK\$128.2 million for the year ended 31 December 2016. The increase was primarily due to the increase in the revenue generated from the integrated plastic solutions segment during the year.

Segment gross profit for integrated plastic solutions for 2017 was approximately HK\$57.6 million which increased from approximately HK\$51.6 million for 2016. The gross profit for 2017 was relatively higher as compared to 2016 primarily because the Group initiated a number of integrated plastic solution projects and fabricated more moulds in 2016 which generally generated relatively lower gross profit margin.

Segment gross profit for e-cigarettes products for the year ended 31 December 2017 was approximately HK\$76.4 million, which was similar to that for the year ended 31 December 2016 (2016: HK\$76.6 million).

Other Income

Other income recorded for the year ended 31 December 2017 was approximately HK\$4.9 million, representing a decrease of approximately HK\$3.4 million, or approximately 41.0%, from approximately HK\$8.3 million for the year ended 31 December 2016. The decrease was primarily due to a decrease of approximately HK\$2.8 million in exchange gain and a decrease of approximately HK\$0.6 million in sales of scrap materials.

Selling and Distribution Costs

Selling and distribution costs incurred for the year ended 31 December 2017 were approximately HK\$11.6 million, which was similar to that for the year ended 31 December 2016 (2016: HK\$11.6 million).

Administrative and Other Operating Expenses

Administrative and other operating expenses incurred for the year ended 31 December 2017 were approximately HK\$66.9 million, which was similar to that for the year ended 31 December 2016 (2016: HK\$66.6 million).

Listing Expenses

Listing expenses incurred for the year ended 31 December 2017 were approximately HK\$15.8 million, compared to no listing expenses recorded for the year ended 31 December 2016.

Finance Costs

Finance costs incurred for the year ended 31 December 2017 were approximately HK\$13.5 million, which was similar to that for the year ended 31 December 2016 (2016: HK\$13.3 million).

Income Tax Expense

Income tax expenses for the year ended 31 December 2017 was approximately HK\$10.9 million, which was similar to that for the year ended 31 December 2016 (2016: HK\$11.1 million).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (Continued)

Profit Attributable to equity holders of the Company

As a result of foregoing, profit for the year ended 31 December 2017 was approximately HK\$20.1 million, representing a decrease of approximately HK\$13.8 million, or approximately 40.7%, from approximately HK\$33.9 million for the year ended 31 December 2016. The decrease was mainly attributable to the recognition of the listing expenses of approximately HK\$15.8 million for the year ended 31 December 2017 (2016: nil). If the listing expenses were disregarded, the adjusted profit for the year ended 31 December 2017 would be approximately HK\$35.9 million (2016: HK\$33.9 million), representing an increase of approximately 6.1% compared with that for the year ended 31 December 2016.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated cash flow and banking facilities provided by its principal bankers. As at 31 December 2017, the Group had cash and cash equivalents of approximately HK\$18.6 million (2016: HK\$13.1 million). The interest-bearing liabilities as at 31 December 2017 was HK\$242.4 million (2016: HK\$279.5 million) with interest rates ranging from approximately 1.5% to 7.5% per annum. The Group's gearing ratio as at 31 December 2017, calculated based on the total borrowings to the equity attributable to owners of the Company, was 85.3% (2016: 113.1%). The Group recorded net current liabilities of approximately HK\$133.3 million as of 31 December 2017, primarily due to the increased interest-bearing borrowings mainly for the construction of and the relocation to the Group's new site in Huizhou and working capital purpose. However, following the completion of the construction of phase II of the new site in February 2018, the Group does not have any plan to incur material capital expenditure for further expansion of the new site. The existing bank borrowings and payables for construction-in-progress will be repaid by instalment using the Group's internal resources according to their respective payment schedule. As a result, coupled with the receipt of the Listing proceeds, the Directors expect the Group's net current liabilities position and net debt to equity ratio to improve in 2018. The management believes that the Group has maintained adequate financial resources to fulfill its working capital requirements.

FOREIGN EXCHANGE RISK

The monetary assets and liabilities and business transactions of the Group are mainly carried out and conducted in Hong Kong dollars, U.S. dollars and Renminbi. In view of the stability of the exchange rate between these currencies, the Directors do not consider that the Group was significantly exposed to foreign exchange risk for the year ended 31 December 2017. The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures and to mitigate the impact on exchange rate fluctuations by entering into currency hedge arrangement, if necessary. During the 31 December 2017, no forward foreign exchange or hedging contracts had been entered into by the Group. The Group will continue to evaluate the Group's foreign currency exposure and take actions as appropriate.

MATERIAL ACQUISITIONS AND DISPOSALS

For the year ended 31 December 2017, the Group has made no material acquisitions or disposals of subsidiaries and associated companies.

CONTINGENT LIABILITIES

As at 31 December 2017, the Group did not have any significant contingent liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS

USE OF PROCEEDS

The net proceeds of the Group raised from the initial public offering were approximately HK\$77.6 million, after deducting the underwriting fees, commissions and other listing expenses. None of the net proceeds have been utilised at the date of this annual report and they are placed in licensed banks in Hong Kong. The net proceeds will be used in the manner as set out in the section of "Future Plans and Use of Proceeds" in the prospectus of the Company dated 14 February 2018 (the "**Prospectus**").

SUBSEQUENT EVENT

Subsequent to 31 December 2017, the shares of the Company were listed on the Main Board of the Stock Exchange on the Listing Date by way of a global offering, raising gross proceeds of approximately HK\$110.0 million.

EMPLOYEE AND REMUNERATION POLICY

The Group's remuneration policy is to compensate its employees based on their performance, qualifications and the Group's operational results. The total remuneration of employees includes basic salaries and performance bonus. Directors and senior management of the Group receive compensation in the form of fees, salaries, allowances, discretionary bonus, defined contribution plans and other benefits in kind with reference to those paid by comparable companies, time commitment and the performance of the Group. The Group also reimburses its Directors and senior management for expenses which are necessarily and reasonably incurred for the provision of services to the Group or executing their functions in relation to the operations of the Group. The Group regularly reviews and determines the remuneration and compensation packages (including incentive plans) of its Directors and senior management, by reference to, among other things, market level of remuneration and compensation paid by comparable companies, the respective responsibilities of its Directors and senior management and the performance of the Group.

SIGNIFICANT INVESTMENTS HELD

During the year ended 31 December 2017, the Group did not hold any significant investment in equity interest in any other company.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed in the Prospectus, the Group did not have other future plans for material investments and capital assets.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

The shares of the Company were first listed on the Main Board of the Stock Exchange on the Listing Date. The Company and any of its subsidiaries has not purchased, redeemed or sold any of its listed securities during the period from the Listing Date and up to the date of this annual report (the "**Period**").

FINAL DIVIDEND

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

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. CHAN Tsan Lam, aged 57, is the founder of the Group. Mr. Chan is an executive Director, Chairman and chief executive officer of the Company. He is primarily responsible for formulating corporate strategies, overseeing the overall management of business and operation of the Group. Mr. Chan is also a director of all of the Company's subsidiaries.

Mr. Chan has over 29 years of experience in marketing, strategic planning and business management in the manufacturing industry. From 1991 until Mr. Chan founded Sun Leader Mould Industrial Limited ("**Sun Leader HK**") in September 2000, Mr. Chan worked as a sole proprietor specializing in mould design and manufacturing.

Mr. Chan is the father of Ms. Chan Yin Yan, an executive Director of the Company. He is one of the controlling shareholders of the Company.

Mr. CHENG Chak, aged 66, is an executive Director and the mould fabrication technical consultant. Mr. Cheng is primarily responsible for providing technical advice and supervision on the manufacturing of products of the Group.

Mr. Cheng has over 42 years of experience in the mould fabrication industry. From 1974 to 1978, Mr. Cheng worked as an apprentice in a radio mould factory in Hong Kong. From June 1978 to April 1984, Mr. Cheng worked as a technician in a mould factory in Hong Kong. From April 1984 to September 2000, he worked as a partner in two factories in Hong Kong, both specializing in mould production. Mr. Cheng is also the founder of Sun Leader HK. Mr. Cheng is familiar with the design, production and fabrication of plastic moulds.

Ms. CHAN Yin Yan, aged 28, is an executive Director and the vice president of marketing. Ms. Chan is primarily responsible for overseeing the overall management of business and operation of the Group and responsible for the marketing of the Group. Ms. Chan joined the Group in June 2013 and has been responsible for managing part of the business and developing the Group's customer base and is the key personnel in developing the Group's e-cigarette business.

Ms. Chan obtained a bachelor's degree in commerce from Curtin University of Technology in Australia in August 2011.

Ms. Chan is the daughter of Mr. Chan, an executive Director, Chairman and chief executive officer of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. LO Ka Ki, aged 39, is an independent non-executive Director. Mr. Lo is a practising certified public accountant in Hong Kong with over 10 years of experience in auditing, accounting and corporate management. From December 2005 to November 2014, Mr. Lo worked at the audit department of an international accounting firm and an accountant in a Hong Kong Company. In November 2014, Mr. Lo joined World Link CPA Limited and is currently in a position of practising director.

Mr. Lo obtained his master's degree in professional accounting from The Hong Kong Polytechnic University. He is currently a certified public accountant (practising) of the Hong Kong Institute of Certified Public Accountants and a fellow member of The Association of Chartered Certified Accountants.

DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS (Continued)

Mr. HUNG Chun Leung, aged 51, is an independent non-executive Director. Mr. Hung joined Messrs. Terry Yeung & Lai, Solicitors as a consultant solicitor in July 1997 and has become a partner of Messrs. Terry Yeung & Lai, Solicitors since February 2016. Mr. Hung has approximately 20 years of experience in handling legal matters in the areas of conveyancing, mortgage finance transactions, commercial contracts, acquisition of shares, matrimonial cases, civil litigation and estate agents disciplinary inquiry hearings.

Mr. Hung obtained his bachelor of laws degree with honours and Postgraduate Certificate in Laws from The University of Hong Kong. Mr. Hung was admitted as a solicitor of the Supreme Court of Hong Kong in October 1993 and has been a member of the Law Society of Hong Kong since then.

Mr. CHAN Bing Kai, aged 71, is an independent non-executive Director. Mr. Chan has over 40 years of experience in the industry of manufacturing electronic products. Mr. Chan is the co-founder of a company that designs and manufactures a comprehensive line of audio and LED products, including CD, DVD, iPod docking or accessories and other high-fidelity multimedia for LED OEM customers.

SENIOR MANAGEMENT

Mr. LIAO Chi Cheng, aged 66, has been the general manager of the Group since October 2016. Mr. Liao is primarily responsible for managing the general operations of the Group and supervising the overall business performance of the Group.

Mr. Liao has over 25 years of experience in business marketing and corporate management in consumer electronics related industry. Prior to joining the Group, Mr. Liao worked as the executive vice president of Eastech Electronics (Taiwan) Inc. for 24 years.

Mr. Liao obtained a bachelor's degree in English language from Chinese Culture University in Taiwan.

Ms. POON Po Han Lisa is the Company's company secretary and its chief financial officer. Please refer to the sub-section below headed "Company Secretary" of this annual report for Ms. Poon's biography.

Mr. CHAN Man Ho Johnny, aged 52, joined the Group in March 2017, now is the vice general manager of the e-cigarette department and he is primarily responsible for overseeing the overall management and operation of the e-cigarette department and the general compliance regarding the e-cigarette business.

Prior to joining the Group, Mr. Chan worked in senior management positions in multinational corporations in electronics industry for 15 years. Mr. Chan graduated with a bachelor's degree in materials science and engineering from the University of Leeds. He later obtained a postgraduate diploma in quality management from the University of Paisley. In February 2015, Mr. Chan received a graduate certificate in business research from the University of Newcastle in Australia.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT (Continued)

In September 2003, Mr. Chan completed the Six Sigma Black Belt programme conducted by PSB corporation. In September 2016, Mr. Chan has been accredited by The Institute of Crisis and Risk Management as a certified risk planner. Mr. Chan is a member of The Hong Kong Institute of Engineers.

Mr. WU Chen-Tong, aged 61, joined the Group in December 2015, is the technical consultant to the Group's research and development department and he is primarily responsible for overseeing the development and manufacturing of new products and quality control.

Prior to joining the Group, Mr. Wu worked as senior management in Taiwan and Hong Kong companies where he gained vast experiences in product design and development.

Mr. Wu obtained a bachelor's degree in electronic engineering from National Taiwan Ocean University.

Mr. YUEH Yung Chan, aged 45, is the vice general manager of the Group's engineering department and he is primarily responsible for overseeing the operation of the Group's production plant. Prior to joining the Group in February 2015, Mr. Yueh has more over 15 years of experience in project engineering.

Mr. Yueh obtained his bachelor of engineering degree in manufacturing engineering, Postgraduate Diploma in Mechanical Engineering from The Hong Kong Polytechnic University and master of science degree in mechanical engineering from The Hong Kong Polytechnic University.

COMPANY SECRETARY

Ms. POON Po Han Lisa (潘寶嫻), aged 55, is the Company's company secretary and its chief financial officer. Ms. Poon is primarily responsible for financial planning and management and overseeing the accounting department of the Group.

Ms. Poon joined the Group in May 2008 and worked as its finance director and is responsible for its accounting, tax and financial matters. Ms. Poon has over 20 years of experience in financial management, accounting and taxation working in professional and commercial accounting sectors.

Ms. Poon obtained a degree of bachelor of science with honours in accounting from The University of Hull in the United Kingdom in July 2008, and a degree of master of corporate governance from The Hong Kong Polytechnic University in Hong Kong in October 2013.

Ms. Poon is a fellow member of the Association of Chartered Certified Accountants, associate of The Hong Kong Institute of Chartered Secretaries and associate of The Institute of Chartered Secretaries and Administrators.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE MEASURES

The Company is committed to maintaining high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability. The Board has adopted the principles and the code provisions of the Corporate Governance Code (the “**CG Code**”) contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) to ensure that the Company’s business activities and decision making processes are regulated in a proper and prudent manner.

During the Period, the Company has applied the principles and code provisions of the CG Code contained in Appendix 14 of the Listing Rules (as in effect from time to time) as the basis of the Company’s corporate governance practices. The Company has complied with all the applicable code provisions of the CG Code, save and except for the code provision A.2.1. Details of the deviation from the code provision A.2.1 are explained in the section “Chairman and Chief Executive Officer” of this corporate governance report.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the “**Model Code**”) as its code of conduct regarding dealings in the securities of the Company by the Directors and the Company’s senior management who, because of his/her office or employment, is likely to possess inside information in relation to the Company’s securities.

Upon specific enquiry, all Directors confirmed that they have complied with the Model Code during the Period. In addition, the Company is not aware of any non-compliance of the Model Code by the senior management of the Company during the Period.

THE BOARD

Board Composition

The Board currently comprises of 6 members, consisting of 3 executive Directors and 3 independent non-executive Directors.

Executive directors

Mr. Chan Tsan Lam (Chairman)
Mr. Cheng Chak
Ms. Chan Yin Yan

Independent non-executive directors

Mr. Lo Ka Ki
Mr. Hung Chun Leung
Mr. Chan Bing Kai

THE BOARD (Continued)

Board Composition (Continued)

The list of directors (by category) is also disclosed in all corporate communications issued by the Company from time to time pursuant to the Listing Rules. The independent non-executive directors are expressly identified in all corporate communications pursuant to the Listing Rules.

The biographical details of the directors of the Company are set out under “Directors and Senior Management” section in this annual report. Save as Ms. Chan Yin Yan is the daughter of Mr. Chan Tsan Lam, none of the members of the Board is related to one another.

Chairman and Chief Executive Officer

Mr. Chan Tsan Lam (“**Mr. Chan**”) is the chairman of the Board and chief executive officer of the Company. Although this deviates from the practice under code provision A.2.1 of the CG Code, where it provides that the two positions should be held by two different individuals, as Mr. Chan has considerable experience in the enterprise operation and management of the Company, the Board believes that it is in the best interests of the Company and its shareholders as a whole to continue to have Mr. Chan as chairman of the Board so that it can benefit from his experience and capability in leading the Board in the long-term development of the Company. From a corporate governance point of view, the decisions of the Board are made collectively by way of voting and therefore the chairman should not be able to monopolize the decision-making of the Board. The Board considers that the balance of power between the Board and management can still be maintained under the current structure. The Board shall review the structure from time to time to ensure appropriate action be taken should the need arise.

Save as disclosed above, during the Period, the Company has complied with the Corporate Governance Code.

Independent Non-Executive Directors

Throughout the Period, the Board has at all times met the requirements of the Rules 3.10 and 3.10A of the Listing Rules of having three independent non-executive directors (representing at least one third of the Board) with at least one of them possessing appropriate professional qualifications, or accounting or related financial management expertise.

The independent non-executive directors bring a wide range of business and financial expertise, experience and independent judgement to the Board and they are invited to serve on the board committees of the Company. Through active participation at board meeting, taking the lead in managing issues involving potential conflict of interests, all independent non-executive directors have made various contributions to the effective direction of the Company and provided adequate checks and balances to safeguard the interests of both the Group and the shareholders.

The Company has received written confirmation from each independent non-executive director of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all independent non-executive directors to be independent in light of the independence guidelines set out in Rule 3.13 of the Listing Rules.

CORPORATE GOVERNANCE REPORT

THE BOARD (Continued)

Appointment and re-election of directors and non-executive directors

All directors of the Company are appointed for a specific term, subject to renewal upon expiry of the existing term. Each executive director is engaged on a service agreement for a term of three years. The appointment may be terminated by either party by not less than three months' written notice. Each of the independent non-executive directors of the Company is appointed for a term of three years, which appointment may be terminated by either party by not less than one month's written notice.

The procedure and process of appointment, re-election and removal of directors are laid down in the Company's Articles of Association (the "**Articles**"). The Nomination Committee is responsible for reviewing board composition, monitoring the appointment of directors and assessing the independent non-executive directors.

According to the Articles, one-third of the directors for the time being (if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation at each annual general meeting provided that every director shall be subject to retirement at an annual general meeting at least once every three years. In addition, any new director appointed by the Board to fill a casual vacancy in the Board shall hold office only until the first general meeting after appointment, and any new director appointed by the Board as an addition to the Board shall hold office until the next following annual general meeting of the Company. The retiring directors are eligible for re-election by the shareholders at the respective general meetings.

At the forthcoming annual general meeting of the Company (the "**AGM**"), Ms. Chan Yin Yan and Mr. Chan Bing Kai will retire at the AGM pursuant to the Articles provisions stated in the foregoing paragraph. All the above retiring directors, being eligible, will offer themselves for re-election at the AGM. The Board and the Nomination Committee recommended their re-appointment. The Company's circular, sent together with this annual report, contains detailed information of the above retiring directors as required by the Listing Rules.

Duties performed by the Board and management

The Board is responsible for the overall development of the Group, approving and monitoring the overall development strategy of the Group, assessing, monitoring and controlling the operation and financial performance, ensuring that the Directors perform their proper duties and act in the best interests of the Group and hold discussions on various important and proper businesses of the Company in a timely manner. All Directors are entitled to raise and include any matters that should be submitted to the Board for discussion in the agenda of the board meeting. The management shall provide members of the Board and specialized committees under the Board with appropriate and sufficient information in a timely manner so as to update them with the latest developments of the Group and to better facilitate the discharge of their duties. The management team is accountable to the Board, executing the strategies and plans formulated by the Board, and making decisions in relation to the day-to-day operation of the Group. The management reports monthly to the Board on the operation and financial performance of the Group.

The Board is also responsible for determining the Company's corporate governance policies which include:

- (a) to develop and review the Company's policies and practices on corporate governance;

CORPORATE GOVERNANCE REPORT

THE BOARD (Continued)

Duties performed by the Board and management (Continued)

- (b) to review and monitor the training and continuous professional development of the directors and senior management;
- (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- (d) to develop, review and monitor the code of conduct applicable to the directors and employees; and
- (e) to review the compliance with the CG Code and disclosures in the corporate governance report.

Training, Induction and Continuing Development of Directors

Prior to the Listing, all Directors have been given relevant guideline materials and attended a training regarding the duties and responsibilities of being a Director, the relevant laws and regulations applicable to the Directors, duty of disclosure of interest in the Group. Such induction materials and briefings will also be provided to newly appointed Directors shortly upon their appointment as Directors. Continuing briefings and professional development to Directors will be arranged whenever necessary. The Company will continue to arrange and fund the training in accordance with code provision A.6.5 of the CG Code.

Board Meeting

During the Period, one board meeting was held and the attendance records of individual Directors are set out below:

| | Attendance/ Number of Meetings |
|--|---|
| Executive Directors | |
| Mr. Chan Tsan Lam (<i>Chairman</i>) | 1/1 |
| Mr. Cheng Chak | 1/1 |
| Ms. Chan Yin Yan | 1/1 |
| Independent Non-Executive Directors | |
| Mr. Lo Ka Ki | 1/1 |
| Mr. Hung Chun Leung | 1/1 |
| Mr. Chan Bing Kai | 1/1 |

CORPORATE GOVERNANCE REPORT

THE BOARD (Continued)

Board committees

Nomination committee

The Company established a nomination committee (the “**Nomination Committee**”) on 8 February 2018 with written terms of reference in compliance with code provision A5 of the CG Code.

The duties of the nomination committee include, without limitation, (a) to review the structure, size, composition and diversity (including without limitation, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company’s corporate strategy; (b) to determine the policy for the nomination of directors, identify individuals suitably qualified to become members of the Board and may select individuals nominated for directorship; (c) to assess the independence of the independent non-executive directors; and (d) to make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular the chairman and the chief executive, taking into the Company’s corporate strategy and the mix of skills, knowledge, experience and diversity needed in the future.

The nomination committee consists of Mr. Chan Tsan Lam, Mr. Hung Chun Leung and Mr. Lo Ka Ki. Mr. Chan Tsan Lam is the chairman of the nomination committee.

Since the Listing Date, the nomination committee met once to review the structure, size and composition of the Board, assess the independence of the independent non-executive Directors and other related matters of the Company.

Details of attendance of members at meeting of the nomination committee held from the Listing Date to the date of this report are set out as follows:

| | Attendance/ Number of Meetings |
|---------------------------------------|---|
| Mr. Chan Tsan Lam (<i>Chairman</i>) | 1/1 |
| Mr. Hung Chun Leung | 1/1 |
| Mr. Lo Ka Ki | 1/1 |

CORPORATE GOVERNANCE REPORT

THE BOARD (Continued)

Board committees (Continued)

Audit committee

The Company established an audit committee (the “**Audit Committee**”) on 8 February 2018 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and code provision C3 of the CG Code.

The duties of the audit committee include, without limitation, (a) to be primarily responsible for making recommendation to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal; (b) to review and monitor the external auditor’s independence and objectivity and the effectiveness of the audit process in accordance with applicable standards; and (c) to discuss the risk management and internal control system with management to ensure that management has performed its duty to have effective systems.

The audit committee consists of Mr. Lo Ka Ki, Mr. Hung Chun Leung and Mr. Chan Bing Kai. Mr. Lo Ka Ki is the chairman of the audit committee.

Since the Listing Date, the audit committee met once to review the annual financial statements of the Company for the year ended 31 December 2017 and the effectiveness of the Company’s financial controls, internal control and risk management systems.

Details of attendance of members at meetings of the audit committee held from the Listing Date to the date of this report are set out as follows:

| | Attendance/ Number of Meetings |
|----------------------------------|---|
| Mr. Lo Ka Ki (<i>Chairman</i>) | 1/1 |
| Mr. Hung Chun Leung | 1/1 |
| Mr. Chan Bing Kai | 1/1 |

CORPORATE GOVERNANCE REPORT

THE BOARD (Continued)

Board committees (Continued)

Remuneration committee

The Company established a remuneration committee (the “**Remuneration Committee**”) on 8 February 2018 with written terms of reference in compliance with Rule 3.25 of the Listing Rules and paragraph B1 of the CG Code as set out in Appendix 14 to the Listing Rules.

The duties of the remuneration committee, under the principle that no Director should be involved in deciding his own remuneration, include, without limitation, (a) to make recommendations to the Board on the Company’s policy and structure for all directors and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy; (b) to make recommendations to the Board on the remuneration packages of individual executive directors and senior management; and (c) to review and approve the management’s remuneration proposals with reference to the Board’s corporate goals and objectives.

The remuneration committee consists of Mr. Chan Bing Kai, Mr. Lo Ka Ki and Mr. Chan Tsan Lam. Mr. Chan Bing Kai is the chairman of the remuneration committee.

Since the Listing Date, the remuneration committee met once to review the remuneration policy for all directors and senior management. Details of attendance of members at meeting of the remuneration committee held from the Listing Date to the date of this report are set out as follows:

| | Attendance/ Number of Meetings |
|---------------------------------------|---|
| Mr. Chan Bing Kai (<i>Chairman</i>) | 1/1 |
| Mr. Lo Ka Ki | 1/1 |
| Mr. Chan Tsan Lam | 1/1 |

COMPANY SECRETARY

The company secretary of the Company is Ms. Poon Po Han Lisa, who fulfils the qualification requirements laid down in the Listing Rules. Biographical details of Ms. Poon are set out under “Directors and Senior Management” section in this annual report.

CORPORATE GOVERNANCE REPORT

EXTERNAL AUDITORS AND REMUNERATION

The statement of the external auditor of the Company about their reporting responsibilities for the Company's financial statements for the year ended 31 December 2017 is set out in the Independent Auditor's Report on pages 30 and 34 of this annual report.

The fees paid/payable to Mazars CPA Limited, the Company's auditors, in respect of audit services and non-audit services for the year ended 31 December 2017 are analysed below:

| Types of services provided by the external auditors | Fees paid/payable HK\$'000 |
|--|--------------------------------------|
| Audit services fee for the year ended 31 December 2017 | 1,180 |
| Services fees for initial public offer | 2,025 |
| Total | 3,205 |

* *The auditor's remuneration disclosed in note 6 to the consolidated financial statements included HK\$113,000, which was paid/payable to the statutory auditors of the PRC subsidiaries of the Company (not Mazars CPA Limited).*

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL STATEMENT

The directors acknowledge their responsibilities for the preparation of the consolidated financial statements for each financial year, which give a true and fair view of the financial position of the Group and of the results and cash flows of the Group for that year and in compliance with relevant law and disclosure provisions of the Listing Rules. In preparing the financial statements for the year ended 31 December 2017, the directors have selected appropriate accounting policies and applied them consistently, made judgements and estimates that are reasonable, and have prepared disclosure of the financial position of the Group with reasonable accuracy at any time.

The directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

CORPORATE GOVERNANCE REPORT

INTERNAL CONTROL

The Company does not have an internal audit function and is currently of the view that there is no immediate need to set up an internal audit function within the Group in light of the size, nature and complexity of the Group's business. The Board is responsible for maintaining an adequate internal control system to safeguard shareholders investments and Company assets and reviewing the effectiveness of such through Audit Committee on an annual basis. The Audit Committee oversees the internal control system of the Group, reports to the Board on any material issues and makes recommendations. An annual review of the effectiveness of the system of internal controls of the Group will be conducted.

For the purpose of the Listing, the Company hired an independent internal control adviser to review the effectiveness of the Group's material internal control system. They had communicated with the Company on their findings and recommendations. The Board is of the view that the internal control measures in place are adequate and effective to safeguard the interest of shareholders and the Group's assets.

SHAREHOLDER RIGHTS

Procedures for shareholders to convene an extraordinary general meeting

Pursuant to Article 58 of the Articles, the Board may whenever it thinks fit call extraordinary general meetings. Any one or more members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures for shareholders to put forward proposals at shareholders' meeting

If a shareholder wishes to put forward proposals at a shareholders' meeting, the shareholder, who has satisfied the shareholding requirements set out in the above paragraph headed "Procedures for shareholders to convene an extraordinary general meeting", may follow the same procedures by sending a written requisition to the Board or the company secretary at the principal place of business of the Company in Hong Kong. The shareholder should state his/her proposals in the written requisition and submit the written requisition as early as practicable to enable the company secretary to make necessary arrangement.

SHAREHOLDER RIGHTS (Continued)

Procedures for Directing Shareholder's Enquiries to the Board

Shareholders may send written enquiries to the Company for putting forward any enquiries or proposals to the Board. Contact details are as follows:

Address: Workshop Unit 6, 13th Floor, Block B, Hoi Luen Industrial Centre, 55 Hoi Yuen Road, Kwun Tong, Hong Kong

Email: info@hktcgroup.com

For the avoidance of doubt, shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto.

INVESTOR RELATIONS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investors' understanding of the Groups' business performance and strategies. The Company also recognises the importance of transparency and timely disclosure of corporate information, which will enable shareholders and investors to make the best investment decisions.

The general meetings of the Company provide a platform for communication between the Board and the shareholders. The Chairman of the Board as well as chairmen of the Nomination Committee, Remuneration Committee and Audit Committee or in their absence, other members of the respective committees, and, where applicable, the chairman of the independent board committee are available to answer questions at shareholders' meeting.

To promote effective communication, the Company maintains a website at www.hktcgroup.com where up-to-date information and updates on the Company's business operations and development, financial information and other information are available to public access.

CONSTITUTIONAL DOCUMENTS

Pursuant to a special resolution of the shareholders passed on 8 February 2018, the amended and restated memorandum and articles of association of the Company were adopted with effect from the Listing Date. During the Period, there was no change in the memorandum and articles of association of the Company.

The amended and restated memorandum and articles of association of the Company are available on the websites of the Stock Exchange and the Company.

DIRECTORS' REPORT

The Directors are pleased to present the annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activities of the Company is investment holding. Principal activities of the subsidiaries are set out in Note 12 to the consolidated financial statements.

A review of the business of the Group during the year, a discussion on the Group's future business development and an analysis of the Group's performance during the year using key financial performance indicators are provided in the "Chairman Statement" on pages 3 to 4 and the "Management Discussion and Analysis" on pages 5 to 8 of this annual report.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

During the year ended 31 December 2017, the Group was not aware of material non-compliance with the relevant laws and regulations that have a significant impact on the business and operations of the Group.

RELATIONSHIPS WITH CUSTOMERS, SUPPLIERS AND EMPLOYEES

We recognise that employees, customers and suppliers are keys to our sustainable development. We are committed to establishing a close and caring relationship with our employees, providing high quality products and services to our customers and maintain cooperation with our suppliers.

We provide a fair and safe workplace, promotes diversity to our employees, provides competitive remuneration packages and career development opportunities based on their performance and experience. The Group also provides regular training and development resources to the employees so that they can keep abreast of the latest development of the market and the industry and, at the same time, improve their performance and self-fulfillment in their positions.

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties facing by the Group include market and financial risks.

Market Risks

The fluctuation of prices of raw materials exposes us to risks. While we monitor the price of raw materials and adjust our price quotations accordingly, we may not be able to directly pass on any increase in the price of raw materials to our customers in time or at all, which may have a material adverse effect on our business, financial condition and results of operations.

Financial Risks

The financial risk management objectives and policies of the Group are shown in note 29 to the consolidated financial statements.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group recognises the importance of environmental protection and has adopted stringent measures for environmental protection in order to ensure our compliance to the prevailing environmental protection laws and regulations.

During the year, the Group does not have any violation of relevant environmental regulations and rules which gives rise of significant impact to the Group's development, performance and businesses.

The environmental, social and governance report will be published in a separate report to be uploaded on the websites of the Company and the Stock Exchange.

CONSOLIDATED FINANCIAL STATEMENTS

The results of the Group for the year ended 31 December 2017 and the financial position of the Group as at that date are set out in the consolidated financial statements on pages 35 to 40.

DIVIDENDS

The Directors did not recommend the payment of dividend for the year ended 31 December 2017.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the AGM to be held on 28 May 2018, the register of members of the Company will be closed from 23 May 2018 to 28 May 2018, both dates inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the AGM, unregistered holders of the Company should ensure that all share transfer documents, accompanied by the relevant share certificates, are lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 21 May 2018.

FOUR YEARS FINANCIAL SUMMARY

A summary of the Group's results, assets and liabilities for the past four financial years are set out on page 104. The summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movement in the Group's property, plant and equipment during the year are set out in Note 13 to the consolidated financial statements.

DIRECTORS' REPORT

ADDITIONAL INFORMATION TO THE PROPERTY INTEREST

By comparing the valuation of the Group's property interest of RMB317,200,000 (approximately HK\$374,994,000) as of 31 December 2017 as set out in the Property Valuation Report as set out in Appendix 4 to the Prospectus, and the carrying amount of these properties interest of approximately HK\$358,057,000 (comprising buildings, construction in-progress and prepaid land lease payments) as of 31 December 2017, the Group would carry a valuation surplus of approximately HK\$16,937,000. The valuation surplus of the property interests had not been incorporated in the Group's consolidated financial statements for the Period. If the valuation surplus were to be included in these consolidated financial statements, an additional annual depreciation charge of HK\$385,000 would have been recognised in the consolidated income statement for the Period.

BANK BORROWINGS

Particulars of the bank borrowings of the Group as at 31 December 2017 are set out in Note 21 to the consolidated financial statements.

SHARE CAPITAL

Details of the movement in the Company's share capital during the year are set out in Note 24 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the Period.

RESERVES

Details of the movement in reserves of the Company and the Group during the year are set out in Note 25 to the consolidated financial statements.

DIRECTORS

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

Executive Directors

Mr. Chan Tsan Lam (*Chairman*)
Mr. Cheng Chak
Ms. Chan Yin Yan

Independent Non-Executive Directors

Mr. Lo Ka Ki
Mr. Hung Chun Leung
Mr. Chan Bing Kai

Pursuant to Article 84 of the Company's Articles, Ms. Chan Yin Yan and Mr. Chan Bing Kai will retire at the AGM and, being eligible, will offer themselves for re-election at the AGM.

FIVE HIGHEST PAID INDIVIDUALS

Details of the five highest paid individuals in the Group are set out in Note 8 to the consolidated financial statements.

DIRECTORS' SERVICE AGREEMENTS

Each of the executive Directors entered into a services agreement with the Company for a term of three years commencing from the Listing Date, which may be terminated by either party giving not less than three month's notice in writing.

The Company has issued a letter of appointment to each of the independent non-executive directors for a term of three years commencing from the Listing Date, unless terminated by either party giving to the other not less than one month's notice in writing.

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section headed "Related Party Transactions" in this report and Note 27 to the consolidated financial statements, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during the year.

DIRECTORS' REPORT

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURE

At no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire by means of acquisition of shares, or debt securities, including debentures, of the Company or any other body corporate.

DIRECTORS' INTERESTS IN SHARES UNDERLYING SHARES AND DEBENTURES

As at the date of this report, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinances (the "SFO")), as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules were as follows:

Long position in issued ordinary shares of the Company

| Name of Director | Capacity | Number of shares or underlying shares | Approximate percentage of shareholding |
|-------------------|--|---------------------------------------|--|
| Mr. Chan Tsan Lam | Interest in controlled corporation (<i>Note</i>) | 465,000,000 | 75% |

Note: These shares are held by Oceanic Green Group Limited ("Oceanic Green"), New Strength Ventures Limited ("New Strength"), Gold Alliance Ventures Limited ("Gold Alliance"), New Straits Ventures Limited ("New Straits"), Treasure Line Holdings Limited ("Treasure Line") and Flaming Sapphire Limited ("Flaming Sapphire"), all of which are wholly owned by Mr. Chan Tsan Lam. By virtue of the SFO, Mr. Chan Tsan Lam is deemed to be interested in the Shares held by Oceanic Green, New Strength, Gold Alliance, New Straits, Treasure Line and Flaming Sapphire.

Save as disclosed above, as at the date of this report, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS INTERESTS IN SHARES AND UNDERLYING SHARES

As at the date of this report, the following persons (other than the Directors and chief executive of the Company) had interests in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO:

Long position in issued ordinary shares of the Company

| Name of Shareholder(s) | Capacity | Number of ordinary shares of the Company held | Approximate percentage of the total issued shares of the Company |
|-------------------------------------|---------------------------------------|---|--|
| Oceanic Green | Beneficial Owner | 127,100,000 Shares | 20.5% |
| New Strength | Beneficial Owner | 127,100,000 Shares | 20.5% |
| Gold Alliance | Beneficial Owner | 94,395,000 Shares | 15.225% |
| New Straits | Beneficial Owner | 79,205,000 Shares | 12.775% |
| Treasure Line | Beneficial Owner | 24,800,000 Shares | 4% |
| Flaming Sapphire | Beneficial Owner | 12,400,000 Shares | 2% |
| Mr. Chan Tsan Lam ⁽¹⁾ | Interest in controlled corporation | 465,000,000 Shares | 75% |
| Ms. Fung Suk Yee May ⁽²⁾ | Interest of Spouse | 465,000,000 Shares | 75% |

Note:

- (1) Each of Oceanic Green, New Strength, Gold Alliance, New Straits, Treasure Line and Flaming Sapphire, is wholly-owned by Mr. Chan, who is therefore deemed to be interested in all the Shares held by each of Oceanic Green, New Strength, Gold Alliance, New Straits, Treasure Line and Flaming Sapphire.
- (2) Ms. Fung Suk Yee May is the spouse of Mr. Chan. Therefore, she is deemed to be interested in the Shares in which Mr. Chan is interested for the purpose of the SFO.

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS INTERESTS IN SHARES AND UNDERLYING SHARES

(Continued)

Save as disclosed above, as at the date of this report, the Directors were not aware of any other person (other than the Directors or chief executive of the Company) who had an interest or 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 is, 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 any other members of the Group, or any other substantial shareholders whose interests or short positions were recorded in the register required to be kept by the Company under Section 336 of the SFO.

SHARE OPTION SCHEME

The Company did not adopt a share option scheme.

NON-COMPETITION UNDERTAKING BY CONTROLLING SHAREHOLDERS

The Company has received annual confirmations from the controlling shareholders, Mr. Chan Tsan Lam, Oceanic Green, New Strength, Gold Alliance, New Straits, Treasure Line and Flaming Sapphire, in respect of their compliance with the non-competition undertaking provided in favour of the Company. The independent non-executive Directors have reviewed the said undertaking and are of the view that Mr. Chan Tsan Lam, Oceanic Green, New Strength, Gold Alliance, New Straits, Treasure Line and Flaming Sapphire have complied with the non-competition undertaking since the Listing Date up to the date of this report.

RELATED PARTY TRANSACTION

Related party transactions entered into by the Group for the year ended 31 December 2017 are disclosed in note 27 to the consolidated financial statements. These transactions had either been discontinued before the Company was listed on the Stock Exchange or constitute fully-exempted continuing connected transactions under the Listing Rules as at the date of this report.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's revenue and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

| | Percentage of the Group's total | |
|---|---------------------------------|-----------|
| | Revenue | Purchases |
| The largest customer | 44% | N/A |
| The five largest customers in aggregate | 86% | N/A |
| The largest supplier | N/A | 16% |
| The five largest suppliers in aggregate | N/A | 48% |

DIRECTORS' REPORT

Save as disclosed above and so far as the Board are aware, neither the Directors, their associates nor any shareholders of the Company (which to the knowledge of the Directors own more than 5% of the Company's share capital) had any beneficial interest in these major customers and suppliers.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors as at the date of this annual report, there was a sufficient prescribed public float of the issued shares of the Company under the Listing Rules.

PERMITTED INDEMNITY PROVISION

The articles of association of the Company provides that every Director 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 he/she may sustain or incur by the execution of his/her duty, provided that the indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of said persons. The Company has arranged appropriate directors liability insurance in respect of legal action against Directors.

TAX RELIEF

The Directors are not aware of any relief from taxation available to the shareholders by reason of their holding of the shares of the Company.

PROFESSIONAL TAX ADVICE

If the shareholders of the Company are unsure about the taxation implications of purchasing, holding, disposing of, dealing in, or the exercise of any rights in relation to the shares of the Company, they are advised to consult an expert.

AUDITOR

A resolution to re-appoint the retiring auditors, Messrs. Mazars CPA Limited, is to be proposed at the forthcoming annual general meeting of the Company.

ON BEHALF OF THE BOARD

Chan Tsan Lam
Chairman

Hong Kong, 28 March 2018

INDEPENDENT AUDITOR'S REPORT



MAZARS CPA LIMITED

瑪澤會計師事務所有限公司
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18 Harbour Road, Wanchai, Hong Kong
香港灣仔港灣道18號中環廣場42樓
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Email 電郵: info@mazars.hk
Website 網址: www.mazars.hk

To the members of

Tian Chang Group Holdings Ltd.

(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Tian Chang Group Holdings Ltd. (the "Company") and its subsidiaries (together the "Group") set out on pages 35 to 103, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2017, and of its financial performance and 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 ("HKSA") issued by the HKICPA. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

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

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (Continued)

The key audit matters

Recognition of expenses for the initial listing of the Group

Refer to the consolidated income statement.

Relevant costs incurred for the initial listing of the shares of the Company are allocated and classified among (i) profit or loss as listing expenses and (ii) equity as a reduction of share premium upon the capitalisation issue, on the basis that whether the costs are (i) costs for the Company to obtain the listing status or (ii) incremental costs for the Company to raise additional funds from the issue of new shares, respectively. Such allocation of the costs involved significant judgement of the management. During the year ended 31 December 2017, costs attributable to obtaining the listing status of approximately HK\$15,844,000 (2016: HK\$nil) were charged to profit or loss.

We have identified the above matter as a key audit matter because the classification and allocation of relevant costs incurred involves a significant degree of management judgement and therefore is subject to a significant inherent risk of error.

Going concern

Refer to Note 2 to the consolidated financial statements.

In the past several years, the Group invested significant amount for the construction of the new site in Huizhou, Guangdong province, the People's Republic of China. To finance, the Group incurred significant borrowings. As a consequence, the current liabilities of the Group exceeded its current assets by approximately HK\$133,257,000 as at 31 December 2017.

At 31 December 2017, the Group had unutilised banking facilities of approximately HK\$182,207,000 and was granted additional indicative credit facility of approximately HK\$75,600,000.

We have identified the above matter as a key audit matter because should the Group be unable to operate as a going concern, significant adjustments would have been made to the consolidated financial statements.

How our audit addressed the key audit matter

We enquired of the management on the bases of classification and allocation for the relevant costs and assessed the reasonableness of these bases with reference to applicable accounting standards and guidelines. We checked samples of listing expense items incurred for the initial listing of the shares of the Company to invoices and agreements to confirm the natures of the items and checked whether these items have been correctly allocated and classified accordingly to bases determined by the management.

We inspected the banking and credit facilities letters and evaluated the Group's cash flow forecasts including its calculations and underlying key assumptions adopted. In addition, we compared actual cash flows with the forecasts for the period subsequent to 31 December 2017.

We assessed the risk if change in the assumptions, either individually or collectively, would lead to different conclusions.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION

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

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

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

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs 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.

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

INDEPENDENT AUDITOR'S REPORT

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. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

INDEPENDENT AUDITOR'S REPORT

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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Mazars CPA Limited

Certified Public Accountants

Hong Kong, 28 March 2018

The engagement director on the audit resulting in this independent auditor's report is:

She Shing Pang

Practising Certificate number: P05510

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2017

| | Note | 2017 HK\$'000 | 2016 HK\$'000 |
|---|------|------------------|------------------|
| Revenue | 4 | 572,864 | 555,561 |
| Cost of goods sold | | (438,825) | (427,386) |
| Gross profit | | 134,039 | 128,175 |
| Other income | 5 | 4,868 | 8,296 |
| Selling and distribution costs | | (11,604) | (11,570) |
| Administrative and other operating expenses | | (66,909) | (66,584) |
| Finance costs | 6 | (13,525) | (13,320) |
| Listing expenses | | (15,844) | - |
| Profit before tax | 6 | 31,025 | 44,997 |
| Income tax expenses | 9 | (10,947) | (11,140) |
| Profit for the year, attributable to equity holders of the Company | | 20,078 | 33,857 |
| Earnings per share attributable to equity holders of the Company | | HK cents | HK cents |
| Basic | 11 | 4.32 | 7.28 |
| Diluted | 11 | n/a | n/a |

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2017

| | 2017 HK\$'000 | 2016 HK\$'000 |
|---|------------------|------------------|
| Profit for the year | 20,078 | 33,857 |
| Other comprehensive income (loss): | | |
| <i>Items that may be reclassified subsequently to profit or loss:</i> | | |
| Changes in fair value of available-for-sale financial assets | 269 | 210 |
| Exchange difference on consolidation | 16,679 | (29,147) |
| | 16,948 | (28,937) |
| Total comprehensive income for the year, attributable to equity holders of the Company | 37,026 | 4,920 |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

| | Note | 2017 HK\$'000 | 2016 HK\$'000 |
|--|------|------------------|------------------|
| Non-current assets | | | |
| Property, plant and equipment | 13 | 398,502 | 372,550 |
| Prepaid land lease payments | 14 | 46,351 | 45,112 |
| Available-for-sale financial assets | 15 | 10,506 | 7,514 |
| Deferred tax assets | 23 | 2,179 | 7,453 |
| | | 457,538 | 432,629 |
| Current assets | | | |
| Prepaid land lease payments | 14 | 1,117 | 1,063 |
| Inventories | 16 | 55,272 | 65,698 |
| Trade and other receivables | 17 | 120,214 | 114,169 |
| Income tax recoverable | | 1,057 | - |
| Bank balances and cash | | 19,591 | 18,919 |
| | | 197,251 | 199,849 |
| Current liabilities | | | |
| Trade and other payables | 18 | 114,541 | 90,325 |
| Bank overdrafts | 19 | 1,024 | 5,826 |
| Income tax payables | | 3,250 | 3,062 |
| Payables for construction in progress | 20 | 28,176 | 26,012 |
| Interest-bearing borrowings | 21 | 172,416 | 140,834 |
| Obligations under finance leases | 22 | 11,101 | 10,233 |
| | | 330,508 | 276,292 |
| Net current liabilities | | (133,257) | (76,443) |
| Total assets less current liabilities | | 324,281 | 356,186 |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

| | Note | 2017 HK\$'000 | 2016 HK\$'000 |
|---|------|------------------|------------------|
| Non-current liabilities | | | |
| Payables for construction in progress | 20 | - | 17,414 |
| Interest-bearing borrowings | 21 | 20,097 | 33,741 |
| Obligations under finance leases | 22 | 9,567 | 16,816 |
| Loans from the Ultimate Controlling Party | | - | 28,598 |
| Deferred tax liabilities | 23 | 10,503 | 12,529 |
| | | 40,167 | 109,098 |
| NET ASSETS | | 284,114 | 247,088 |
| Capital and reserves | | | |
| Share capital | 24 | - | - |
| Reserves | 25 | 284,114 | 247,088 |
| TOTAL EQUITY | | 284,114 | 247,088 |

Approved and authorised for issue by the Board of Directors on 28 March 2018 and signed on its behalf by

CHAN Tsan Lam
Director

CHENG Chak
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2017

| | Attributable to equity holders of the Company | | | | | | Total HK\$'000 |
|--|---|--|--|--|--|------------------------------------|-------------------|
| | Share capital HK\$'000 (Note 24) | Capital reserve HK\$'000 (Note 25(a)) | Statutory reserve HK\$'000 (Note 25(b)) | Translation reserve HK\$'000 (Note 25(c)) | Revaluation reserve HK\$'000 (Note 25(d)) | Accumulated profits HK\$'000 | |
| At 1 January 2016 | - | 77,810 | 2,667 | 14,328 | 322 | 147,041 | 242,168 |
| Profit for the year | - | - | - | - | - | 33,857 | 33,857 |
| Other comprehensive income (loss): | | | | | | | |
| <i>Items that may be reclassified subsequently to profit or loss</i> | | | | | | | |
| Changes in fair value of available-for-sale financial assets | - | - | - | - | 210 | - | 210 |
| Exchange difference on consolidation | - | - | - | (29,147) | - | - | (29,147) |
| Total comprehensive income for the year | - | - | - | (29,147) | 210 | 33,857 | 4,920 |
| Transactions with owners: | | | | | | | |
| Appropriation of statutory reserve | - | - | 2,170 | - | - | (2,170) | - |
| At 31 December 2016 | - | 77,810 | 4,837 | (14,819) | 532 | 178,728 | 247,088 |
| At 1 January 2017 | - | 77,810 | 4,837 | (14,819) | 532 | 178,728 | 247,088 |
| Profit for the year | - | - | - | - | - | 20,078 | 20,078 |
| Other comprehensive income: | | | | | | | |
| <i>Items that may be reclassified subsequently to profit or loss</i> | | | | | | | |
| Changes in fair value of available-for-sale financial assets | - | - | - | - | 269 | - | 269 |
| Exchange difference on consolidation | - | - | - | 16,679 | - | - | 16,679 |
| Total comprehensive income for the year | - | - | - | 16,679 | 269 | 20,078 | 37,026 |
| At 31 December 2017 | - | 77,810 | 4,837 | 1,860 | 801 | 198,806 | 284,114 |

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2017

| | Note | 2017 HK\$'000 | 2016 HK\$'000 |
|--|------|------------------|------------------|
| OPERATING ACTIVITIES | | | |
| Cash generated from operations | 26 | 100,939 | 60,393 |
| Income tax paid | | (9,116) | (9,099) |
| Net cash from operating activities | | 91,823 | 51,294 |
| INVESTING ACTIVITIES | | | |
| Interest received | | 36 | 76 |
| Purchase of property, plant and equipment | | (17,466) | (14,516) |
| Purchase of available-for-sale financial assets | | (2,723) | (709) |
| Redemption of other investments | | - | 3,374 |
| Net cash used in investing activities | | (20,153) | (11,775) |
| FINANCING ACTIVITIES | | | |
| Inception of interest-bearing borrowings | | 375,325 | 271,248 |
| Repayment of interest-bearing borrowings | | (360,218) | (259,982) |
| Repayment of loans from the Ultimate Controlling Party | | (29,866) | - |
| Repayment of payables for construction in progress | | (27,595) | (45,279) |
| Repayment of obligations under finance leases | | (11,313) | (7,343) |
| Interest paid | | (12,029) | (9,639) |
| Net cash used in financing activities | | (65,696) | (50,995) |
| Net increase (decrease) in cash and cash equivalents | | 5,974 | (11,476) |
| Cash and cash equivalents at the beginning of the year | | 13,093 | 23,491 |
| Effect on exchange rate changes | | (500) | 1,078 |
| Cash and cash equivalents at the end of the year, represented by bank balances and cash | | 18,567 | 13,093 |
| Analysis of the balances of cash and cash equivalents | | | |
| Bank balances and cash | | 19,591 | 18,919 |
| Bank overdrafts | | (1,024) | (5,826) |
| | | 18,567 | 13,093 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

1. GENERAL INFORMATION AND BASIS OF PRESENTATION

Tian Chang Group Holdings Ltd. (the “Company”) was incorporated as an exempted company with limited liability in the Cayman Islands on 26 April 2017. The registered office of the Company is situated at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The Company’s principal place of business is situated at Unit 6, 13/F, Block B, Hoi Luen Industrial Centre, 55 Hoi Yuen Road, Kwun Tong, Kowloon, Hong Kong.

The principal activity of the Company is investment holding. The Company together with its subsidiaries (hereinafter collectively referred to as the “Group”) is principally engaged in manufacturing and sales of electronic cigarettes products (“e-cigarettes products”) and providing integrated plastic solutions in Hong Kong and in the People’s Republic of China (the “PRC”).

In preparing for the initial listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (the “Initial Listing”), the Group underwent a group reorganisation (the “Reorganisation”) to rationalise the group structure. As a result of the Reorganisation, the Company became the holding company of the Group on 12 June 2017. Details of the Reorganisation are more fully explained in the section headed “History, Reorganisation and Corporate Structure” of the prospectus of the Company dated 14 February 2018 (the “Prospectus”).

The shares of the Company were listed on the Main Board of the Stock Exchange on 8 March 2018.

The Group resulting from the Reorganisation is regarded as a continuing entity under the common control of Mr. Chan Tsan Lam (the “Ultimate Controlling Party”) prior to and after the Reorganisation, and that control is not transitory. Accordingly, the consolidated financial statements for the year ended 31 December 2017 (and the comparative information for the year ended 31 December 2016) have been prepared using the principles of merger accounting in accordance with Accounting Guideline 5 “Merger accounting under common control combination” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The consolidated income statements, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Group for the years ended 31 December 2017 and 2016 have been prepared on the basis as if the current group structure has been in existence throughout the relevant years, or since the respective dates of incorporation or establishment, where there is a shorter period. The consolidated statement of financial position of the Group as at 31 December 2016 has been prepared to present the assets and liabilities of the companies now comprising the Group as if the group structure has been in existence at the date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

2. PRINCIPAL ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements has been prepared in accordance with the Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the HKICPA and accounting principles generally accepted in Hong Kong.

The consolidated financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure requirements under the Rules Governing the Listing of Securities on the Stock Exchange.

At 31 December 2017, the current liabilities of the Group exceeded its current assets by approximately HK\$133,257,000.

At 31 December 2017, the Group had unutilised banking facilities of approximately HK\$182,207,000 and was granted additional indicative credit facility of approximately HK\$75,600,000.

The management of the Company is of the opinion that, taking into account the confirmed and indicated credit commitments from financial institutions and internal financial resources of the Group, the Group has sufficient working capital for its present requirements. Hence, the consolidated financial statements have been prepared on a going concern basis. Should the Group be unable to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, and to provide for any further liabilities which might arise. The effect of these adjustments has not been reflected in the consolidated financial statements.

A summary of the principal accounting policies adopted by the Group in preparing the consolidated financial statements is set out below.

The Group has consistently applied all HKFRSs which are effective for the Group’s financial year beginning on 1 January 2016 for the consolidated financial statements, except for the adoption of the new/revised HKFRSs that are relevant to the Group and effective from the current year as set out below.

Adoption of new/revised HKFRSs

Amendments to HKAS 7: Disclosure Initiative

The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The adoption of the amendments resulted in the additional disclosures in Note 28(b) to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Adoption of new/revised HKFRSs (Continued)

Amendments to HKAS 12: Recognition of Deferred Tax Assets for Unrealised Losses

The amendments clarify, among others, how to account for deferred tax assets related to debt instruments measured at fair value.

The adoption of the amendments did not have any significant impact on the consolidated financial statements.

Basis of measurement

The measurement basis used in the preparation of these consolidated financial statements is historical cost, except for the unlisted investments of key management insurance contracts classified as available-for-sale financial assets which are measured at fair value as explained in the accounting policy as set out below.

Basis of consolidation/combinations

The consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting year as that of the Company using consistent accounting policies.

All intra-group balance, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full. Unrealised losses are also eliminated unless the transactions provide evidence of an impairment of the asset transferred.

Merger accounting for common control combinations

The net assets of the combining entities or businesses are combined using the existing carrying values from the Ultimate Controlling Party's perspective. No amount is recognised as consideration for goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the contribution of the Ultimate Controlling Party's interest. All differences between the cost of acquisition (fair value of consideration paid) and the amounts at which the assets and liabilities are recorded have been recognised directly in equity as part of the capital reserve. The consolidated financial statements include the results of each of the combining entities or businesses from the date of incorporation/establishment or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

Transaction costs, including professional fees, registration fees, costs of furnishing information to shareholders, costs or losses incurred in combining operations of the previously separate businesses, etc., incurred in relation to the common control combination that is to be accounted for by using merger accounting, are recognised as an expense in the period in which they are incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Subsidiaries

A subsidiary is an entity that is controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the elements of control.

In the Company's statement of financial position which is presented in Note 33 to the consolidated financial statements, investments in subsidiaries are stated at cost less impairment loss. The carrying amount of the investments is reduced to its recoverable amount on an individual basis, if it is higher than the recoverable amount. The results of subsidiaries are accounted for by the Company on the dividends received and/or receivable.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Repairs and maintenance are charged to the profit or loss during the period in which they are incurred.

Depreciation is provided to write off the cost less accumulated impairment losses of property, plant and equipment, other than construction in progress, over their estimated useful lives as set out below from the date on which they are available for use and after taking into account their estimated residual values, using the straight-line method. Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis and depreciated separately:

| | |
|-------------------------|---|
| Buildings | 50 years or over the lease term, as appropriate |
| Leasehold improvements | 20 years or over the lease term, as appropriate |
| Furniture and fixtures | 5 years |
| Machinery and equipment | 5-10 years |
| Motor vehicles | 3 years |
| Computer | 5-10 years |

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognised.

Construction in progress represents buildings, leasehold improvements and machinery and equipment under construction. It is stated at cost less any accumulated impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when the construction is completed and the asset is ready for use.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Prepaid land lease payments

Prepaid land lease payments are up-front payments to acquire fixed term interests in lessee-occupied land that are classified as operating leases. The premiums are stated at cost less accumulated amortisation and impairment losses and are amortised over the period of the lease on a straight-line basis to profit or loss.

Research and development cost

Research costs are expensed as incurred. Costs incurred in development activities, which involve the application of research findings to a plan or design for the production of new or substantially improved products and processes, are capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete the development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in profit or loss as an expense as incurred.

Financial instruments

Recognition and derecognition

Financial assets and financial liabilities are recognised when and only when the Group becomes a party to the contractual provisions of the instruments and on a trade date basis.

A financial asset is derecognised when and only when (i) the Group's contractual rights to future cash flows from the financial asset expire or (ii) the Group transfers the financial asset and either (a) the Group transfers substantially all the risks and rewards of ownership of the financial asset, or (b) the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset but it does not retain control of the financial asset.

A financial liability is derecognised when and only when the liability is extinguished, that is, when the obligation specified in the relevant contract is discharged, cancelled or expires.

Classification and measurement

Financial assets and financial liabilities are initially recognised at their fair value plus, in the case of financial assets or financial liabilities not carried at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial assets or financial liabilities.

1) Loans and receivables

Loans and receivables including trade and other receivables and bank balances and cash are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are not held for trading. They are measured at amortised cost using the effective interest method, except where receivables are interest-free loans and without any fixed repayment term or the effect of discounting would be insignificant. In such case, the receivables are stated at cost less impairment loss. Amortised cost is calculated by taking into account any discount or premium on acquisition over the period to maturity. Gains and losses arising from derecognition, impairment or through the amortisation process are recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Classification and measurement (Continued)

2) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are either designated at this category or not classified in any of the other categories of financial assets. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months at the end of the reporting period.

The unlisted investments of key management insurance contracts are measured at fair value with changes in value recognised as a separate component of equity until the assets are sold, collected or otherwise disposed of, or until the assets are determined to be impaired, at which time the cumulative gain or loss previously reported in other comprehensive income shall be reclassified to profit or loss as a reclassification adjustment.

3) *Financial liabilities*

The Group's financial liabilities include trade and other payables, bank overdrafts, interest-bearing borrowings, payables for construction in progress and obligations under finance leases. All financial liabilities are recognised initially at their fair value and subsequently measured at amortised cost, using effective interest method, unless the effect of discounting would be insignificant, in which case they are stated at cost.

4) *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the reporting period, respectively. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, respectively, or where appropriate, a shorter period.

5) *Financial guarantee contracts*

A financial guarantee contract is a contract that requires the issuer of the contract to make specified payments to reimburse the holder of the contract for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee contract is initially recognised as deferred income within trade and other payables at fair value (being the transaction price, unless the fair value can otherwise be reliably estimated). Subsequently, it is measured at the higher of (i) the amount initially recognised, less accumulated amortisation, and (ii) the amount of the provision, if any, that is required to settle the commitment at the end of each reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Impairment of financial assets

At the end of each reporting period, the Group assesses whether there is objective evidence that financial assets are impaired.

The impairment loss of financial assets carried at amortised cost is measured as the difference between the assets' carrying amount and the present value of estimated future cash flow discounted at the financial assets' original effective interest rate. Such impairment loss is reversed in subsequent periods through profit or loss when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

When an available-for-sale financial asset is impaired, a cumulative loss comprising the difference between its acquisition cost (net of any principal repayment and amortisation) and current fair value, less any previously recognised impairment loss in profit or loss, is reclassified from equity to profit or loss as a reclassification adjustment. Impairment losses recognised in profit or loss in respect of available-for-sale equity instrument are not reversed through profit or loss. Any subsequent increase in fair value of available-for-sale equity instrument after recognition of impairment loss is recognised in equity. Reversal of impairment loss of available-for-sale debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, cost of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average cost method. Net realisable value represents 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.

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

Cash equivalents

For the purpose of the consolidated statements of cash flows, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, net of bank overdrafts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Impairment of other assets

At the end of each reporting period, the Group reviews internal and external sources of information to determine whether there is any indication that its property, plant and equipment and prepaid land lease payments and the Company's investments in subsidiaries may be impaired or impairment loss previously recognised no longer exists or may be reduced. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher of its fair value less costs of disposal and value in use. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the smallest group of assets that generates cash flows independently (i.e. cash-generating unit).

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised as an expense in profit or loss immediately.

A reversal of impairment loss is limited to the carrying amount of the asset or cash-generating unit that would have been determined had no impairment loss been recognised in prior periods. Reversal of impairment loss is recognised as income in profit or loss immediately.

Foreign currency translation

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 is presented in the currency of Hong Kong Dollars ("HK\$"), which is also the functional currency of the Company, and rounded to the nearest thousands unless otherwise indicated.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

The results and financial position of all the group entities that have a functional currency different from the presentation currency ("foreign operations") are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented, are translated at the closing rate at the end of each reporting period;
- income and expenses for each statement of comprehensive income are translated at average exchange rate;
- all resulting exchange differences arising from the above translation and exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised as a separate component of equity;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Foreign currency translation (Continued)

- on the disposal of a foreign operation, which includes a disposal of the Group's entire interest in a foreign operation and a disposal involving the loss of control over a subsidiary that includes a foreign operation, the cumulative amount of the exchange differences relating to the foreign operation that is recognised in other comprehensive income and accumulated in the separate component of equity is reclassified from equity to profit or loss when the gain or loss on disposal is recognised; and
- on the partial disposal of the Group's interest in a subsidiary that includes a foreign operation which does not result in the Group losing control over the subsidiary, the proportionate share of the cumulative amount of the exchange differences recognised in the separate component of equity is re-attributed to the non-controlling interests in that foreign operation and are not reclassified to profit or loss.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue and costs, if applicable, can be measured reliably and on the following basis:

Sale of good is recognised on transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and the title is passed.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Finance leases, as lessee

Assets held under finance leases are recognised as assets of the Group at the lower of the fair value of the leased assets and the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as finance lease obligation. Finance charges, which represent the difference between the total leasing commitments and the lease liability, are charged to profit or loss over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Operating leases

Rentals payables/receivables under operating leases are charged/credited to profit or loss on a straight-line basis over the term of the relevant leases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Employee benefits

Short term employee benefits

Salaries, annual bonuses, paid annual leave and the cost of non-monetary benefits are accrued in the period in which the associated services are rendered by employees.

Defined contribution plans

For the Group's entities incorporated in Hong Kong, the obligations for contributions are in accordance with the Mandatory Provident Fund Scheme and are recognised as an expense in profit or loss as incurred. The assets of the scheme are held separately from those of the Group in an independently administered fund.

In accordance with the rules and regulations in the PRC, the employees of the Group's entities established in the PRC are required to participate in defined contribution retirement plans organised by local governments. Contributions to these plans are expensed in profit or loss as incurred and other than these monthly contributions, the Group has no further obligation for the payment of retirement benefits to its employees.

Long service payments

The Group's net obligation in respect of long service payments under the Hong Kong Employment Ordinance is the amounts of future benefit that employees have earned in return for their services in the current and prior periods. The obligation is calculated using the projected unit credit method and discounted to its present value and after deducting the fair value of any related assets, including those retirement scheme benefits.

Taxation

The charge for current income tax is based on the results for the period as adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is provided, using the liability method, on all temporary differences at the end of each reporting period between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, any deferred tax arising from initial recognition of goodwill; or other asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting profit nor taxable profit or loss is not recognised.

The deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is recovered or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the end of each reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, tax losses and credits can be utilised.

Deferred tax is provided on temporary differences arising on undistributed dividend, except where the timing of the reversal of the temporary differences is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

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 Group or of a holding company of the Group.

- (b) An entity is related to the Group if any of the following conditions applies:
 - (i) The entity and the Group are members of the same group (which means that each holding company, 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.
 - (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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Related parties (Continued)

- (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 holding company 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 Group or to a holding company of the Group.

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

- (a) that person's children and spouse or domestic partner;
- (b) children of that person's spouse or domestic partner; and
- (c) dependants of that person or that person's spouse or domestic partner.

In the definition of a related party, an associate includes subsidiaries of the associate and a joint venture includes subsidiaries of the joint venture.

Segment reporting

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Critical accounting estimates and judgements

Estimates and assumptions concerning the future and judgements are made by the management in the preparation of the consolidated financial statements. They affect the application of the Group's accounting policies, reported amounts of assets, liabilities, income and expenses, and disclosures made. They are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances. Where appropriate, revisions to accounting estimates are recognised in the period of revision and future periods, in case the revision also affects future periods.

(a) Key sources of estimation uncertainty

(i) Useful lives of property, plant and equipment

The management determines the estimated useful lives of the Group's property, plant and equipment based on the historical experience of the actual useful lives of the relevant assets of similar nature and functions. The estimated useful lives could be different as a result of technical innovations which could affect the related depreciation charges included in profit or loss.

(ii) Impairment of property, plant and equipment and prepaid land lease payments

The management determines whether the Group's property, plant and equipment and prepaid land lease payments are impaired when an indication of impairment exists. This requires an estimation of the recoverable amount of the property, plant and equipment and prepaid land lease payments, which is based on the higher of fair value less costs of disposal and value in use. Estimating the value in use requires the management to make an estimate of the expected future cash flows from the property, plant and equipment and prepaid land lease payments and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Any impairment will be charged to profit or loss.

(iii) Deferred tax assets

The recognition of the deferred tax assets mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in profit or loss in the period in which such a reversal takes place.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Critical accounting estimates and judgements (Continued)

(a) Key sources of estimation uncertainty (Continued)

(iv) Allowance for bad and doubtful debts

The provisioning policy for bad and doubtful debts of the Group is based on the evaluation by management of the collectability of the trade and other receivables. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including assessing the current creditworthiness and the past collection history of each debtors. If the financial conditions of these debtors were to deteriorate, resulting in an impairment of their ability to make payments, allowance will be required.

(v) Allowance for inventories

The management reviews the condition of inventories at the end of each reporting period and makes allowance for inventories that are identified as obsolete, slow-moving or no longer recoverable. The management carries out the inventory review on a product-by-product basis and makes allowances by reference to the latest market prices and current market conditions.

(vi) Income taxes

The Group is subject to income taxes in several jurisdictions. Significant estimates are required in determining the provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain where the final tax outcome of these matters may be different from the amounts that were initially recorded and such differences will affect the income tax and deferred tax provision in the period in which such determination is made.

(b) Critical judgement made in applying accounting policies

(i) Recognition of costs for the Initial Listing

The management determines the allocation and classification of relevant costs incurred for Initial Listing among (i) profit or loss as listing expenses and (ii) equity as a reduction of share premium upon the capitalisation issue based on its judgement on whether such costs are (i) costs for the Company to obtain the listing status or (ii) incremental costs for the Company to raise additional funds from the issue of new shares, respectively. During the year ended 31 December 2017, costs attributable to obtaining the listing status of approximately HK\$15,844,000 (2016: HK\$nil) were charged to profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Future changes in HKFRSs

At the date of authorising these consolidated financial statements, the HKICPA has issued the following new/revised HKFRSs that are not yet effective for current year, which the Group has not early adopted.

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

¹ Effective for annual periods beginning on or after 1 January 2018

² Effective for annual periods beginning on or after 1 January 2019

³ Effective for annual periods beginning on or after 1 January 2021

⁴ The effective date to be determined

Except as described below, the management of the Company anticipates that the application of these new standards and amendments will have no material impact on the financial performance and financial position of the Group.

HKFRS 9 "Financial Instruments"

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include the requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to classification and measurement requirements by introducing a "fair value through other comprehensive income" ("FVTOCI") measurement category.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Future changes in HKFRSs (Continued)

HKFRS 9 “Financial Instruments” (Continued)

Key requirements under HKFRS 9 are as follows:

- All recognised financial assets that are within the scope of HKAS 39 “Financial Instruments: Recognition and Measurement” are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that solely payments of principal and interest on the principal amount of outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at fair values through profit or loss at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading or contingent consideration in a business combination) in other comprehensive income, with only dividend income recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities’ credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.
- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

The management of the Company anticipates that the application of HKFRS 9 in the future may have an impact on amounts reported in respect of the Group’s financial assets in relation to the impairment assessment on receivables, with the potential earlier recognition of credit losses based on the expected loss model in relation to the Group’s financial assets measured at amortised costs. However, it is not practicable to provide a reasonable estimate of the effect until the management of the Company has performed a detailed review. In addition, the Group’s unlisted investments of key management insurance contracts may satisfy the conditions for classification as financial assets at fair value through profit or loss which the management anticipates such effect is not significant. Except for above mentioned, the management of the Company does not anticipate that the adoption of HKFRS 9 in the future will have any other significant impact on amounts reported in respect of the Group’s financial assets and financial liabilities based on an analysis of the Group’s financial instruments at 31 December 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Future changes in HKFRSs (Continued)

HKFRS 15 "Revenue from Contracts with Customers"

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

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

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

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

Based on the current business model, the management of the Company does not expect the adoption of HKFRS 15 would result in any significant impact on the amounts reported on the Group's financial statements in the future. However, there will be additional qualitative and quantitative disclosures upon the adoption of HKFRS 15.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Future changes in HKFRSs (Continued)

HKFRS 16 "Leases"

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

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

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

Under HKAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

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

At 31 December 2017, the Group has non-cancellable operating lease commitments of approximately HK\$11,426,000 (2016: HK\$16,791,000) as disclosed in Note 31 to the consolidated financial statements. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The management of the Company does not expect the adoption of HKFRS 16 as compared with the current accounting policy would result in a significant impact on the Group's results but it is expected that the commitments due after 31 December 2019 will be recognised in the Group's consolidated statement of financial position at 31 December 2019 as right-of-use asset and lease liability.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

3. SEGMENT INFORMATION

Information reported to the executive directors of the Company, being identified as the chief operating decision makers (“CODM”), for the purposes of resource allocation and assessment of segment performance focuses on types of goods delivered. No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group.

Specifically, the Group’s reportable and operating segments are as follows:

- 1) E-cigarettes products segment: manufacture and sales of e-cigarettes products.
- 2) Integrated plastic solutions segment: manufacture and sales of moulds and plastic products.

Segment revenue and results

The accounting policies of the operating segments are the same as the Group’s accounting policies described in Note 2 to the consolidated financial statements.

Segment revenue represents revenue derived from manufacturing and sales of e-cigarettes products and integrated plastic solutions.

Segment results represent the gross profit less selling and distribution costs incurred by each segment without allocation of other income, administrative and other operating expenses, finance costs, listing expenses and income tax expenses. This is the measure reported to the CODM of the Group for the purposes of resource allocation and performance assessment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

3. SEGMENT INFORMATION (Continued)

Segment revenue and results (Continued)

The followings are analysis of the Group's revenue and results by reportable and operating segments:

| | E-cigarettes products HK\$'000 | Integrated plastic solutions HK\$'000 | Total HK\$'000 |
|---|---|--|---------------------------|
| Year ended 31 December 2017 | | | |
| Segment revenue | 250,985 | 321,879 | 572,864 |
| Gross profit | 76,448 | 57,591 | 134,039 |
| Selling and distribution costs | - | (11,604) | (11,604) |
| Segment results | 76,448 | 45,987 | 122,435 |
| <i>Unallocated income and expenses</i> | | | |
| Other income | | | 4,868 |
| Administrative and other operating expenses | | | (66,909) |
| Finance costs | | | (13,525) |
| Listing expenses | | | (15,844) |
| Profit before tax | | | 31,025 |
| Income tax expenses | | | (10,947) |
| Profit for the year | | | 20,078 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

3. SEGMENT INFORMATION (Continued)

Segment revenue and results (Continued)

| | E-cigarettes products HK\$'000 | Integrated plastic solutions HK\$'000 | Total HK\$'000 |
|---|--------------------------------------|---|-------------------|
| Year ended 31 December 2016 | | | |
| Segment revenue | 251,456 | 304,105 | 555,561 |
| Gross profit | 76,610 | 51,565 | 128,175 |
| Selling and distribution costs | - | (11,570) | (11,570) |
| Segment results | 76,610 | 39,995 | 116,605 |
| <i>Unallocated income and expenses</i> | | | |
| Other income | | | 8,296 |
| Administrative and other operating expenses | | | (66,584) |
| Finance costs | | | (13,320) |
| Listing expenses | | | - |
| Profit before tax | | | 44,997 |
| Income tax expenses | | | (11,140) |
| Profit for the year | | | 33,857 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

3. SEGMENT INFORMATION (Continued)

Segment assets and liabilities

| | E-cigarettes products HK\$'000 | Integrated plastic solutions HK\$'000 | Unallocated HK\$'000 | Total HK\$'000 |
|--------------------------------|--------------------------------------|--|-------------------------|-------------------|
| At 31 December 2017 | | | | |
| Assets | | | | |
| Reportable segment assets | 44,927 | 280,540 | 329,322 | 654,789 |
| Liabilities | | | | |
| Reportable segment liabilities | 25,011 | 57,342 | 288,322 | 370,675 |
| Other information | | | | |
| Capital expenditure | 1,575 | 20,244 | 11,165 | 32,984 |

At 31 December 2016

| | | | | |
|--------------------------------|--------|---------|---------|---------|
| Assets | | | | |
| Reportable segment assets | 44,036 | 263,485 | 324,957 | 632,478 |
| Liabilities | | | | |
| Reportable segment liabilities | 26,105 | 36,662 | 322,623 | 385,390 |
| Other information | | | | |
| Capital expenditure | 626 | 13,382 | 15,174 | 29,182 |

For the purposes of monitoring segment performance and allocating resources between segments:

- segment assets include certain property, plant and equipment, inventories and trade and bills receivables. Other assets are not allocated to operating segments as these assets are managed on a group basis; and
- segment liabilities include trade payables. Other liabilities are not allocated to operating segments as these liabilities are managed on a group basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

3. SEGMENT INFORMATION (Continued)

Geographical information

The following table sets out information about the geographical location of the Group's prepaid land lease payments and property, plant and equipment ("specified non-current assets"). The geographical location of the specified non-current assets is based on the physical location of the assets.

Specified non-current assets

| | 2017 HK\$'000 | 2016 HK\$'000 |
|-----------|------------------|------------------|
| Hong Kong | 557 | 1,405 |
| The PRC | 445,413 | 417,320 |
| | 445,970 | 418,725 |

Information about the Group's revenue from external customers is presented based on the location of customers.

| | 2017 HK\$'000 | 2016 HK\$'000 |
|--|------------------|------------------|
| Revenue from external customers | | |
| The United States of America | 203,611 | 209,353 |
| The PRC | 168,005 | 173,785 |
| The United Kingdom | 108,855 | 96,817 |
| Hong Kong | 86,230 | 65,836 |
| Others | 6,163 | 9,770 |
| | 572,864 | 555,561 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

3. SEGMENT INFORMATION (Continued)

Information about major customers

Details of the entities individually accounting for 10% or more of aggregate revenue of the Group during the years ended 31 December 2017 and 2016 are as follows:

| | E-cigarettes products HK\$'000 | Integrated plastic solutions HK\$'000 | Total HK\$'000 |
|---|--------------------------------------|--|-------------------|
| Year ended 31 December 2017 | | | |
| Customer A and its affiliated companies | 249,239 | 5,440 | 254,679 |
| Customer B and its affiliated companies | - | 87,207 | 87,207 |
| Customer C and its affiliated companies | - | 79,790 | 79,790 |
| | 249,239 | 172,437 | 421,676 |
| Year ended 31 December 2016 | | | |
| Customer A and its affiliated companies | 247,811 | 2,863 | 250,674 |
| Customer B and its affiliated companies | - | 82,250 | 82,250 |
| Customer C and its affiliated companies | - | 68,041 | 68,041 |
| | 247,811 | 153,154 | 400,965 |

4. REVENUE

Revenue recognised represents sales of goods at invoiced value to customers net of returns and discounts.

5. OTHER INCOME

| | 2017 HK\$'000 | 2016 HK\$'000 |
|--------------------------------------|------------------|------------------|
| Bank interest income | 36 | 76 |
| Exchange gain, net | - | 2,756 |
| Mould testing fee income | - | 292 |
| Management service income | 180 | 180 |
| Rental and utilities recharge income | 1,879 | 1,595 |
| Sales of scrap materials | 2,097 | 2,690 |
| Sundry income | 676 | 707 |
| | 4,868 | 8,296 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

6. PROFIT BEFORE TAX

This is stated after charging (crediting):

| | 2017 HK\$'000 | 2016 HK\$'000 |
|--|------------------|------------------|
| Finance costs | | |
| Interest on interest-bearing borrowings | 9,816 | 7,368 |
| Interest on bank overdrafts | 92 | 158 |
| Interest on loans from the Ultimate Controlling Party | 1,199 | 1,806 |
| Interest on payables for construction in progress | 1,496 | 3,241 |
| Finance charges on obligations under finance leases | 922 | 747 |
| | 13,525 | 13,320 |
| Staff costs, including directors' emoluments | | |
| Employee benefits expenses | 117,624 | 105,088 |
| Contributions to defined contribution retirement schemes | 5,841 | 3,932 |
| | 123,465 | 109,020 |
| Other items | | |
| Cost of inventories | 438,825 | 427,386 |
| Amortisation of prepaid land lease payments | 1,039 | 1,073 |
| Auditor's remuneration | 1,293 | 456 |
| Depreciation (charged to "cost of goods sold" and "administrative and other operating expenses", as appropriate) | 26,603 | 29,004 |
| Exchange loss (gain), net | 1,022 | (2,756) |
| Loss on disposal of property, plant and equipment | 137 | 435 |
| Operating lease payments (charged to "cost of goods sold" and "administrative and other operating expenses", as appropriate) | 4,847 | 6,635 |
| Direct relocation expenses | - | 3,213 |
| Research and development expenses | 2,224 | 2,352 |
| Bad debts expenses | - | 2 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

7. INFORMATION ABOUT THE BENEFITS OF DIRECTORS

(a) Directors' remuneration

The Company was incorporated in the Cayman Islands on 26 April 2017 and Mr. Chan Tsan Lam was appointed as an executive director of the Company on 26 April 2017. Mr. Cheng Chak and Ms. Chan Yin Yan were appointed as executive directors on 30 June 2017. Mr. Lo Ka Ki, Mr. Hung Chun Leung and Mr. Chan Bing Kai were appointed as independent non-executive directors on 9 February 2018.

Certain directors of the Company received remuneration from the entities now comprising the Group during the years ended 31 December 2017 and 2016 for their appointment as employees of these entities. The aggregate amounts of remuneration received and receivable by the directors of the Company during the years ended 31 December 2017 and 2016 are set out below.

Year ended 31 December 2017

| | Directors' fees HK\$'000 | Salaries and allowances HK\$'000 | Discretionary bonus HK\$'000 | Contributions to defined contribution plans HK\$'000 | Total HK\$'000 |
|----------------------------|-----------------------------|-------------------------------------|---------------------------------|---|-------------------|
| <i>Executive directors</i> | | | | | |
| Chan Tsan Lam | - | 1,113 | - | 18 | 1,131 |
| Cheng Chak | - | 1,498 | - | - | 1,498 |
| Chan Yin Yan | - | 732 | - | 18 | 750 |
| | - | 3,343 | - | 36 | 3,379 |

Year ended 31 December 2016

| | Directors' fees HK\$'000 | Salaries and allowances HK\$'000 | Discretionary bonus HK\$'000 | Contributions to defined contribution plans HK\$'000 | Total HK\$'000 |
|----------------------------|-----------------------------|-------------------------------------|---------------------------------|---|-------------------|
| <i>Executive directors</i> | | | | | |
| Chan Tsan Lam | - | 695 | - | 18 | 713 |
| Cheng Chak | - | 1,415 | - | 18 | 1,433 |
| Chan Yin Yan | - | 700 | - | 18 | 718 |
| | - | 2,810 | - | 54 | 2,864 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

7. INFORMATION ABOUT THE BENEFITS OF DIRECTORS (Continued)

(a) Directors' remuneration (Continued)

Mr. Chan Tsan Lam is also the chief executive officer of the Company and his emoluments disclosed above included those for services rendered by him as the chief executive officer.

During the years ended 31 December 2017 and 2016, no emoluments were paid by the Group to any of these directors as an inducement to join or upon joining the Group, or as a compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration for the years ended 31 December 2017 and 2016.

(b) Loans, quasi-loans and other dealings in favour of directors

Saved as disclosed in Note 17 to the consolidated financial statements, there were no other loans, quasi-loans or other dealings in favour of the directors of the Company or their controlled companies entered into or subsisted during the years ended 31 December 2017 and 2016.

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

Saved as disclosed in Note 27 to the consolidated financial statements, no other transactions, arrangements and contracts of significance in relation to the Group's business to which the Company was a party and in which a director of the Company, or an entity connected with the director, had a material interest, whether directly or indirectly, subsisted at the year or at any time during the years ended 31 December 2017 and 2016.

8. FIVE HIGHEST PAID INDIVIDUALS

An analysis of the five highest paid individuals during the years ended 31 December 2017 and 2016 is as follows:

| | Number of individuals | |
|--------------|-----------------------|------|
| | 2017 | 2016 |
| Director | 2 | 3 |
| Non-director | 3 | 2 |
| | 5 | 5 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

8. FIVE HIGHEST PAID INDIVIDUALS (Continued)

Details of the remuneration of the above highest paid non-director individuals are as follows:

| | 2017 HK\$'000 | 2016 HK\$'000 |
|---|------------------|------------------|
| Salaries and allowances | 2,700 | 1,829 |
| Contributions to defined contribution plans | 76 | 73 |
| | 2,776 | 1,902 |

The number of these non-director individuals whose emoluments fell within the following emoluments band is as follows:

| | 2017 | 2016 |
|----------------------|------|------|
| Nil to HK\$1,000,000 | 3 | 2 |

During the years ended 31 December 2017 and 2016, no remuneration was paid by the Group to any of these highest paid non-director individuals as an inducement to join or upon joining the Group, or as a compensation for loss of office. There was no arrangement under which any of these highest paid non-director individuals waived or has agreed to waive any emoluments for the years ended 31 December 2017 and 2016.

9. TAXATION

| | 2017 HK\$'000 | 2016 HK\$'000 |
|--|------------------|------------------|
| | | |
| Note | | |
| Current tax | | |
| Hong Kong Profits Tax | 2,719 | 2,812 |
| PRC Enterprise Income Tax | 5,458 | 8,322 |
| | 8,177 | 11,134 |
| Deferred tax | | |
| Changes in temporary differences | (1,826) | 97 |
| Utilisation (Benefit) of tax losses recognised | 4,596 | (91) |
| | 2,770 | 6 |
| | | |
| | 10,947 | 11,140 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

9. TAXATION (Continued)

The Group's entities established in the Cayman Islands and the British Virgin Islands (the "BVI") are exempted from income tax, respectively.

Hong Kong Profits Tax has been provided at the rate of 16.5% on the Group's estimated assessable profits arising from Hong Kong for the years ended 31 December 2017 and 2016.

The Group's entities established in the PRC are subject to Enterprise Income Tax of the PRC at a statutory rate of 25% for the years ended 31 December 2017 and 2016.

Reconciliation of income tax expenses

| | 2017 HK\$'000 | 2016 HK\$'000 |
|--|------------------|------------------|
| Profit before tax | 31,025 | 44,997 |
| Income tax at applicable tax rate | 7,968 | 10,081 |
| Non-deductible expenses | 3,077 | 593 |
| Tax exempt revenue | (1) | (1) |
| Others, including unrecognised temporary differences | (97) | 467 |
| Income tax expenses for the year | 10,947 | 11,140 |

The applicable tax rate is the weighted average of tax rates prevailing in the territories in which the Group's entities operate.

10. DIVIDENDS

No dividends were declared nor paid to the then equity holders of the entities now comprising the Group during the years ended 31 December 2017 and 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

11. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the following data:

| | 2017 HK\$'000 | 2016 HK\$'000 |
|--|------------------|------------------|
| <i>Profit:</i> | | |
| Profit for the purpose of calculating basic earnings per share | 20,078 | 33,857 |
| | '000 | '000 |
| <i>Number of shares:</i> | | |
| Weighted average number of ordinary shares for the purpose of calculating basic earnings per share | 465,000 | 465,000 |

The weighted average number of ordinary shares for the purpose of calculating basic earnings per share was on the basis as if the Reorganisation and Capitalisation Issue (defined in Note 24 to the consolidated financial statements) had been effective on 1 January 2016.

Diluted earnings per share are not presented as there were no potential ordinary shares outstanding during years ended 31 December 2017 and 2016.

12. SUBSIDIARIES

Details of the subsidiaries at the end of the reporting period are as follows:

| Name of subsidiary | Place of incorporation/ establishment | Date of incorporation/ establishment | Particulars of paid up capital/ registered capital | Attributable equity interest held by the Company | Principal activities/ place of operation |
|-------------------------------------|---------------------------------------|--------------------------------------|--|--|--|
| <i>Directly held by the Company</i> | | | | | |
| Tian Chang Investments Limited | The BVI | 20 April 2017 | United States Dollar ("US\$")1 | 100% | Investment holding/ Hong Kong |
| Sun Leader Holdings Limited | The BVI | 20 April 2017 | US\$1 | 100% | Investment holding/ Hong Kong |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

12. SUBSIDIARIES (Continued)

| Name of subsidiary | Place of incorporation/ establishment | Date of incorporation/ establishment | Particulars of paid up capital/ registered capital | Attributable equity interest held by the Company | Principal activities/ place of operation |
|---|--|---|---|--|--|
| <i>Indirectly held by the Company</i> | | | | | |
| Tian Chang Holdings Limited | Hong Kong | 16 May 2006 | HK\$10,000 | 100% | Investment holding/ Hong Kong |
| Tian Chang Industrial Limited | Hong Kong | 13 June 2006 | HK\$10,000 | 100% | Sales of e-cigarettes products and providing integrated plastic solutions/ Hong Kong |
| 天長實業（深圳）有限公司 Tian Chang Industrial (Shenzhen) Limited* | The PRC ⁽ⁱ⁾⁽ⁱⁱⁱ⁾ | 26 September 2006 | HK\$100,000,000 | 100% | Manufacturing and sales of e-cigarettes products and providing integrated plastics solutions/ The PRC |
| 惠州市天長實業有限公司 Huizhou Tian Chang Industrial Company Limited* | The PRC ⁽ⁱ⁾⁽ⁱⁱⁱ⁾ | 22 March 2011 | Renminbi ("RMB") 50,000,000 | 100% | Manufacturing and sales of e-cigarettes products and providing integrated plastic solutions/ The PRC |
| Sun Leader Mould Industrial Limited | Hong Kong | 27 September 2000 | HK\$1,000,000 | 100% | Providing integrated plastic solutions/ Hong Kong |
| 新利達模具（深圳）有限公司 Sun Leader Mould Industrial (Shenzhen) Limited* | The PRC ⁽ⁱ⁾⁽ⁱⁱⁱ⁾ | 17 June 2011 | HK\$56,000,000 | 100% | Providing integrated plastic solutions/ The PRC |
| 新利達模具實業（惠州）有限公司 Sun Leader Mould Industrial (Huizhou) Limited* | The PRC ⁽ⁱ⁾⁽ⁱⁱⁱ⁾ | 27 June 2011 | HK\$80,000,000 | 100% | Providing integrated plastic solutions/ The PRC |

* English translation for identification purpose only.

⁽ⁱ⁾ Being a wholly foreign owned enterprise.

⁽ⁱⁱ⁾ Being a wholly owned enterprise in the PRC.

⁽ⁱⁱⁱ⁾ Limited liability company registered in the PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

13. PROPERTY, PLANT AND EQUIPMENT

| | Buildings HK\$'000 | Leasehold improvements HK\$'000 | Furniture and fixtures HK\$'000 | Machinery and equipment HK\$'000 | Motor vehicles HK\$'000 | Computer HK\$'000 | Construction in progress HK\$'000 | Total HK\$'000 |
|--|-----------------------|---------------------------------------|--|---|-------------------------------|----------------------|---|-------------------|
| Reconciliation of carrying amount - year ended 31 December 2016 | | | | | | | | |
| At the beginning of the reporting period | 215,185 | 58,072 | 2,930 | 85,680 | 2,237 | 3,398 | 36,871 | 404,373 |
| Additions | - | 3,960 | 4,290 | 5,758 | - | 2,229 | 12,945 | 29,182 |
| Disposals | - | (6) | (1) | (427) | - | (1) | - | (435) |
| Transfers | - | 26,455 | - | 10,180 | - | - | (36,635) | - |
| Depreciation | (4,252) | (4,867) | (982) | (16,515) | (1,320) | (1,068) | - | (29,004) |
| Exchange realignments | (16,628) | (5,628) | (415) | (7,053) | (13) | (264) | (1,565) | (31,566) |
| At 31 December 2016 | 194,305 | 77,986 | 5,822 | 77,623 | 904 | 4,294 | 11,616 | 372,550 |
| Reconciliation of carrying amount - year ended 31 December 2017 | | | | | | | | |
| At the beginning of the reporting period | 194,305 | 77,986 | 5,822 | 77,623 | 904 | 4,294 | 11,616 | 372,550 |
| Additions | - | 10,418 | 4,384 | 4,781 | - | 1,893 | 11,508 | 32,984 |
| Disposals | - | (4) | (1) | (51) | - | (81) | - | (137) |
| Transfers | - | 3,568 | - | - | - | - | (3,568) | - |
| Depreciation | (4,093) | (5,981) | (1,409) | (13,419) | (660) | (1,041) | - | (26,603) |
| Exchange realignments | 9,822 | 4,203 | 519 | 4,133 | 2 | 220 | 809 | 19,708 |
| At 31 December 2017 | 200,034 | 90,190 | 9,315 | 73,067 | 246 | 5,285 | 20,365 | 398,502 |
| At 31 December 2016 | | | | | | | | |
| Cost | 200,797 | 87,953 | 8,694 | 206,257 | 6,861 | 6,955 | 11,616 | 529,133 |
| Accumulated depreciation | (6,492) | (9,967) | (2,872) | (128,634) | (5,957) | (2,661) | - | (156,583) |
| | 194,305 | 77,986 | 5,822 | 77,623 | 904 | 4,294 | 11,616 | 372,550 |
| At 31 December 2017 | | | | | | | | |
| Cost | 211,138 | 105,859 | 13,691 | 216,338 | 6,920 | 9,065 | 20,365 | 583,376 |
| Accumulated depreciation | (11,104) | (15,669) | (4,376) | (143,271) | (6,674) | (3,780) | - | (184,874) |
| | 200,034 | 90,190 | 9,315 | 73,067 | 246 | 5,285 | 20,365 | 398,502 |

At 31 December 2017, the carrying amounts of the Group's motor vehicles and machinery and equipment held under finance leases amounted to approximately HK\$32,601,000 (2016: HK\$31,373,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

14. PREPAID LAND LEASE PAYMENTS

Prepaid land lease payments represent costs paid for leasehold lands in the PRC that are classified as operating leases with initial lease terms of 50 years and the remaining lease terms ranged from 44 years to 45 years as at 31 December 2017 (2016: ranged from 45 years to 46 years). The costs are amortised over the leasehold periods.

| | 2017 HK\$'000 | 2016 HK\$'000 |
|--|------------------|------------------|
| Net carrying amount | | |
| At the beginning of the reporting period | 46,175 | 51,202 |
| Amortisation | (1,039) | (1,073) |
| Exchange realignments | 2,332 | (3,954) |
| At the end of the reporting period | 47,468 | 46,175 |
| Current portion | (1,117) | (1,063) |
| Non-current portion | 46,351 | 45,112 |

15. AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | 2017 HK\$'000 | 2016 HK\$'000 |
|---|------------------|------------------|
| At fair value | | |
| Unlisted investments - key management insurance contracts | 10,506 | 7,514 |

The fair value of the key management insurance contracts is determined by reference to the respective surrender cash value of each insurance contract at the end of the reporting period, which is primarily based on the performance of the underlying investment portfolio together with the guaranteed minimum returns, ranging from 2% to 4.8% per annum (2016: ranging from 2% to 4.8% per annum).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

15. AVAILABLE-FOR-SALE FINANCIAL ASSETS (Continued)

The movement of the key management insurance contracts is analysed as follows:

| | 2017 HK\$'000 | 2016 HK\$'000 |
|---|------------------|------------------|
| At the beginning of the reporting period | 7,514 | 6,595 |
| Additions | 2,723 | 709 |
| Fair value changes recognised in other comprehensive income | 269 | 210 |
| At the end of the reporting period | 10,506 | 7,514 |

The key management insurance contracts are pledged as collateral for the Group's bank overdraft and interest-bearing borrowings amounting to approximately, in aggregate, HK\$17,389,000 (2016: HK\$28,398,000).

16. INVENTORIES

| | 2017 HK\$'000 | 2016 HK\$'000 |
|------------------|------------------|------------------|
| Raw materials | 26,299 | 32,044 |
| Work-in-progress | 11,004 | 8,971 |
| Finished goods | 17,969 | 24,683 |
| | 55,272 | 65,698 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

17. TRADE AND OTHER RECEIVABLES

| | Note | 2017 HK\$'000 | 2016 HK\$'000 |
|--|-------|------------------|------------------|
| Trade receivables | | | |
| From related companies | 17(a) | - | 2,154 |
| From former related companies | 17(a) | 355 | - |
| From third parties | 17(b) | 90,922 | 71,603 |
| | 17(c) | 91,277 | 73,757 |
| Bills receivables | 17(d) | 6,425 | 6,636 |
| Other receivables | | | |
| Deposits | | 195 | 188 |
| Prepayment for suppliers | | 1,088 | 1,470 |
| Prepayment for insurance | | 2,108 | 1,992 |
| Prepayment for utilities | | 3,579 | 1,955 |
| Prepayment for listing expenses | | 2,616 | - |
| Prepaid expenses, other deposits and other debtors | | 12,387 | 9,516 |
| Due from the Ultimate Controlling Party | 17(e) | - | 5,205 |
| Due from a director | 17(f) | - | 11,858 |
| Due from related companies | 17(g) | - | 1,592 |
| Due from former related companies | 17(g) | 539 | - |
| | | 22,512 | 33,776 |
| | | 120,214 | 114,169 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

17. TRADE AND OTHER RECEIVABLES (Continued)

17(a) Trade receivables from related companies/former related companies

The trade receivables due from related companies/former related companies (representing Fast Precision Mould Limited and Fast Precision Mould (Huizhou) Limited which ceased to be related companies of the Group on 29 March 2017) ultimately controlled by the Ultimate Controlling Party are unsecured, interest-free and have a credit period of 30 to 60 days.

| | Year ended 31 December 2017 | | |
|--|--|-----------------------------------|---------------------------------|
| | Maximum amount outstanding during the year HK\$'000 | Balance at 31.12.2017 HK\$'000 | Balance at 1.1.2017 HK\$'000 |
| CDN International Group Limited ("CDN Group Holding") | 590 | - | 590 |
| Fast Precision Mould Limited ("Fast Precision")# | 244 | 141 | - |
| 神速精密模具(惠州)有限公司 (Fast Precision Mould (Huizhou) Limited*) ("Fast Precision Huizhou")# | 1,564 | 214 | 1,564 |
| | | 355 | 1,564 |
| | | | 2,154 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

17. TRADE AND OTHER RECEIVABLES (Continued)

17(a) Trade receivables from related companies/former related companies (Continued)

| | Year ended 31 December 2016 | | |
|------------------------|--|-----------------------------------|---------------------------------|
| | Maximum amount outstanding during the year HK\$'000 | Balance at 31.12.2016 HK\$'000 | Balance at 1.1.2016 HK\$'000 |
| CDN Group Holding | 2,322 | 590 | 2,266 |
| Fast Precision Huizhou | 1,597 | 1,564 | 851 |
| | | 2,154 | 3,117 |

* English translation for identification purpose only.

The balances as at 31 December 2017 represent trade receivables due from former related companies.

17(b) Trade receivables from third parties

The Group grants credit period up to 180 days to its customers upon the issuance of invoices.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

17. TRADE AND OTHER RECEIVABLES (Continued)

17(c) The ageing of trade receivables based on invoice date at the end of the reporting period is as follows:

| | 2017 HK\$'000 | 2016 HK\$'000 |
|----------------|------------------|------------------|
| Within 30 days | 53,876 | 39,425 |
| 31 to 60 days | 27,126 | 24,219 |
| 61 to 90 days | 2,588 | 4,685 |
| 91 to 180 days | 4,355 | 4,541 |
| Over 180 days | 3,332 | 887 |
| | 91,277 | 73,757 |

At the end of the reporting period, the ageing analysis of the trade receivables by due date is as follows:

| | 2017 HK\$'000 | 2016 HK\$'000 |
|----------------|------------------|------------------|
| Not yet due | 61,991 | 41,583 |
| Past due: | | |
| Within 30 days | 19,956 | 20,877 |
| 31 to 60 days | 3,537 | 6,244 |
| 61 to 90 days | 921 | 1,252 |
| 91 to 180 days | 2,943 | 3,135 |
| Over 180 days | 1,929 | 666 |
| | 29,286 | 32,174 |
| | 91,277 | 73,757 |

The Group does not hold any collateral over the trade receivables. The Group's trade receivables which are past due at the end of the reporting period but which the Group has not impaired as there has not been any significant changes in credit quality of customers and the management believes that the amounts are fully recoverable.

At 31 December 2017, amount of approximately HK\$7,857,000 (2016: HK\$6,202,000) included in the trade receivables were in connection with factoring arrangements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

17. TRADE AND OTHER RECEIVABLES (Continued)

17(f) Due from a director

The amount due is non-trade in nature, unsecured, interest-free and repayable on demand. No provision has been made for non-repayment of the amount due during the years ended 31 December 2017 and 2016.

Details of the amount due from a director are as follows:

| | Year ended 31 December 2017 | | |
|------------|---|--------------------------------|------------------------------|
| | Maximum amount outstanding during the year HK\$'000 | Balance at 31.12.2017 HK\$'000 | Balance at 1.1.2017 HK\$'000 |
| Cheng Chak | 12,328 | - | 11,858 |
| | | | |
| | Year ended 31 December 2016 | | |
| | Maximum amount outstanding during the year HK\$'000 | Balance at 31.12.2016 HK\$'000 | Balance at 1.1.2016 HK\$'000 |
| Cheng Chak | 15,907 | 11,858 | 14,884 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

17. TRADE AND OTHER RECEIVABLES (Continued)

17(g) Due from related companies/former related companies

The amounts due from related companies/former related companies (representing Fast Precision and Fast Precision Huizhou which ceased to be related companies of the Group on 29 March 2017) ultimately controlled by the Ultimate Controlling Party are non-trade in nature, unsecured, interest-free and repayable on demand. No provision has been made for non-repayment of the amounts due during the years ended 31 December 2017 and 2016.

Details of the amounts due from related companies/former related companies are as follows:

| | Year ended 31 December 2017 | | |
|---|--|-----------------------------------|---------------------------------|
| | Maximum amount outstanding during the year HK\$'000 | Balance at 31.12.2017 HK\$'000 | Balance at 1.1.2017 HK\$'000 |
| CDN Holdings Limited ("CDN Holdings") | 1,380 | - | 810 |
| Tian Chang Tech (HK) Limited ("Tian Chang Tech") | 403 | - | 400 |
| 摩力光電科技(惠州)有限公司 (Moli Optoelectronics Huizhou Limited*) ("Moli Optoelectronics") | 94 | - | 94 |
| Lanton Technology Electronics Co., Limited ("Lanton Technology") | 11 | - | 11 |
| Prime Source Electronics Tech Limited ("Prime Source") | 3 | - | 3 |
| | | - | 1,318 |
| Fast Precision Huizhou# | 1,068 | 479 | 169 |
| Fast Precision# | 165 | 60 | 105 |
| | | 539 | 274 |
| | | | 1,592 |

* English translation for identification purpose only.

The balances as at 31 December 2017 represent amounts due from former related companies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

17. TRADE AND OTHER RECEIVABLES (Continued)

17(g) Due from related companies/former related companies (Continued)

| | Year ended 31 December 2016 | | |
|------------------------|--|-----------------------------------|---------------------------------|
| | Maximum amount outstanding during the year HK\$'000 | Balance at 31.12.2016 HK\$'000 | Balance at 1.1.2016 HK\$'000 |
| CDN Group Holding | 19 | - | 19 |
| CDN Holdings | 810 | 810 | 90 |
| Tian Chang Tech | 1,000 | 400 | 1,000 |
| Fast Precision Huizhou | 533 | 169 | 533 |
| Moli Optoelectronics | 94 | 94 | 40 |
| Lanton Technology | 11 | 11 | - |
| Prime Source | 3 | 3 | 3 |
| Fast Precision | 210 | 105 | 210 |
| | | 1,592 | 1,895 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

18. TRADE AND OTHER PAYABLES

| Note | 2017 HK\$'000 | 2016 HK\$'000 |
|------------------------------------|------------------|------------------|
| Trade payables | | |
| To a related company | - | 494 |
| To former related companies | 907 | - |
| To third parties | 81,446 | 62,273 |
| 18(a) | 82,353 | 62,767 |
| Other payables | | |
| Receipt in advance | 792 | 1,351 |
| Salaries payable | 14,370 | 9,665 |
| Other accruals and other creditors | 17,026 | 16,542 |
| | 32,188 | 27,558 |
| | 114,541 | 90,325 |

18(a) Trade payables

The trade payable due to a related company/former related companies ultimately controlled by the Ultimate Controlling Party is unsecured, interest-free and repayable on demand.

At the end of the reporting period, the ageing analysis of the trade payables based on invoice date is as follows:

| | 2017 HK\$'000 | 2016 HK\$'000 |
|----------------|------------------|------------------|
| Within 30 days | 25,170 | 30,645 |
| 31 to 60 days | 27,118 | 21,325 |
| 61 to 90 days | 10,923 | 3,333 |
| Over 90 days | 19,142 | 7,464 |
| | 82,353 | 62,767 |

The credit period on trade payables is up to 90 days.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

19. BANK OVERDRAFTS

| | 2017 HK\$'000 | 2016 HK\$'000 |
|--------------------------|------------------|------------------|
| Bank overdrafts, secured | 1,024 | 5,826 |

The secured bank overdrafts are interest-bearing at prime rate or 1% per annum over the prime rate (2016: at prime rate or 1% per annum over the prime rate).

At 31 December 2017 and 2016, the bank overdrafts are secured by:

- (i) property jointly owned by the Ultimate Controlling Party and his close family member;
- (ii) property owned by a close family member of the Ultimate Controlling Party;
- (iii) property jointly owned by a director and his close family member;
- (iv) key management insurance contracts with fair value of approximately HK\$10,506,000 (2016: HK\$7,514,000), as set out in Note 15 to the consolidated financial statements; and
- (v) guarantees provided by a director, the Ultimate Controlling Party and a related company/a former related company ultimately controlled by the Ultimate Controlling Party.

The collaterals and guarantees provided by the Ultimate Controlling Party and/or his close family members, other directors and a former related company were released and replaced by a corporate guarantee given by the Company upon the Initial Listing.

20. PAYABLES FOR CONSTRUCTION IN PROGRESS

| | 2017 HK\$'000 | 2016 HK\$'000 |
|---------------------|------------------|------------------|
| Current portion | 28,176 | 26,012 |
| Non-current portion | - | 17,414 |
| | 28,176 | 43,426 |

Payables for construction in progress represent the amounts payable to the constructors in respect of the construction of the production plants located in the PRC which the payment terms are unsecured, interest-free and repayable from one to three years since its inception. The amounts represent the present value of the invoiced amounts at effective interest rate of 6.15% at the end of the reporting period (2016: 6.15%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

21. INTEREST-BEARING BORROWINGS

| | 2017 HK\$'000 | 2016 HK\$'000 |
|--------------------------|--------------------------------|------------------|
| Secured bank borrowings: | | |
| Current portion | 172,416 | 140,834 |
| Non-current portion | 20,097 | 33,741 |
| | 192,513 | 174,575 |

The secured bank borrowings are wholly repayable within five years since its inception. At 31 December 2017, the secured bank borrowings carried weighted average effective interest rate of approximately 4.49% (2016: 4.7%) per annum.

At 31 December 2017 and 2016, the bank borrowings are secured by:

- (i) buildings and the prepaid land lease payments with aggregate net carrying amount of approximately HK\$247,502,000 (2016: HK\$240,480,000), as set out in Note 13 and Note 14 to the consolidated financial statements;
- (ii) key management insurance contracts with fair value of approximately HK\$10,506,000 (2016: HK\$7,514,000), as set out in Note 15 to the consolidated financial statements;
- (iii) property jointly owned by the Ultimate Controlling Party and his close family member;
- (iv) property owned by a close family member of the Ultimate Controlling Party;
- (v) property jointly owned by a director and his close family member;
- (vi) office premise owned by a related company ultimately controlled by the Ultimate Controlling Party;
- (vii) guarantees provided by the Ultimate Controlling Party, a director and a related company/a former related company ultimately controlled by the Ultimate Controlling Party;
- (viii) guarantees provided by the Hong Kong Mortgage Corporation Limited;
- (ix) trade receivables in connection with factoring arrangement of approximately HK\$7,857,000 (2016: HK\$6,202,000), as set out in Note 17(c) to the consolidated financial statements; and/or
- (x) certain machinery and equipment with aggregate net carrying amount of approximately HK\$2,101,000 (2016: HK\$3,310,000).

The collaterals and guarantees provided by the Ultimate Controlling Party and/or his close family members, other director, a related company/a former related company were released and replaced by a corporate guarantee given by the Company upon the Initial Listing.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

22. OBLIGATIONS UNDER FINANCE LEASES

At the end of the reporting period, the Group leased certain motor vehicles and machinery and equipment under finance leases. The lease term is ranging from 36 to 48 months (2016: ranging from 36 to 48 months). At 31 December 2017, the weighted average effective interest rate of the obligations under finance leases of the Group was 3.29% (2016: 3.29%).

| | Minimum lease payments | | Present value of minimum lease payments | |
|--|------------------------|------------------|---|------------------|
| | 2017 HK\$'000 | 2016 HK\$'000 | 2017 HK\$'000 | 2016 HK\$'000 |
| Amounts payable: | | | | |
| Within one year | 11,625 | 10,935 | 11,101 | 10,233 |
| In the second to fifth years inclusive | 9,769 | 17,296 | 9,567 | 16,816 |
| | 21,394 | 28,231 | 20,668 | 27,049 |
| Future finance charges | (726) | (1,182) | | |
| Present value of lease obligations | 20,668 | 27,049 | | |
| Less: Amounts due for settlement within 12 months | | | (11,101) | (10,233) |
| Amounts due for settlement after 12 months | | | 9,567 | 16,816 |

The Group's obligations under finance leases are secured by the lessors' charge over the leased assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

23. DEFERRED TAXATION

| | 2017 HK\$'000 | 2016 HK\$'000 |
|---------------------------|------------------|------------------|
| Deferred tax assets | 2,179 | 7,453 |
| Deferred tax liabilities | (10,503) | (12,529) |
| Net deferred tax position | (8,324) | (5,076) |

The movements in the Group's net position of deferred tax are as follows:

| | Tax losses HK\$'000 | Timing differences on income and expenses (including depreciation) recognised HK\$'000 | Total HK\$'000 |
|------------------------------|------------------------|---|-------------------|
| At 1 January 2016 | 7,092 | (12,746) | (5,654) |
| Income tax credit (expenses) | 91 | (97) | (6) |
| Exchange difference | (558) | 1,142 | 584 |
| At 31 December 2016 | 6,625 | (11,701) | (5,076) |
| At 1 January 2017 | 6,625 | (11,701) | (5,076) |
| Income tax (expenses) credit | (4,596) | 1,826 | (2,770) |
| Exchange difference | 213 | (691) | (478) |
| At 31 December 2017 | 2,242 | (10,566) | (8,324) |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

23. DEFERRED TAXATION (Continued)

The tax losses reflected in above deferred tax assets arising at the end of each reporting period which can be offset against future taxable profits of the respective subsidiaries, subsequent to the commencement of production by the Group's production plant in Huizhou, Guangdong province, the PRC, will expire as follows:

| | 2017 HK\$'000 | 2016 HK\$'000 |
|-----------------------|------------------|------------------|
| Year of expiry | | |
| 2018 | - | 2,495 |
| 2019 | - | 2,266 |
| 2020 | - | 16,508 |
| 2021 | 5,488 | 5,231 |
| 2022 | 3,326 | - |
| | 8,814 | 26,500 |
| No expiry | 238 | - |
| | 9,052 | 26,500 |

At the end of the reporting period, no deferred tax has been recognised for withholding taxes that would be payables on the unremitted earnings of the Group's subsidiaries established in the PRC (2016: HK\$nil). In the opinion of the management, it is probable that the earnings will not be distributed in the foreseeable future. The estimated withholding tax effects on the distribution of accumulated profits were approximately HK\$4,309,000 (2016: HK\$4,011,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

24. SHARE CAPITAL

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 26 April 2017. Upon its incorporation, the authorised share capital of HK\$390,000 was divided into 3,900,000 ordinary shares at HK\$0.1 each and 3,000 ordinary shares of HK\$0.1 each were issued to and paid up by the Ultimate Controlling Party.

Pursuant to the resolution of the Company's shareholders passed on 8 February 2018, inter-alia, the authorised share capital of the Company was increased from HK\$390,000 to HK\$200,000,000 by the creation of an additional 1,996,100,000 shares of HK\$0.1 each and the Capitalisation Issue (as defined below) was conditionally approved.

Pursuant to the resolutions in writing of the Company's shareholders passed on 8 February 2018, subject to the share premium account of the Company being credited as a result of the issue of the Company's shares, the directors of the Company were authorised to allot and issue a total of 464,997,000 shares of HK\$0.1 each to the existing shareholders, credited as fully paid at par by way of capitalisation of the sum of HK\$46,499,700 standing to be credit of the share premium account of the Company (the "Capitalisation Issue") and the shares to be allotted and issued pursuant to this resolution shall carry the same rights as all shares in issue (save for the rights to participate in the Capitalisation Issue). The Capitalisation Issue was fully completed on 8 March 2018.

On 8 March 2018, the shares of the Company were listed on the Main Board of the Stock Exchange and 155,000,000 new ordinary shares of HK\$0.1 each were issued at HK\$0.71 per share by way of global offering. The gross proceeds from the global offering is amounted to HK\$110,050,000.

25. RESERVES

25(a) Capital reserve

The capital reserve represents the waiver of the amount due from the Group granted by the Ultimate Controlling Party in prior years and the aggregate amount of the nominal value of the issued/registered capital of the entities now comprising the Group less consideration paid to acquire the relevant interests (if any).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

25. RESERVES (Continued)

25(b) Statutory reserve

As stipulated by the relevant laws and regulations for enterprises incorporated/established in the PRC, the Group's subsidiaries in the PRC are required to maintain certain statutory reserves. The statutory reserve can be used to make up for losses, expand the existing operation and convert to additional capital.

25(c) Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of foreign operations for consolidation.

25(d) Revaluation reserve

The revaluation reserve represents the cumulative net changes in the fair value of the unlisted investments in key management insurance contracts classified as available-for-sale financial assets held at the end of the reporting period.

26. CASH GENERATED FROM OPERATIONS

| | 2017 HK\$'000 | 2016 HK\$'000 |
|---|------------------|------------------|
| Profit before tax | 31,025 | 44,997 |
| Amortisation of prepaid land lease payments | 1,039 | 1,073 |
| Bad debts expenses | - | 2 |
| Depreciation | 26,603 | 29,004 |
| Interest income | (36) | (76) |
| Finance costs | 13,525 | 13,320 |
| Loss on disposal of property, plant and equipment | 137 | 435 |
| Exchange differences | 2,166 | (8,250) |
| Changes in working capital: | | |
| Inventories | 10,309 | (24,712) |
| Trade and other receivables | (4,053) | (9,322) |
| Trade and other payables | 20,224 | 13,922 |
| Cash generated from operations | 100,939 | 60,393 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

27. RELATED PARTY TRANSACTIONS

In addition to the transactions/information disclosed elsewhere in the consolidated financial statements, during the years ended 31 December 2017 and 2016, further information of the related party transactions is set out below.

- (a) Transactions between the group entities have been eliminated on consolidation and are not disclosed. During the years ended 31 December 2017 and 2016, the Group had the following significant transactions with related parties (Fast Precision and Fast Precision Huizhou ceased to be related companies of the Group on 29 March 2017).

| Related party relationship | Nature of transaction | 2017 HK\$'000 | 2016 HK\$'000 |
|--|---|------------------|------------------|
| Companies controlled by the Ultimate Controlling Party | Sale of goods (i) | 249 | 1,018 |
| | Sub-contracting costs (ii) | 1,079 | 13,915 |
| | Rental expenses (iii) | 540 | 540 |
| | Rental and utilities recharge income (iv) | 360 | 1,595 |
| | Management service income (v) | 45 | 180 |

(i) During the years ended 31 December 2017 and 2016, the Group sold plastic products to 深圳市扒令貿易有限公司 (Shenzhen CDN Trading Limited*) and Fast Precision Huizhou. Such sales have been recognised as the Group's revenue in profit or loss.

(ii) During the years ended 31 December 2017 and 2016, Fast Precision Huizhou provided sub-contracting services to the Group for the manufacturing of moulds. Such services have been recognised as the Group's cost of goods sold in profit or loss.

(iii) During the years ended 31 December 2017 and 2016, rental expenses represented operating lease payments on premises charged by CDN Holdings to the Group.

(iv) During the years ended 31 December 2017 and 2016, the Group leased out a portion of its production plants in the PRC to Fast Precision Huizhou. Such rental income has been recognised as the Group's other income in profit or loss.

(v) During the years ended 31 December 2017 and 2016, the Group rendered management service to Fast Precision. Such service income has been recognised as the Group's other income in profit or loss.

* English translation for identification purpose only.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

27. RELATED PARTY TRANSACTIONS (Continued)

(b) Remuneration for key management personnel (including directors) of the Group:

| | 2017 HK\$'000 | 2016 HK\$'000 |
|--|------------------|------------------|
| Salaries and allowances | 6,328 | 4,963 |
| Contributions to defined contribution retirement schemes | 110 | 120 |
| | 6,438 | 5,083 |

Further details of the directors' remuneration are set out in Note 7 to the consolidated financial statements.

(c) Financial guarantee issued

The Group has issued guarantees in respect of banking facilities granted to a related company/a former related company ultimately controlled by the Ultimate Controlling Party in favour of a bank in Hong Kong with unlimited amount. The Group has not recognised a value for the financial guarantees in the consolidated financial statements as (i) no consideration has been received from the related company/ the former related company in respect of the financial guarantees; (ii) there is no direct comparable market transaction of the financial guarantees; and (iii) the fair value of the financial guarantees cannot be reliably estimated with observable parameters.

At 31 December 2016, the management does not consider it probable that a claim will be made against the Group under the guarantees. The maximum liabilities of the Group under the guarantees are approximately HK\$1,781,000, representing the banking facilities utilised by the related company. At 31 December 2017, such guarantees in respect of banking facilities granted to a former related company were released.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

28. ADDITIONAL INFORMATION ON CASH FLOWS

(a) Major non-cash transactions

The followings set out the major non-cash transactions during the year:

During the year ended 31 December 2017, the Group incurred additional payables of approximately HK\$10,586,000 (2016: HK\$nil) to constructors for the addition of property, plant and equipment.

During the year ended 31 December 2017, the Group entered into finance lease arrangements in respect of certain motor vehicles and machinery and equipment with a total capital value at the inception of the leases of approximately HK\$4,932,000 (2016: HK\$14,666,000).

During the year ended 31 December 2017, the Group incurred interest expenses from the loan from the Ultimate Controlling Party of approximately HK\$1,199,000 (2016: HK\$1,806,000). Of the total amount, HK\$nil (2016: HK\$440,000) was not settled.

During the year ended 31 December 2017, the Group incurred imputed interest expenses in respect of the payables for construction in progress of approximately HK\$1,496,000 (2016: HK\$3,241,000), which were not settled and were credited to the payables for construction in progress.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

28. ADDITIONAL INFORMATION ON CASH FLOWS (Continued)

(b) Reconciliation of liabilities arising from financing activities

The movements in the Group's liabilities arising from financing activities are as follows:

| | At 1 January 2017 HK\$'000 | Net cash flow HK\$'000 | Non-cash changes | | | At 31 December 2017 HK\$'000 |
|---|-------------------------------------|------------------------------|----------------------|---|---|---------------------------------------|
| | | | Addition HK\$'000 | Imputed interest expenses HK\$'000 | Foreign exchange movement HK\$'000 | |
| Year ended 31 December 2017 | | | | | | |
| Payables for construction in progress | 43,426 | (27,595) | 10,586 | 1,496 | 263 | 28,176 |
| Interest-bearing borrowings | 174,575 | 15,107 | - | - | 2,831 | 192,513 |
| Obligations under finance leases | 27,049 | (11,313) | 4,932 | - | - | 20,668 |
| Loans from the Ultimate Controlling Party | 28,598 | (29,866) | - | - | 1,268 | - |
| | 273,648 | (53,667) | 15,518 | 1,496 | 4,362 | 241,357 |

| | At 1 January 2016 HK\$'000 | Net cash flow HK\$'000 | Non-cash changes | | | At 31 December 2016 HK\$'000 |
|---|-------------------------------------|------------------------------|----------------------|---|---|---------------------------------------|
| | | | Addition HK\$'000 | Imputed interest expenses HK\$'000 | Foreign exchange movement HK\$'000 | |
| Year ended 31 December 2016 | | | | | | |
| Payables for construction in progress | 90,746 | (45,279) | - | 3,241 | (5,282) | 43,426 |
| Interest-bearing borrowings | 167,756 | 11,266 | - | - | (4,447) | 174,575 |
| Obligations under finance leases | 21,573 | (7,343) | 14,666 | - | (1,847) | 27,049 |
| Loans from the Ultimate Controlling Party | 30,529 | - | - | - | (1,931) | 28,598 |
| | 310,604 | (41,356) | 14,666 | 3,241 | (13,507) | 273,648 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise of available-for-sale financial assets, amounts due from related companies/former related companies, bank overdrafts, interest-bearing borrowings, payables for construction in progress, obligations under finance leases and bank balances and cash. The main purpose of these financial instruments is to raise and maintain finance for the Group's operations. The Group has various other financial instruments such as trade and other receivables and trade and other payables, which arise directly from its business activities.

The main risks arising from the Group's financial instruments are market risk (including price risk, interest rate risk and foreign currency risk), credit risk and liquidity risk. The Group does not have any written risk management policies and guidelines. However, the management generally adopts conservative strategies on its risk management and limits the Group's exposure to these risks to a minimum level as follows:

Price risk

The Group is exposed to price risk arising from its unlisted investments in key management insurance contracts which are classified as available-for-sale financial assets. The fair value of the unlisted investments will fluctuate, subject to the returns which are at the discretion of the issuer of the investments. Such contracts have minimum guaranteed returns during the holding period. Management is of the opinion that the price risk arising from the contracts is not significant.

Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's obligations under finance leases, interest-bearing borrowings and bank overdrafts of approximately HK\$196,521,000 (2016: HK\$201,284,000) with floating interest rate. The Group currently does not have a policy to hedge against the interest rate risk as the management does not expect any significant interest rate risk at the end of the reporting period.

At the end of the reporting period, if interest rate has been 100 basis points higher/lower and all other variables were held constant, the Group's pre-tax results would decrease/increase by approximately HK\$1,965,000 (2016: HK\$2,013,000).

The sensitivity analysis above has been determined assuming that the change in interest rate had occurred throughout the year and had been applied to the exposure to interest rate risk for the closing balance of the obligations under finance leases, interest-bearing borrowings and bank overdrafts in existence at the end of the reporting period. The stated changes represent management's assessment of a reasonably possible change in interest rates over the year.

In the opinion of the management, the sensitivity analysis is unrepresentative of the inherent interest rate risk because the exposure at the end of the reporting period does not reflect the exposure during the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Foreign currency risk

The Group's transactions are mainly denominated in HK\$, US\$ and RMB.

Certain financial assets and financial liabilities of the Group are denominated in currencies other than the functional currency of the respective group entities and therefore exposed to foreign currency risk. The carrying amounts of those financial assets and liabilities are analysed as follows:

| | Financial assets | | Financial liabilities | |
|------|------------------|------------------|-----------------------|------------------|
| | 2017 HK\$'000 | 2016 HK\$'000 | 2017 HK\$'000 | 2016 HK\$'000 |
| HK\$ | 1,778 | 3,044 | 899 | 1,062 |
| US\$ | 66,229 | 75,115 | 68,731 | 70,867 |
| RMB | 39 | 20,683 | - | 22,798 |

The following table indicates the approximate change in the Group's pre-tax results if exchange rates of HK\$, US\$ and RMB had changed against the functional currencies of the respective group entities by 5% and all other variables were held constant at the end of the reporting period.

| | 2017 HK\$'000 | 2016 HK\$'000 |
|------|------------------|------------------|
| HK\$ | 44 | 99 |
| US\$ | 125 | 212 |
| RMB | 2 | 106 |

The sensitivity analysis has been determined assuming that the changes in foreign exchange rates had occurred at the end of the reporting period and had been applied to the Group's exposure to currency risk for financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the year until the end of the next reporting period.

In the opinion of the management, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk because the exposure at the end of the reporting period does not reflect the exposure during the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk

Credit risk refers to the risk that debtors will default on their obligations to repay the amounts due to the Group, resulting in a loss to the Group. The Group's credit risk is mainly attributable to trade and other receivables and bank balances and cash. The Group limits its exposure to credit risk by selecting the counterparties with reference to their past credit history and/or market reputation. The Group's maximum exposure to the credit risk is summarised as follows:

| | 2017 HK\$'000 | 2016 HK\$'000 |
|-----------------------------|------------------|------------------|
| Trade and other receivables | 113,439 | 108,752 |
| Bank balances and cash | 19,591 | 18,919 |
| | 133,030 | 127,671 |

The Group trades with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures.

The management considers the credit risk in respect of bank balances and cash is minimal because the counterparties are authorised financial institution with high credit ratings.

The management limits the Group's exposure to credit risk by taking timely actions once there is any indication for recoverability problem of each individual debtor.

The management also reviews the recoverable amount of each individual debtor, including related and third parties, at the end of each reporting period to ensure adequate allowance is made for irrecoverable amount.

At 31 December 2017, the Group had a concentration of credit risk as approximately 18.1% (2016: 18.5%) of the total trade receivables was due from the Group's largest trade debtor, and approximately 69.2% (2016: 71.6%) of the total trade receivables was due from the Group's five largest trade debtors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility. The Group has no specific policy for managing its liquidity. The undiscounted contractual maturity profile of the Group's financial liabilities at the end of the reporting period, based on contractual undiscounted payments, is summarised below:

| | Total carrying amount HK\$'000 | Total contractual undiscounted cash flow HK\$'000 | Less than 1 year or on demand HK\$'000 | 1-2 years HK\$'000 | 2-5 years HK\$'000 |
|---------------------------------------|---|---|---|-----------------------|-----------------------|
| At 31 December 2017 | | | | | |
| Trade and other payables | 114,541 | 114,541 | 114,541 | - | - |
| Bank overdrafts | 1,024 | 1,024 | 1,024 | - | - |
| Obligations under finance leases | 20,668 | 21,394 | 11,625 | 7,918 | 1,851 |
| Interest-bearing borrowings (i) | 192,513 | 193,256 | 172,416 | 20,840 | - |
| Payables for construction in progress | 28,176 | 29,993 | 29,993 | - | - |
| | 356,922 | 360,208 | 329,599 | 28,758 | 1,851 |
| At 31 December 2016 | | | | | |
| Trade and other payables | 90,325 | 90,325 | 90,325 | - | - |
| Bank overdrafts | 5,826 | 5,826 | 5,826 | - | - |
| Obligations under finance leases | 27,049 | 28,231 | 10,935 | 10,061 | 7,235 |
| Interest-bearing borrowings (i) | 174,575 | 177,413 | 140,834 | 16,739 | 19,840 |
| Payables for construction in progress | 43,426 | 46,156 | 28,747 | 17,409 | - |
| Loans from the Ultimate | | | | | |
| Controlling Party | 28,598 | 32,657 | - | - | 32,657 |
| Financial guarantee contracts (ii) | 1,781 | 1,781 | 1,781 | - | - |
| | 371,580 | 382,389 | 278,448 | 44,209 | 59,732 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

- (i) The amounts repayable under certain bank loan agreements that include a clause that gives the banks unconditional rights to call the loans at any time are classified under the category of "Less than 1 year or on demand". However, the management does not expect that the banks would exercise such rights to demand repayment and thus these borrowings, which include the related interest, would be repaid according to the above schedule as set out in the loan agreements.

| | 2017 HK\$'000 | 2016 HK\$'000 |
|-------------------------------|------------------|------------------|
| Less than 1 year or on demand | 145,531 | 120,890 |
| 1-2 years | 37,238 | 27,979 |
| 2-5 years | 15,254 | 33,459 |
| Over 5 years | 272 | 430 |
| | 198,295 | 182,758 |

- (ii) The amounts included above for the financial guarantee contracts are the maximum amounts of the guarantee shown in the earliest periods in which the guarantee could be called. Based on the expectations at the end of the reporting period, the management does not consider it probable that a claim will be made against the Group under the guarantee.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

30. FAIR VALUE MEASUREMENTS

The following presents the assets and liabilities measured at fair value or required to disclose their fair value in the consolidated financial statements on a recurring basis across the three levels of the fair value hierarchy defined in HKFRS 13 "Fair Value Measurement" with the fair value measurement categorised in its entirety based on the lowest level input that is significant to the entire measurement. The levels of inputs are defined as follows:

- Level 1 (highest level): quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3 (lowest level): unobservable inputs for the asset or liability.

(a) Assets and liabilities measured at fair value

| | 2017 Level 3 HK\$'000 | 2016 Level 3 HK\$'000 |
|---|--|-----------------------------|
| Assets measured at fair value | | |
| Available-for-sale financial assets | | |
| - Unlisted investments - key management insurance contracts (Note 15) | 10,506 | 7,514 |

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

| | 2017 HK\$'000 | 2016 HK\$'000 |
|---|--------------------------------|------------------|
| Total unrealised gains included in other comprehensive income | 269 | 210 |

The fair value of the key management insurance contracts is determined by reference to the surrender cash value, which is primarily based on the performance of the underlying investment portfolio, reported by the bank on a regular basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

30. FAIR VALUE MEASUREMENTS (Continued)

(b) Assets and liabilities with fair value disclosure, but not measured at fair value

All other financial assets and liabilities including trade and other receivables, trade and other payables, bank balances, bank overdrafts, interest-bearing borrowings, payables for construction in progress and obligations under finance leases are carried at amounts not materially different from their fair values at the end of the reporting period.

31. COMMITMENTS

Commitments under operating leases

The Group as lessee

The Group leases a number of properties under operating leases, which typically runs an initial lease period of one to five years. None of the leases includes contingent rentals.

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

| | 2017 | 2016 |
|--|-----------------|----------|
| | HK\$'000 | HK\$'000 |
| Within one year | 6,069 | 5,890 |
| In the second to fifth years inclusive | 5,357 | 10,901 |
| | 11,426 | 16,791 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

31. COMMITMENTS (Continued)

Commitments under operating leases (Continued)

The Group as lessor

The Group leases out part of its production plant under operating leases with average lease term of 2 years. The future aggregate minimum rental receivables under non-cancellable operating leases at the end of the reporting period are as follows:

| | 2017 HK\$'000 | 2016 HK\$'000 |
|--|------------------|------------------|
| Within one year | 688 | 654 |
| In the second to fifth years inclusive | - | 654 |
| | 688 | 1,308 |

Capital expenditure commitments

| | 2017 HK\$'000 | 2016 HK\$'000 |
|---|------------------|------------------|
| Contracted but not provided net of deposits paid for construction in progress | 53,570 | 48,467 |

32. CAPITAL MANAGEMENT

The objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to provide returns for equity owners. The Group manages its capital structure and makes adjustments, including payment of dividend to equity owners, call for additional capital from equity owners or sale of assets to reduce debts. No changes were made in the objectives, policies or processes during the years ended 31 December 2017 and 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

33. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

| | Note | 2017 HK\$ |
|-----------------------------|------|--------------|
| Non-current assets | | |
| Investments in subsidiaries | | 16 |
| Current assets | | |
| Other receivables | | 300 |
| Current liabilities | | |
| Other payables | | 16 |
| Net current assets | | 284 |
| NET ASSETS | | 300 |
| Capital and reserves | | |
| Share capital | 24 | 300 |
| TOTAL EQUITY | | 300 |

Approved and authorised for issue by the Board of Directors on 28 March 2018 and signed on its behalf by

CHAN Tsan Lam
Director

CHENG Chak
Director

FOUR YEARS FINANCIAL SUMMARY

A summary of the results of the assets and liabilities of the Group for the last four financial years, as extracted from the audited consolidated financial statements in this annual report and the Prospectus, is set out below. No financial statements of the Group for the year ended 31 December 2013 have been published.

RESULTS

| | For the year ended 31 December | | | 2017 HK\$'000 |
|---|--------------------------------|------------------|------------------|------------------|
| | 2014 HK\$'000 | 2015 HK\$'000 | 2016 HK\$'000 | |
| Revenue | 548,679 | 401,178 | 555,561 | 572,864 |
| Cost of goods sold | (407,831) | (304,058) | (427,386) | (438,825) |
| Gross Profit | 140,848 | 97,120 | 128,175 | 134,039 |
| Other income | 3,939 | 3,658 | 8,296 | 4,868 |
| Selling and distribution costs | (10,435) | (8,522) | (11,570) | (11,604) |
| Administrative and other operating expenses | (57,432) | (55,473) | (66,584) | (66,909) |
| Finance costs | (6,634) | (13,087) | (13,320) | (13,525) |
| Listing expenses | - | - | - | (15,844) |
| Profit before tax | 70,286 | 23,696 | 44,997 | 31,025 |
| Income tax expenses | (17,650) | (5,935) | (11,140) | (10,947) |
| Profit for the year | 52,636 | 17,761 | 33,857 | 20,078 |
| Other comprehensive income (loss) | (2,421) | (11,542) | (28,937) | 16,948 |
| Total comprehensive income | 50,215 | 6,219 | 4,920 | 37,026 |

ASSETS AND LIABILITIES

| | As at 31 December | | | 2017 HK\$'000 |
|-------------------|-------------------|------------------|------------------|------------------|
| | 2014 HK\$'000 | 2015 HK\$'000 | 2016 HK\$'000 | |
| Total assets | 604,518 | 655,240 | 632,478 | 654,789 |
| Total liabilities | 368,569 | 413,072 | 385,390 | 370,675 |
| Total equity | 235,949 | 242,168 | 247,088 | 284,114 |

