



CW GROUP HOLDINGS LIMITED

創達科技控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock code : 1322

**Annual
Report
2016**



AUTOMOTIVE



MEDICAL



AEROSPACE



MACHINE TOOLS



OIL & GAS

INDUSTRY 4.0
FULL THROTTLE
ENGINEERING SOLUTIONS

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Wong Koon Lup (*Chairman and Chief Executive Officer*)
Mr. Wong Mun Sum
Mr. Lee Tiang Soon

NON-EXECUTIVE DIRECTOR

Mr. Zhang Bing Cheng

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Kuan Cheng Tuck
Mr. Ong Su Aun, Jeffrey (*Wang Ci'An, Jeffrey*)
Mr. Chan Hon Chung, Johnny

COMPANY SECRETARY

Mr. Chan Kam Fuk

AUDIT COMMITTEE

Mr. Kuan Cheng Tuck (*Chairman*)
Mr. Ong Su Aun, Jeffrey (*Wang Ci'An, Jeffrey*)
Mr. Chan Hon Chung, Johnny

NOMINATION COMMITTEE

Mr. Ong Su Aun, Jeffrey (*Wang Ci'An, Jeffrey*) (*Chairman*)
Mr. Kuan Cheng Tuck
Mr. Wong Koon Lup

REMUNERATION COMMITTEE

Mr. Chan Hon Chung, Johnny (*Chairman*)
Mr. Ong Su Aun, Jeffrey (*Wang Ci'An, Jeffrey*)
Mr. Wong Koon Lup

AUTHORISED REPRESENTATIVES

Mr. Wong Koon Lup
Mr. Chan Kam Fuk

HONG KONG LEGAL ADVISERS

H.M. Chan & Co in association with Taylor Wessing

REGISTERED OFFICE

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PR Asia Consultants Limited

COMPANY WEBSITE

www.cwgroup-int.com

STOCK CODE

1322

On behalf of the Board and management of CW Group Holdings Limited (the “**Company**”) and its subsidiaries (the “**Group**”), I take this opportunity to share with you a brief introduction of our Group, the past year in review and the way forward.

BRIEF INTRODUCTION

We are one of the leading one-stop precision engineering solutions providers serving a wide range of industries worldwide. Our Group's core businesses include supplying precision engineering solutions, Computer Numeric Control (“**CNC**”) machining centres, and components and parts, as well as providing comprehensive maintenance and after-sales technical support. We serve over 200 diversified customers and our customer base spans across various industries, including precision machine tool engineering, electronics/semi-conductor, automotive, oil and gas, marine, construction materials, as well as niche markets in aerospace, medical and renewable energy. Our business covers markets in European countries such as Germany and Switzerland, as well as in the Asia-Pacific region such as the People's Republic of China (the “**PRC**”), Southeast Asia, Japan and India.

The Group achieved a great milestone on 13 April 2012 when the shares of our Company were successfully listed on the Main Board of The Stock Exchange of Hong Kong (the “**Stock Exchange**”). This has strengthened the source of capital of our Group, providing a foundation for us to advance business collaborations with our business partners to capture opportunities in the precision engineering solutions industry.

BUSINESS REVIEW FOR 2016

In view of the tougher economic and market conditions in 2016, the Group was unable to sustain the vibrant growth it enjoyed over the past few years. Despite the challenging market conditions, the Group was able to maintain its revenue on similar level as prior year (approximately HK\$2,462.0 million and HK\$2,455.6 million for the years ended 31 December 2016 and 2015 respectively). Profits for the year ended 31 December 2016 increased by 6.5% from the preceding year to approximately HK\$234.5 million. The increase in profits was largely due to the increased revenue contribution from the after-sales technical support services, which generated higher gross profit margins.

Even with the slight respite offered by the increase in revenue contribution from after-sales technical support services, the precision engineering solutions projects continue to be the heartbeat of the Group, contributing to 91.8% and 96.0% of our total revenue for the years ended 31 December 2016 and 2015 respectively. Revenue from the precision engineering solutions projects dropped slightly by 4.1% from approximately HK\$2,357.0 million for the year ended 31 December 2015, to approximately HK\$2,261.2 million for the current year, reflecting the depressed market conditions for the year 2016.

During the year ended 31 December 2016, we continued to maintain our key markets including Singapore, China, Indonesia, Malaysia, and Thailand. Despite the slowdown in demand for our solutions and products due to the current global economic conditions, our management remains steadfastly confident of the operating environment of our key markets and continues to forge strong bonds with our customers, suppliers and working partners, which will enable us to continuously provide premier solutions and service offerings in the long term. In addition, new penetration into the European markets is expected to contribute positively in the coming years.



CHAIRMAN'S STATEMENT

LOOKING FORWARD

The newly elected president of the United States (the “**US**”) Donald Trump has set the world’s largest economy sailing into uncharted waters. His tenure as the President is expected to be marked with unconventional policy and decisions making that depart from the political modus operandi which will have a significant impact on the world trade, economy and security as protectionist sentiment gains ground. The shifts towards trade protectionism in the US and other European countries have the potential to impact global economies significantly. With the US formally withdrawing from the Trans-Pacific Partnership (“**TPP**”) and downplaying its global leadership role, an opportunity has been presented to China to step up to the forefront, playing a greater role in global governance and trade.

Asia has benefited since the opening of global markets. Countries such as Indonesia, the Philippines, India, Vietnam, Malaysia and Thailand are continuing to attract foreign direct investment (“**FDI**”). After the demise of the US-led TPP, ASEAN countries are attempting to establish an alternative pact, the Regional Comprehensive Economic Partnership (“**RCEP**”) which focuses mainly on tariff reductions in goods. The RCEP has the potential to deliver significant opportunities for businesses in the Asian region, given the fact that 16 of the participating countries are all highly populated and would contribute to high demands in goods and services.

Looking forward, FDI in the Asian region is expected to create continuous demand for high-end precision CNC machine tools, precision engineering solutions projects, clean energy solutions and smart factories will influx the core manufacturing industries such as precision engineering, aerospace and automotive. Trades and investments in the region would be further enhanced if the RCEP pact is being concluded.

Strategically headquartered in Singapore, with subsidiaries located in China and Europe, the Group is well-positioned to capture and facilitate any potential business opportunities, bridging the intellectual property rights, language and cultural barriers. It is on this background that we, as a provider of one-stop precision engineering solutions with technological transfer capability, are encouraged and optimistic on the performance of the Group in the near future. The Group will continue to leverage on our technological know-how and knowledge of our customers’ needs to procure high-end machining technology from Europe for onward sale to our customers who need to ramp up and upgrade their production facilities. We plan to complement the transfer of technology by offering after-sales technical support to our customers to ensure that technologies obtained would be harnessed in the most optimal manner.

We will continue to focus on growing our key markets whilst pursuing potential business opportunities in new markets. In addition, we will continue to seek improvements in various strategic aspects, including broadening our customer base, supply channels and capacity expansion. In line with our strategy to increase our market penetration, we are also cautiously seeking suitable investment opportunities in Asia and Europe. We will cautiously seek to capture suitable market opportunities with a view to maximizing our shareholders’ returns.

DIVIDEND

The Board is pleased to recommend a final dividend of HK2.36 cents per share for the year ended 31 December 2016 (2015: HK2.36 cents). Based on the issued share capital, it is expected that the total amount of final dividend payable to our shareholders is HK\$16,968,000 for the year ended 31 December 2016 (2015: HK\$16,968,000).

APPRECIATION

In conclusion, on behalf of the Board, I would like to express my sincere thanks to all our shareholders, customers, principals and bankers for their continued trust and support. To the team at CW Group, I thank you for your hard work and dedication, without which we would not have been able to achieve the good results today.

The new financial year will bring forth new challenges and with the help of everyone, I am confident that we will be able to overcome all challenges that we may face in 2017.

Thank you.

Yours sincerely,
Wong Koon Lup
Chairman and Chief Executive Officer

FINANCIAL HIGHLIGHTS

For the year ended 31 December

2016 2015

Profitability data (HK\$'000)

Revenue	2,462,017	2,455,646
Gross profit	467,672	412,280
Profit before tax	301,758	276,145
Profit for the year	234,460	220,229

As at 31 December

2016 2015

Assets and liabilities data (HK\$'000)

Cash and cash equivalents	193,790	444,905
Loans and borrowings (current)	2,400	1,431
Total assets less current liabilities	2,121,719	1,919,878

Key financial ratios

Current ratio (<i>times</i>) ^(Note 1)	3.0	3.2
Gearing ratio (%) ^(Note 2)	37.0	38.4
Inventory turnover (<i>days</i>) ^(Note 3)	1	1
Trade receivables turnover (<i>days</i>) ^(Note 4)	259	169
Trade payables turnover (<i>days</i>) ^(Note 5)	146	112

Notes:

Note 1 Current ratio is calculated based on current assets divided by current liabilities.

Note 2 Gearing ratio is calculated based on total loans and borrowings, finance leases payables, trade finance and bills payable and notes issued divided by total assets.

Note 3 Inventory turnover is calculated based on the average inventory (sum of opening and closing balances of inventory of respective years and then divided by two) divided by cost of goods sold of the respective years and multiplied by the number of days in the corresponding year.

Note 4 Trade receivables turnover is calculated based on the average trade receivables (sum of opening and closing balances of trade receivables of respective years and then divided by two) divided by revenue of the respective years and multiplied by the number of days in the corresponding year.

Note 5 Trade payables turnover is calculated based on the average closing balances of trade payables and trade financing and bills payable (sum of opening and closing balances of trade payables and trade financing and bills payable of respective years and then divided by two) divided by cost of goods sold of the respective years and multiplied by the number of days in the corresponding year.

BUSINESS REVIEW

Precision engineering solutions projects

We offer our customers project-based tailor-made precision engineering solutions by producing customized assembly production lines. The range of these precision engineering solutions include the conducting of feasibility studies, concept and design, sourcing of assemblies, components and parts, to the manufacturing, installation and testing of products and the provision of after-sales technical support.

During the year ended 31 December 2016, our activities under this segment saw continued contributions in precision engineering solutions in our key markets such as India, Indonesia, Malaysia, Singapore and Thailand, in the precision engineering, automotive and oil and gas sectors.

Sales of CNC machining centres

This segment relates primarily to sales of precision engineering manufacturing equipment operable under CNC automation. We trade a wide range of CNC machining centres from our principals.

During the year ended 31 December 2016, our activities under this segment decreased largely attributable to the strategy to focus more on precision engineering solutions projects.

Sales of components and parts

To enable our Group to be a one-stop solution provider, we supplement our core business by distributing and trading a comprehensive range of accessory products together with components and parts. These components and parts are either manufactured by our Group or sourced from our international network of suppliers.

During the year ended 31 December 2016, our activities under this segment decreased mainly attributable to the strategy to focus more on precision engineering solutions projects.

Provision of comprehensive maintenance and after-sales technical support services

Our Group offers our customers comprehensive maintenance and after-sales technical support services.

During the year ended 31 December 2016, this segment saw an increase due to depressed market conditions which led to many customers opting not to buy new equipment but looking for overhaul of existing equipment instead.

Renewable energy solutions

Revenue from the renewable energy solutions relates primarily to the manufacture and trade of solar photovoltaic panels and modules.

Revenue contribution from this business segment increase for the year ended 31 December 2016 partly due to the factory shutting down for about three months for the integration of the fully automated production line into the production plant during the year ended 31 December 2015, hence resulting in lesser contributions during that year. Another factor that contributed to the improvement was the securing of a one-year contract to provide renewable energy solutions in Thailand.



MANAGEMENT DISCUSSION AND ANALYSIS

OUTLOOK FOR 2017

The newly elected president of the US Donald Trump has set the world's largest economy sailing into uncharted waters. His tenure as the President is expected to be marked with unconventional policy and decisions making that depart from the political modus operandi which will have a significant impact on the world trade, economy and security as protectionist sentiment gains ground. The shifts towards trade protectionism in the US and other European countries have the potential to impact global economies significantly. With the US formally withdrawing from the Trans-Pacific Partnership ("TPP") and downplaying its global leadership role, an opportunity has been presented to China to step up to the forefront, playing a greater role in global governance and trade.

Asia has benefited since the opening of global markets. Countries such as Indonesia, the Philippines, India, Vietnam, Malaysia and Thailand are continuing to attract foreign direct investment ("FDI"). After the demise of the US-led TPP, ASEAN countries are attempting to establish an alternative pact, the Regional Comprehensive Economic Partnership ("RCEP") which focuses mainly on tariff reductions in goods. The RCEP has the potential to deliver significant opportunities for businesses in the Asian region, given the fact that 16 of the participating countries are all highly populated and would contribute to high demands in goods and services.

Looking forward, FDI in the Asian region is expected to create continuous demand for high-end precision CNC machine tools, precision engineering solutions projects, clean energy solutions and smart factories will influx the core manufacturing industries such as precision engineering, aerospace and automotive. Trades and investments in the region would be further enhanced if the RCEP pact is being concluded.

Strategically headquartered in Singapore, with subsidiaries located in China and Europe, the Group is well-positioned to capture and facilitate any potential business opportunities, bridging the intellectual property rights, language and cultural barriers. It is on this background that we, as a provider of one-stop precision engineering solutions with technological transfer capability, are encouraged and optimistic on the performance of the Group in the near future. The Group will continue to leverage on our technological know-how and knowledge of our customers' needs to procure high-end machining technology from Europe for onward sale to our customers who need to ramp up and upgrade their production facilities. We plan to complement the transfer of technology by offering after-sales technical support to our customers to ensure that technologies obtained would be harnessed in the most optimal manner.

We will continue to focus on growing our key markets whilst pursuing potential business opportunities in new markets. In addition, we will continue to seek improvements in various strategic aspects, including broadening our customer base, supply channels and capacity expansion. In line with our strategy to increase our market penetration, we are also cautiously seeking suitable investment opportunities in Asia and Europe. We will cautiously seek to capture suitable market opportunities with a view to maximizing our shareholders' returns.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2016, revenue of the Group reached approximately HK\$2,462.0 million, representing a slight increase of approximately HK\$6.4 million or 0.3% from approximately HK\$2,455.6 million for the preceding financial year. Set out below is a breakdown of our revenue by our five business segments:

	Year ended 31 December				Increase/ (Decrease) %
	2016		2015		
	<i>Percentage of total revenue</i>	<i>Percentage of total revenue</i>	<i>Percentage of total revenue</i>	<i>Percentage of total revenue</i>	
	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>	
Precision engineering solutions projects	2,261,166	91.8	2,357,043	96.0	(4.1)
Sales of CNC machining centres	22,058	0.9	59,265	2.4	(62.8)
Sales of components and parts	9,816	0.4	29,318	1.2	(66.5)
After-sales technical support services	116,307	4.7	5,014	0.2	2,219.6
Renewable energy solutions	52,670	2.2	5,006	0.2	952.1
Total	2,462,017	100.0	2,455,646	100.0	0.3

Revenue from precision engineering solutions projects relates primarily to the provision of precision engineering solutions specific to machine tools and machinery and equipment encompassing their conceptualisation and design to production line set-up and commissioning of production lines. For the years ended 31 December 2016 and 2015, approximately 91.8% and 96.0% of our total revenue was derived from precision engineering solutions projects respectively. Revenue from this business segment decreased by approximately 4.1% from approximately HK\$2,357.0 million for the year ended 31 December 2015, to approximately HK\$2,261.2 million for the year ended 31 December 2016. The slight decline was predominantly due to depressed market conditions during 2016.

Revenue from sales of CNC machining centres primarily relates to sales of precision engineering manufacturing equipment operable under CNC automation. For the years ended 31 December 2016 and 2015, approximately 0.9% and 2.4% of our total revenue was derived from sales of CNC machining centres respectively. Revenue from sales of CNC machining centres decreased by 62.8% from approximately HK\$59.3 million for the year ended 31 December 2015, to approximately HK\$22.1 million for the year ended 31 December 2016. Similar to the precision engineering solutions projects, the decrease was predominantly due to depressed market conditions during 2016.

Revenue from sales of components and parts relates primarily to sales of self-manufactured and trading of components and parts. Revenue from this business segment contributed to approximately 0.4% and 1.2% of our total revenue for the years ended 31 December 2016 and 2015, respectively. Revenue from the sales of components and parts decreased by 66.5% from approximately HK\$29.3 million for the year ended 31 December 2015, to approximately HK\$9.8 million for the current year. The decrease was largely due to a shift in business focus of two subsidiaries to CNC machining centres sales, and after-sales repairs and maintenance services.

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue from after-sales technical support services consists primarily of the provision of technical repairs and maintenance services in relation to our Group's other business segments. Revenue contribution from this business segment increased to 4.7% for the year ended 31 December 2016 from 0.2% in the preceding year. Revenue from after-sales technical support services increased by 2,219.6% from approximately HK\$5.0 million in the previous year, to approximately HK\$116.3 million for the year ended 31 December 2016. This spike in revenue from after-sales technical support was largely due to depressed market conditions which led to many customers opting not to buy new equipment but looking for overhaul of existing equipment instead.

Revenue from the renewable energy solutions relates primarily to the manufacture and trading of solar photovoltaic panels and modules. Revenue contribution from this business segment increased from 0.2% for the year ended 31 December 2015 to 2.2% for the current year. Revenue from renewable energy solutions increased by 952.1% from approximately HK\$5.0 million for the year ended 31 December 2015, to approximately HK\$52.7 million for the year ended 31 December 2016. The increase was partly due to the fact that our factory had shut down production for about three months while integrating the new fully automated production line into the production plant during the year ended 31 December 2015, hence resulting in lesser contributions during that year. Another factor that contributed to the improvement was the securing of a one-year contract to provide renewable energy solutions to a turnkey project in Thailand, which contributed to approximately HK\$20.4 million revenue for the year ended 31 December 2016.

Cost of sales

The costs of sales of our Group accounted for approximately 81.0% and 83.2% of our revenue for the years ended 31 December 2016 and 2015 respectively. Our cost of sales comprises primarily: (i) cost of goods sold; (ii) direct labour costs; and (iii) direct depreciation expenses, which are costs incurred directly in relation to our revenue. Factors affecting our cost of sales include: (a) prices and availability of raw materials such as cast iron; and (b) salaries and related expenses of our engineers and skilled labour.

The following table sets forth the major components of our cost of sales:

	Year ended 31 December				Increase/ (Decrease) %
	2016		2015		
	<i>Percentage of total cost of sales</i>				
	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>	
Cost of goods sold	1,985,343	99.5	2,035,495	99.6	(2.5)
Direct labour costs	5,742	0.3	4,611	0.2	24.5
Direct depreciation expenses	3,260	0.2	3,260	0.2	0.0
Total	1,994,345	100.0	2,043,366	100.0	(2.4)



MANAGEMENT DISCUSSION AND ANALYSIS

For both the years ended 31 December 2016 and 2015, cost of goods sold as a percentage of our Group's total cost of sales remained relatively constant at 99.5% and 99.6% respectively. Cost of goods sold decreased slightly by 2.5% from approximately HK\$2,035.5 million for the year ended 31 December 2015 to approximately HK\$1,985.3 million for the year ended 31 December 2016. Our Group's cost of goods sold comprise primarily material costs, sub-contractor costs, inbound freight and handling costs. Material costs comprise primarily CNC machining centres, industrial equipment, components and parts, cast iron, casting, sheet metals, electric box, ball screw, spindle, controller and tool changers from suppliers located worldwide including Europe, Japan, the PRC, Singapore, Taiwan and the US. The decrease in cost of goods sold is mainly in line with the decrease in revenue from the precision engineering solutions projects and the sales of CNC machining centres segments.

Direct labour costs comprise salaries and related costs for engineers as well as production and assembly staff. For the years ended 31 December 2016 and 2015, direct labour costs as a percentage of our Group's total cost of sales was approximately 0.3% and 0.2% respectively. Direct labour costs increased by 24.5% from approximately HK\$4.6 million for the year ended 31 December 2015 to approximately HK\$5.7 million for the current year. The increase in absolute amount was primarily due to wage increments and increased working hours to meet the higher business activities, as well as increased labour for the manufacturing and assembling of solar photovoltaic modules and panels.

Direct depreciation expenses for the years ended 31 December 2016 and 2015 remained relatively constant, and accounted for approximately 0.2% of our Group's total cost of sales in both years. Direct depreciation expenses maintained at approximately HK\$3.3 million for both financial years. Direct depreciation expenses comprise depreciation charges on production related equipment.

Gross profit and gross profit margin

Our gross profit for the year ended 31 December 2016 was approximately HK\$467.7 million, representing an increase of 13.4% from the year ended 31 December 2015. This was primarily contributed by the revenue from after-sales technical support services. The increase in gross profit margin was largely attributable to the increased contribution in revenue from after-sales technical support services, which generated higher gross profit margins.

The businesses of the Group comprises five segments, out of which the precision engineering solutions projects segment and the after-sales technical support services generate higher gross profit margins.

As a result of the increase in revenue from after-sales technical support services described above, our gross profit margin for the year ended 31 December 2016 increased to approximately 19.0%, from approximately 16.8% for the year ended 31 December 2015.

Other income and gains

The other income and gains of our Group amounted to approximately HK\$10.4 million and HK\$3.2 million for the years ended 31 December 2016 and 2015 respectively. The increase of approximately 225.0% was largely due to a one-off project referral commission received in the year ended 31 December 2016 of approximately HK\$5.9 million.



MANAGEMENT DISCUSSION AND ANALYSIS

Selling and distribution expenses

Selling and distribution expenses refer to the expenses incurred for the promotion and sale of products. This comprises primarily salaries and related costs for sales and marketing staff, travelling and transportation costs, outbound freight and handling costs, commissions and marketing expenses and maintenance costs of equipment. Selling and distribution expenses, as a percentage of our total revenue, remained relatively constant, being 0.6% and 0.8% of our total revenue for the years ended 31 December 2016 and 2015 respectively. Selling and distribution expenses in absolute terms, decreased from approximately HK\$19.6 million for the year ended 31 December 2015 to HK\$13.7 million for the year ended 31 December 2016. This decrease was largely attributable to commission expenses incurred for certain precision engineering solutions projects undertaken for the year ended 31 December 2015 of approximately HK\$6.9 million, but no such expenses were incurred in 2016.

Administrative expenses

Administrative expenses comprise primarily salaries and related costs for key management, finance and administration staff, rental expenses, depreciation, legal and professional fees, and audit fees.

The administrative expenses of the Group decreased slightly from approximately HK\$64.4 million for year ended 31 December 2015 to approximately HK\$60.0 million for the year ended 31 December 2016. This decrease of approximately 6.7% was primarily attributable to the decrease in share option expenses from approximately HK\$18.1 million for the year ended 31 December 2015, to approximately HK\$6.0 million for the current year, while partly offset by the increase in legal and professional fees, from approximately HK\$6.3 million in the previous year, to approximately HK\$13.4 million for the year ended 31 December 2016.

Finance costs

Our Group's finance costs comprise interest on letter of credit and trust receipts charges, interest on the notes issued and interest on finance leases. Our finance costs increased by 27.9%, or approximately HK\$13.5 million, from about HK\$48.2 million for the year ended 31 December 2015 to approximately HK\$61.7 million for the year ended 31 December 2016. The increase was largely attributable to the increase in interest expenses from the notes issued of approximately HK\$16.6 million for the year ended 31 December 2015, to approximately HK\$32.7 million for the current year. This was partly offset by the non-recurrence of interest expenses incurred from the redemption of preference shares of approximately HK\$5.7 million for the year ended 31 December 2015.

Other operating expenses

Our Group's other operating expenses consist of realised and unrealised foreign exchange losses as well as allowances for impairment of goodwill, plant and equipment and renovations. Other operating expenses increased by 392.3% from HK\$8.3 million for the year ended 31 December 2015, to HK\$41.0 million for the year ended 31 December 2016.

The foreign exchange losses were mainly attributable to the weakening of the Singapore dollar against the US dollar and the Hong Kong dollar, which is one of our main operating currencies. Also contributing to the increase in other operating expenses was the impairment of goodwill, plant and equipment and renovations made primarily in respect of the renewable energy solutions segment for the year ended 31 December 2016, amounting to approximately HK\$5.2 million and HK\$29.6 million respectively.

Income tax expense

Our income tax expense amounted to approximately HK\$67.3 million and HK\$55.9 million for the years ended 31 December 2016 and 2015 respectively. Additional provision for taxation was made for both the financial years ended 31 December 2016 and 2015, on a more prudent basis for financial reporting purposes. The actual income tax payable on the assessable or taxable profits arising from the subsidiaries is generally determined and agreed with the relevant tax authorities, which might be different from the income tax provision made in these financial statements. Accordingly, our effective tax rate remained relatively constant, at 22.3% and 20.2% for the years ended 31 December 2016 and 2015 respectively.

Profit for the year and net profit margin

The Group recorded a profit of approximately HK\$234.5 million for the year ended 31 December 2016, which represents an increase of approximately HK\$14.2 million or 6.5% from approximately HK\$220.2 million for the preceding year. As mentioned above, despite only a slight increase in total revenue (increased by 0.3% from the previous year), the increase in contribution to revenue from after-sales technical support services helped improve the gross profit for the current year, and correspondingly the net profit for the year as well.

In line with the increase in gross profit margin as mentioned above, net profit margin for the year ended 31 December 2016 improved by 0.5% to 9.5%, from approximately 9.0% for the year ended 31 December 2015.

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

Cash position

Our cash and cash equivalents amounted to approximately HK\$193.8 million and HK\$444.9 million as at 31 December 2016 and 2015 respectively. The functional currencies of the Group include the US dollar, Chinese Renminbi and Singapore dollar. As at 31 December 2016, 93.7% of the Group's cash, bank balances and pledged fixed deposits were denominated in the respective functional currencies (31 December 2015: 53.2%) and the remaining 6.3% (31 December 2015: 46.8%) in other currencies (mainly Euro, Hong Kong dollar, Japanese yen and the US dollar).

The Group's primary sources of funds during the year 2016 included cash generated from operating activities and financing activities. Our Group had net cash inflow from operating activities of approximately HK\$84.0 million, for the year ended 31 December 2016 largely due to the Group's continuous effort to focus on the growth of our revenue, mainly in the precision engineering solutions projects segment. We also had net cash outflow of approximately HK\$80.7 million from financing activities largely arising from the payment of interest expenses and finance charges, and dividends during the year ended 31 December 2016.

Our bank facilities as at 31 December 2016 was approximately HK\$1,021.6 million (2015: HK\$861.9 million), of which approximately HK\$774.8 million of trade facilities was utilised (2015: HK\$642.9 million). In addition, we had loans and bank overdrafts drawn down of approximately HK\$2.4 million as at 31 December 2016 (2015: HK\$2.9 million), with interest rates of 4.3% per annum (2015: 4.0% per annum).



MANAGEMENT DISCUSSION AND ANALYSIS

Trade receivables

Our total trade receivables balance amounted to approximately HK\$2,075 million and HK\$1,413.2 million as at 31 December 2016 and 2015 respectively. It comprises trade receivables of approximately HK\$1,137.1 million and accrued revenue of approximately HK\$938.2 million as at 31 December 2016 (2015: HK\$1,058.7 million and HK\$354.5 million respectively).

Our trade receivables increased from approximately HK\$1,058.7 million as from at 31 December 2015 to HK\$1,137.1 million as at 31 December 2016, mainly due to the revenue from the precision engineering solutions projects segment and the after-sales technical support services.

Accrued revenue

The accrued revenue of our Group as at 31 December 2016 amounted to approximately HK\$938.2 million (31 December 2015: HK\$354.5 million). All services under accrued revenue have been rendered as certain milestones were achieved such as acceptance by customers. However, due to the agreed payment terms, the relevant payment requests were billed to our customers subsequent to the year end. The increase in accrued revenue is mainly attributable to the increase in revenue in the precision engineering solutions projects segment and the after-sales technical support services during the year.

Net current assets

As at 31 December 2016, the Group had net current assets of approximately HK\$2,098.6 million compared to HK\$1,792.8 million as at 31 December 2015. The increase was mainly due to the increases in trade receivables and other receivables, which was partly offset by an increase in trade financing and bills payable. This was a result of the increase in business activities, particularly the precision engineering solutions projects segment where revenue for the year have increased and also certain advance payments were made to suppliers.

Current liabilities

Our current liabilities comprised trade payables, trade finance and bills payables, other payables, notes issued, loans and borrowings, tax payables and finance leases payable. Our total current liabilities amounted to approximately HK\$1,072.1 million and HK\$831.5 million as at 31 December 2016 and 2015 respectively, and accounted for approximately 72.8% of our total liabilities as at 31 December 2016 (31 December 2015: 67.1%). The increase in current liabilities is largely attributable to the increases in trade financing and bills payable and trade payables.

Current ratio

The Group's current ratio decreased to 3.0 times as at 31 December 2016 (31 December 2015: 3.2 times), this was largely attributable to the decrease in cash and cash equivalents and inventories.

Gearing ratio

Gearing ratio is measured by the total loans and borrowings, finance lease payables, trade financing and bills payables and notes issued divided by total assets of the Group. As at 31 December 2016, the gearing ratio was 37.0% whereas the gearing ratio as at 31 December 2015 was 38.4%.

Risk of exchange rate fluctuation

The Group transacts business in various foreign currencies, including the US dollar, Euro, Singapore dollar, Chinese Renminbi, British pound and Japanese yen, and therefore is exposed to foreign exchange risks.

The Group manages its foreign exchange exposure as far as possible by matching the currency that it transacts with its customers to the currency that it purchased in to create a natural hedge.

The Group has a number of investments in foreign subsidiaries, whose net assets are exposed to currency translation risks. No hedge has been taken up to mitigate this exposure as it does not impact cash flows.

For further information on the foreign currency sensitivity analysis, please see Note 33 to the financial statements.

Employees and remuneration policy

As at 31 December 2016, the Group had a total number of 121 full-time employees, excluding 70 full-time employees in our joint venture (2015: 110 and 74 respectively). The Group determined the remuneration packages of all employees based on factors including individual qualifications, contributions to the Group, performance and years of work experience of the respective staff.

The Group provides on-going training to our staff in order to enhance their technical skills and product knowledge and to provide them with updates with regards to industry quality standards and work safety standards. In addition, our engineers receive on-going technical training and exchanges with Kiwa Machinery Co., Ltd. in both Japan and the PRC.

The Group maintains good relationships with our employees and has not experienced any significant problems with our employees nor have there been any disruptions to the Group's business operations as a result of strikes or other labour disputes.

As required by the PRC regulations, the Group participates in the social insurance schemes operated by the relevant local government authorities.

Treasury policies

Our Group prudently managed its treasury functions and maintained a healthy liquidity position throughout the financial year ended 31 December 2016. The Board closely monitors our liquidity position to ensure that the liquidity structure of our assets, liabilities and other commitments can meet its funding requirements from time to time.

Charge on assets

As at 31 December 2016, our Group had pledged certain assets with a net book value of approximately HK\$3.0 million under hire purchase financing (2015: HK\$16.0 million). Details of the Group's charge on assets as at 31 December 2016 are set out in Note 27 of the financial statements.



CORPORATE GOVERNANCE REPORT

The Board and the management of the Company are committed to the maintenance of good corporate governance practices and procedures. The Company believes that good corporate governance provides a framework that is essential for effective management, a healthy corporate culture, sustainable growth and the enhancing of shareholders' value.

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions on the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Listing Rules as its own code of corporate governance. Save as disclosed in the section headed "Chairman and Chief Executive Officer" in this report, the Directors consider that during the year ended 31 December 2016 (the "**Review Period**"), the Company has complied with the code provisions as set out in the CG Code.

DIRECTORS SECURITIES TRANSACTIONS

The Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "**Model Code**") as the code of conduct of the Group regarding Directors' securities transactions for the Review Period. Specific written acknowledgements have been obtained from each Director to confirm compliance with the Model Code during the Review Period. There were no incidents of non-compliance during that period. The Board confirmed that having made specific enquiries with the Directors, all the Directors confirmed that they had complied with the required standard of dealings for the Review Period.

BOARD OF DIRECTORS

The Board collectively provides leadership, guidance and strategic decisions for the Group's activities and oversees its financial performance. The Directors are collectively responsible for promoting the success of the Company and making decisions in the best interests of the Company. The Board has delegated its powers to the management with regards to the Group's daily management and operations.

BOARD COMPOSITION

During the Review Period and subsequently up to the date of this annual report, the Board comprised three executive Directors ("**Executive Directors**"), one non-executive Director ("**Non-executive Director**") and three independent non-executive Directors ("**Independent Non-executive Directors**"). The Board has at least one-third of its membership comprising Independent Non-executive Directors in accordance with Rule 3.10A of the Listing Rules. The following are the members of the Board:

Executive Directors

Mr. Wong Koon Lup (Chairman and Chief Executive Officer)
Mr. Wong Mun Sum (Chief Operating Officer)
Mr. Lee Tiang Soon

Non-executive Director

Mr. Zhang Bing Cheng

Independent Non-executive Directors

Mr. Kuan Cheng Tuck
Mr. Ong Su Aun, Jeffrey (Wang Ci'An, Jeffrey)
Mr. Chan Hon Chung, Johnny

The biographical details and responsibilities of the Directors as well as the senior management are set out in the section headed "Profile of Directors and Senior Management" on pages 25 to 29 of this annual report.

Save as disclosed in the section headed "Profile of Directors and Senior Management" to this annual report, the Directors have no other financial, business, family or other material/relevant relationships with one another.

The Directors believe that the composition of the Board reflects the necessary balance of skills and experience appropriate for the requirements of the business development of the Group and for effective leadership, as all the Executive Directors possess extensive experience in management and the provision of precision engineering solutions projects, whilst the Independent Non-executive Directors possess professional knowledge and broad experience in the areas of finance, law and management. The Directors are of the opinion that the present structure of the Board can ensure the independence and objectivity of the Board and provide a system of checks and balances to safeguard the interests of the shareholders and the Company.

DIRECTORS' CONTINUING PROFESSIONAL DEVELOPMENT

All Directors are encouraged to participate in continuing professional development courses and seminars to develop and refresh their knowledge and skills. The Company updates the Directors on the latest developments regarding the Listing Rules and relevant statutory requirements from time to time, to ensure compliance and enhance their awareness of good corporate governance practices.

According to records provided by the Directors, a summary of training received by the Directors for the Review Period is as follows:

Directors	Type of continuing professional development programmes
Executive Directors	
Mr. Wong Koon Lup	1, 2
Mr. Wong Mun Sum	1, 2
Mr. Lee Tiang Soon	1, 2
Non-executive Director	
Mr. Zhang Bing Cheng	2
Independent Non-executive Directors	
Mr. Kuan Cheng Tuck	1, 2
Mr. Ong Su Aun, Jeffrey (Wang Ci'An, Jeffrey)	1
Mr. Chan Hon Chung, Johnny	1, 2

Notes:

1. Reading materials to update on the latest developments of the Listing Rules and relevant statutory requirements
2. Attending briefing sessions and/or seminars

Due to the collective and individual commitments of the Directors during the Review Period, not all Directors were able to attend briefing sessions and/or seminars. However, all the Directors have read materials updating themselves on the latest developments of the Listing Rules and the relevant statutory requirements, and during the Review Period, the Directors (and management) have kept in close communication with their professional advisors and Company Secretary on an as needed basis.



CORPORATE GOVERNANCE REPORT

FUNCTIONS AND DUTIES OF THE BOARD

The main functions and duties conferred on and performed by the Board include:

- (i) overall management of the business and strategic development;
- (ii) deciding business plans and investment plans;
- (iii) convening general meetings and reporting to the shareholders of the Company;
- (iv) exercising other powers, functions and duties conferred by shareholders in general meetings; and
- (v) determining the policies for corporate governance practices.

The Board is responsible for performing the corporate governance duties as set out in the Code Provision D.3 of the CG Code.

The management is responsible for the daily management and operation of the Company.

BOARD MEETINGS

For the Review Period, the Board considers that all meetings have been legally and properly convened. With the assistance of the Company Secretary, the Chairman of the Board takes the lead to ensure that Board meetings and Board committee meetings are convened in accordance with the requirements set out in the Articles of Association of the Company, the terms of reference of the respective Board committees and the Listing Rules.

During the Review Period, the Board has held 4 Board meetings. The record of attendance of individual Directors at the Board meetings is set out below.

Prior notice of at least 14 days convening the Board meetings were dispatched to the Directors setting out the matters to be discussed. At the meetings, the Directors were provided with the relevant documents to be discussed and approved. The Company Secretary is responsible for keeping minutes for the Board meetings.

The minutes of Board meetings record in sufficient details the matters considered by the Board, including all concerns raised by the Directors and dissenting views expressed. The minutes of all Board meetings and Board committee meetings are kept by the Company Secretary and are available for inspection by any Director, auditor or any relevant eligible parties who can have access to such minutes.

ATTENDANCE RECORD

The attendance record of each Director at the Board and Board committee meetings of the Company held during the Review Period is set out in the table below:

	Board	Audit Committee	Remuneration Committee	Nomination Committee	Annual General Meeting
Executive Directors					
Mr. Wong Koon Lup	4/4	N/A	1/1	1/1	1/1
Mr. Wong Mun Sum	4/4	N/A	N/A	N/A	1/1
Mr. Lee Tiang Soon	4/4	N/A	N/A	N/A	1/1
Non-executive Director					
Mr. Zhang Bing Cheng	2/4	N/A	N/A	N/A	N/A
Independent Non-executive Directors					
Mr. Kuan Cheng Tuck	4/4	2/2	N/A	1/1	1/1
Mr. Ong Su Aun, Jeffrey (Wang Ci'Aun, Jeffrey)	3/4	1/2	1/1	1/1	1/1
Mr. Chan Hon Chung, Johnny	4/4	2/2	1/1	N/A	1/1

INDEPENDENT NON-EXECUTIVE DIRECTORS

In compliance with Rule 3.10(1) of the Listing Rules, the Company has appointed three Independent Non-executive Directors. Each of the Independent Non-executive Directors of the Company have entered into service contracts with the Company for a term of three years commencing on 13 April 2012 which were subsequently renewed on 1 July 2015 and they are also subject to retirement by rotation and re-election at the annual general meeting (the "AGM") of the Company in accordance with the Articles of Association of the Company. The Board considers that all Independent Non-executive Directors have appropriate and sufficient industry or finance experience and qualifications to carry out their duties so as to protect the interests of the shareholders.

Prior to their respective appointments, each of the Independent Non-executive Directors submitted a written statement to the Stock Exchange confirming their independence and has undertaken to inform the Stock Exchange as soon as practicable if there is any subsequent change of circumstances which may affect their independence. The Company has also received a written confirmation from each Independent Non-executive Director in respect of their independence. The Board considers that all Independent Non-executive Directors are being considered to be independent by reference to the factors stated in the Listing Rules.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

Pursuant to the Company's articles of association, the Directors shall be indemnified and secured harmless out of the assets of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them, their or any of their executors or administrators, shall or may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of their duty or supposed duty in their respective offices, except such (if any) as they shall incur or sustain through their own fraud or dishonesty.



CORPORATE GOVERNANCE REPORT

The Company has subscribed to an insurance policy since April 2012 with an aim to indemnify its Directors and senior executives from any losses, claims, damages, liabilities and expenses arising from, including but not limited to, any proceedings brought against them during the performance of their duties pursuant to their respective service agreements entered into with the Company.

PROCEDURE FOR SEEKING PROFESSIONAL ADVICE BY DIRECTORS

The Company has agreed to provide separate independent professional advice to Directors to assist them to discharge their duties. The Company will develop a written procedure to enable Directors, upon reasonable request, to seek and be provided with independent professional advice in appropriate circumstances, at the Company's expense.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code Provision A.2.1 of the CG Code stipulates that the roles of chairman ("**Chairman**") and chief executive officer ("**Chief Executive Officer**") should be separate and not be performed by the same individual. Mr. Wong Koon Lup has been performing both the roles of Chairman and Chief Executive Officer of the Group. Mr. Wong Koon Lup is the founder of the Group and has over 26 years of experience in the precision engineering industry. The Directors consider that vesting two roles in the same person allows for more effective and efficient planning of the Group's long-term business strategies and provides the Group with strong and consistent leadership in the development and execution of the Group's business strategies and is beneficial to the Group. The Directors will continue to review the effectiveness of the current structure and assess whether change in the separation of roles of Chairman and Chief Executive Officer is necessary.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each of the Non-Executive Director and the Executive Directors has entered into a service contract with the Company for a term of three years commencing from the date of their respective appointments and was subsequently renewed. These may only be terminated in accordance with the provisions of their respective service contract by either party giving to the other not less than three months' prior notice in writing.

BOARD COMMITTEES

The Company has established three Board committees (the "**Board Committees**"), namely the Audit Committee, the Remuneration Committee and the Nomination Committee to assist the Board in discharging its duties and responsibilities. The Board Committees are provided with sufficient resources to discharge their duties and are able to obtain outside independent professional advice in connection with their duties at the Company's expense.

AUDIT COMMITTEE

- (a) The Audit Committee of the Company was established on 14 March 2012 with written terms of reference in compliance with the CG Code. The primary duties of the Audit Committee are to review and supervise the Group's financial reporting process and internal controls system.
- (b) The Audit Committee comprises three Independent Non-executive Directors, namely Mr. Kuan Cheng Tuck, Mr. Ong Su Aun, Jeffrey (Wang Ci'An, Jeffrey), Mr. Chan Hon Chung, Johnny. The Chairman of the Audit Committee is Mr. Kuan Cheng Tuck.
- (c) During the Review Period, the Audit Committee held two meetings. The record of attendance of individual Directors at the Audit Committee meetings is set out on page 19 of this annual report.

- (d) The following is a summary of the work performed by the Audit Committee during the Review Period:
- i. review of the external auditor's independence and quotation of audit fees with a recommendation to the Board for approval;
 - ii. review of the internal auditor's independence and quotation for charges on internal control with a recommendation to the Board for approval;
 - iii. review of the effectiveness of the system of internal controls and risk management of the Group;
 - iv. review of the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget; and
 - v. review of the consolidated financial statements including the Group's adopted accounting principles and practices, internal control and risk management systems and annual and interim results and other financial reporting matters (in conjunction with the external auditor for the annual results).

The terms of reference of the Audit Committee explaining its role and the authority delegated to it by the Board is available on the Stock Exchange and the Company's website.

Auditor's Remuneration

Ernst & Young, our external auditor, provided the Group with their annual audit services during the Review Period.

For the Review Period, the remuneration paid or payable to Ernst & Young in respect of audit services provided is set out below:

Services rendered	Remuneration paid/payable <i>HK\$'million</i>
Annual audit services	2.36
Non-audit fees	0.64
Total	3.00

There has been no major disagreement between the external auditor and the management of the Company during the Review Period.

The Audit Committee is responsible to make recommendations to the Board as to the appointment, reappointment and removal of the external auditor. If adopted by the Board, these recommendations are subject to approval at the AGMs of the Company.

CORPORATE GOVERNANCE REPORT

REMUNERATION COMMITTEE

- (a) The Remuneration Committee of the Company was established on 14 March 2012 with written terms of reference in compliance with the CG Code. The main function of the Remuneration Committee is to assist the Board in establishing a formal and transparent procedure for setting policy on the remuneration packages for all Directors and senior management.
- (b) The Remuneration Committee comprises two Independent Non-executive Directors, namely, Mr. Chan Hon Chung, Johnny and Mr. Ong Su Aun, Jeffrey (Wang Ci'An, Jeffrey); and Executive Director, Mr. Wong Koon Lup. The Chairman of the Remuneration Committee is Mr. Chan Hon Chung, Johnny.
- (c) During the Review Period, the Remuneration Committee held one meeting. The record of attendance of individual Directors at the Remuneration Committee meeting is set out on page 19 of this annual report.
- (d) For the Review Period, the Remuneration Committee made recommendations to the Board on the remuneration packages of individual Directors and senior management. No Director or any of his associates were involved in determining his own remuneration. In determining such remuneration packages, the Remuneration Committee made reference to companies of comparable business and scale, and the nature and volume of work in order to compensate the Directors reasonably for their time and effort spent. During the Review Period, the Remuneration Committee conducted a review of the remuneration policy and structure of Directors and senior management which took into account the prevailing market conditions and the responsibilities of individual members.

The remuneration of the members of the senior management by band for the Review Period is set out below:

In the band of	Number of individuals
Nil to HK\$1,000,000	1
HK\$1,000,001 to HK\$1,500,000	5

The Group offers competitive remuneration packages commensurate with industry practice and provides various fringe benefits to all employees of the Group including bonus and share option schemes. The Group mainly determines staff remuneration on the basis of the competence, qualifications, experience and performance of individual employees and the salary trends in Singapore and the PRC. The staff remuneration will be reviewed regularly. The Group has adopted a share option scheme as an incentive to Directors and eligible employees.

The terms of reference of the Remuneration Committee explaining its role and the authority delegated to it by the Board is available on the Stock Exchange and the Company's website.

NOMINATION COMMITTEE

- (a) The Nomination Committee of the Company was established on 14 March 2012 with written terms of reference in compliance with the CG Code. The primary duties of the Nomination Committee are to make recommendations to the Board on the appointment of Directors and senior management.
- (b) The Nomination Committee has three members, comprising two Independent Non-executive Directors, namely, Mr. Ong Su Aun, Jeffrey (Wang Ci'An, Jeffrey) and Mr. Kuan Cheng Tuck; and Executive Director, Mr. Wong Koon Lup. The Chairman of the Nomination Committee is Mr. Ong Su Aun, Jeffrey (Wang Ci'An, Jeffrey).

- (c) During the Review Period, the Nomination Committee held one meeting. The record of attendance of individual Directors at the Nomination Committee meeting is set out on page 19 of this annual report.

The terms of reference of the Nomination Committee explaining its role and the authority delegated to it by the Board is available on the Stock Exchange and the Company's website.

COMPANY SECRETARY

The Group's Company Secretary is Mr. Chan Kam Fuk who was appointed on 1 June 2012. The Company Secretary is responsible to the Board for ensuring that Board procedures are followed and Board activities are efficiently and effectively conducted. These objectives are achieved through adherence to proper Board processes and the timely preparation and dissemination to Directors of comprehensive meeting agendas and papers. Minutes of all Board and Board Committees meetings are prepared and maintained by the Company Secretary to record in sufficient details the matters considered and decisions reached by the Board or Committees, including any concerns raised or dissenting views voiced by any Director. All draft and final minutes of meetings of the Board and Board Committees are sent to Directors and Committee members respectively for comments and records and are available for inspection by any Director upon request.

The appointment and removal of the Company Secretary is subject to the Board approval in accordance with the Articles of Association of the Company. Whilst the Company Secretary reports to the Chairman, all members of the Board have access to the advice and services of the Company Secretary. Mr. Chan Kam Fuk has day-to-day knowledge of the affairs of the Group. Mr. Chan Kam Fuk was nominated by RHT Corporate Advisory (HK) Limited to act as the Company Secretary and RHT Corporate Advisory (HK) Limited has been providing certain corporate secretarial services to the Company pursuant to an engagement letter entered with the Company. Mr. Chan has been contacting with the Board and the chief financial officer of our Company directly in respect of company secretarial matters. In response to specific enquiries made, the Company Secretary confirmed that he has complied with all the required qualifications, experience and training requirements of the Listing Rules.

ACCOUNTABILITY AND AUDIT

The Directors acknowledge their responsibilities for preparing the financial statements of the Group in accordance with the statutory requirements and accounting standards and other financial disclosure requirements under the Listing Rules. The Directors also acknowledge their responsibilities to ensure that the financial statements of the Group are published in a timely manner as required by the Listing Rules.

The external auditor's statement about their reporting responsibilities is set out in the Independent Auditor's Report on pages 43 to 47 of this annual report.

INTERNAL CONTROL

The internal control system has been designed to provide reasonable (but not absolute) assurance in safeguarding the assets of the Group, maintaining proper accounting records, execution with appropriate authority and compliance with the relevant laws and regulations.

The Board is responsible for maintaining and reviewing the effectiveness of the Group's internal control system on a yearly basis.

During the Review Period, the Company has outsourced its internal audit function to an external professional firm, PKF-CAP LLP., who have conducted a review of the Group's material controls, including financial, operational and compliance controls and risk management functions.



CORPORATE GOVERNANCE REPORT

Having regard to the work performed by the internal and external auditors, the Board considers that the Group's internal control and risk management system is reasonably adequate and that the Company has complied with the code provisions on internal control and risk management of the CG Code.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Company has engaged professional public relations consultants to organize various investor relations programs aiming at increasing the transparency of the Company, enhancing communications with shareholders and investors, increasing their understanding of and confidence in the Group's businesses.

The general meetings of the Company provide a forum for communication between the Board and the shareholders. The Chairman of the Board as well as the Chairman of the Audit Committee and other members of the respective committees are available to answer questions at the general meeting of the shareholders. The Company recognizes the importance of maintaining on-going communications with the shareholders and encourage them to attend shareholders' meetings to stay informed of the Group's businesses and convey any concerns that they may have to the Directors and senior management.

Pursuant to article 64 of the Articles of Association of the Company, any shareholder holding not less than one-tenth of the paid up share capital of the Company carrying voting rights at general meetings of the Company has a right to call for an extraordinary general meeting by sending to the Board or the Company Secretary at the principal place of business a written request for such general meetings duly signed by the shareholders concerned together for the transaction of any business specified in such requisition and such meetings shall be held within two months of the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meetings, the requisitioner(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitioner(s) as a result of the failure of the Board shall be reimbursed to the requisitioner(s) by the Company.

Shareholders can feel free to put forward proposals relating to the operations, strategy and/or management of the Group for discussion at general meetings. Such proposals shall be submitted to the Board or the Company Secretary by written request. Pursuant to the Articles of Association of the Company, shareholders who proposed to submit proposals should convene extraordinary general meeting in accordance with the procedures as set out in article 64 of the Articles of Association of the Company.

The Group values feedback from shareholders with regards to its efforts to promote transparency and foster investor relationships. Enquiries to the Board or the Company including comments and suggestions are welcomed and can be addressed to the Company's address: 83 Clemenceau Avenue #11-05, UE Square, Singapore 239920 or to the Company Secretary at cwcomsec@gmail.com.

The Company maintains a website at www.cwgroup-int.com where information and updates on the Company's financial information, corporate governance practices and other useful information are posted and available for access by public investors.

During the Review Period, there were no changes to the Memorandum and Articles of Association of the Company.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Wong Koon Lup, aged 54, is the founder, chairman and chief executive officer of the Group. He was appointed as an executive Director on 11 June 2010. Mr. Wong has over 26 years of experience in the engineering industry. Mr. Wong is responsible for the overall management, strategic planning and direction of our Group. Mr. Wong has spearheaded the expansion and growth of the business, and oversees the Group's operations and strategic planning. Mr. Wong charts the overall corporate direction and the development of new services and markets for the Group. Mr. Wong has been able to secure partnerships and strategic alliances with well-established players such as KIWA Machinery Co., Ltd. and Deckel Maho Pfronten GmbH, and assisted our Group to become a supplier of parts and components to Hewlett-Packard Singapore (Pte.) Ltd.

Prior to establishing the Group in 1996, Mr. Wong participated in a partnership, Eng Lian Huat Engineering & Trading, which was engaged in mechanical engineering works and the wholesale of industrial machinery and equipment. Mr. Wong divested his interests in Eng Lian Huat Engineering & Trading in 1999. Mr. Wong was awarded the National Trade Certificate in Metal Machining and the National Trade Certificate in Tool and Die Making (injection mould) by the Vocational and Industrial Training Board of Singapore in 1981 and 1982 respectively.

Save as disclosed, Mr. Wong does not hold any other positions in the Company or in any other subsidiaries of the Group and did not hold any other directorships in listed public companies in the last three years.

As at 31 December 2016, Mr. Wong was interested, or deemed to be interested in 200,160,425 shares within the meaning of Part XV of the SFO including 28,134,769 shares held by him, his deemed interests in 161,300,000 shares held by WMS Holding Pte. Ltd and 10,725,656 unexercised share options he held pursuant to the share option scheme of the Company. Save as disclosed herein, Mr. Wong was not interested nor deemed to be interested in any shares or underlying shares of the Company within the meaning of Part XV of the SFO.

Mr. Wong does not have any relationships with any Directors, senior management, substantial or controlling shareholders of the Company, saved as disclosed in the section of "Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares" of the Report of the Directors.

Mr. Wong Mun Sum, aged 57, is the executive Director and chief operating officer. Mr. Wong joined the Group in 2004 and he was appointed as an Executive Director on 11 June 2010. Mr. Wong is responsible for the daily business operations of the Group and is primarily responsible for the development and enhancement of our Group's operational processes and the development of our operational capabilities, as well as implementing plans formulated by the board.

Mr. Wong obtained a Technician Diploma in Production Engineering from Singapore Polytechnic in 1979 and a Graduate Diploma in Marketing Management from Singapore Institute of Management in 1992.

Save as disclosed, Mr. Wong does not hold any other positions in the Company or in any other subsidiaries of the Group and did not hold any directorship in any other listed public companies or any major appointments in the last three years.

As at 31 December 2016, Mr. Wong was interested, or deemed to be interested in, 37,928,340 Shares within the meaning of Part XV of the SFO, which included 8,218,894 unexercised share options he held with a right to subscribe for a total of 8,218,894 Shares and 4,109,446 share options already exercised by him under the Company's share option scheme. Save as disclosed herein, Mr. Wong was not interested nor deemed to be interested in any shares or underlying shares of the Company within the meaning of Part XV of the SFO.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Wong does not have any relationships with any Directors, senior management, substantial or controlling shareholders of the Company, saved as disclosed in the section of "Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares" of the Report of the Directors.

Mr. Lee Tiang Soon, aged 46, is the executive Director and is responsible for the overall finance and business development of our Group. He joined the Group in April 2008 as the chief financial officer and he was appointed as an executive Director on 3 April 2013. Mr. Lee is assigned with the tasks of corporate development, business strategy and overall finance function of the Group which include developing the Group's strategy, sourcing and managing new business opportunities, profiling and evaluating potential acquisition targets in terms of fit with the Group's strategy and value creation potential. Save as disclosed, Mr. Lee does not hold any other positions in the Company or in any other subsidiaries of the Group.

Mr. Lee is also appointed as the chief financial officer of Zheng Li Holdings Limited in January 2016, and is responsible for its corporate finance function and matters relating to accounting, financial administration and its compliance and reporting obligations.

Mr. Lee graduated from Murdoch University, Australia in 1996 with a Bachelor of Commerce. Mr. Lee is a Certified Practising Accountant of CPA Australia since 2006. Mr. Lee has also been a member of the Institute of Singapore Chartered Accountants since 2013 which he has been a non-practicing member since 2007. Prior to joining the Group, Mr. Lee worked in Ernst & Young LLP from 1996 to 2003 where he left as a manager. During this period, he controlled the audits allocated to him and the audit teams working on his engagements and his responsibilities included covering audits of clients in various industries. From 2003 to 2006, Mr. Lee served as a senior manager at Alvarez & Marsal (SE Asia) Pte. Ltd. (formerly known as RSM Nelson Wheeler Tan Pte. Ltd) in the areas of insolvency and advisory services, and he served as an associate director at Tay Swee Sze & Associates from 2006 to April 2008.

Save as disclosed, Mr. Lee did not hold any other directorships in listed public companies in the last three years. Mr. Lee does not have any relationship with any director, member of senior management or substantial or controlling Shareholders.

As at 31 December 2016, Mr. Lee was interested in 6,164,170 unexercised share options be held with a right to subscribe for 6,164,170 shares pursuant to the Company's share option scheme. Save as disclosed herein, Mr. Lee was not interested nor deemed to be interested in any shares or underlying shares of the Company within the meaning of Part XV of the SFO.

NON-EXECUTIVE DIRECTORS

Mr. Zhang Bing Cheng, aged 41, was appointed as a Non-executive Director on 3 February 2016. With reference to the announcements of CW Group Holdings Limited (the "**Company**") dated 14 August 2015, 21 September 2015 and 17 November 2015 (the "**Announcements**") in relation to the subscription of 93,781,682 Subscription Shares under General Mandate. Unless the context otherwise requires, capitalized terms used herein shall have the same meanings as those defined in the Announcements. According to the terms and conditions of the Subscription Agreement, the Subscriber shall have the right from time to time to nominate a nominee to be appointed as a non-executive Director upon completion of the Subscription and for such time as the Subscriber directly or indirectly holds at least 10% of the total number of issued Shares. Following the completion of the Subscription on 17 November 2015, Mr. Zhang, who is nominated by the Subscriber and whose nomination was duly considered and approved by our Nomination Committee and the Board.

Mr. Zhang graduated with a Master of Economics from the Central University of Finance and Economics (中央財經大學), Beijing, in 2004. Mr. Zhang is the general manager of the Subscriber, Zhejiang Hua Hang Investment Company Ltd.* (浙江華航投資有限公司), and the managing director of Visionmax Co., Ltd. (景隆資產管理(北京)有限公司).



PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

Save as disclosed above, Mr. Zhang did not hold any other position in the Company or in any other subsidiaries of the Group. In the last three years, Mr. Zhang did not hold any directorships in other listed public companies or any other major appointments. Save as disclosed above, Mr. Zhang is not connected to any director, senior management or substantial or controlling shareholder of the Company.

As at 31 December 2016, Mr. Zhang was not interested nor deemed to be interested in any shares or underlying shares of the Company within the meaning of Part XV of the SFO.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Kuan Cheng Tuck, aged 45, was initially appointed as an Independent Non-executive Director on 14 March 2012 and was last re-appointed on 30 May 2014. Mr. Kuan has more than 20 years of experience in the fields of accounting and auditing as well as business and financial advisory.

From 1994 to 2004, Mr. Kuan had worked with various international accounting firms in Singapore and Malaysia. Since 2004, Mr. Kuan has been managing his own accounting practice, CT Kuan & Co, and business consulting companies, KCT Consulting Pte. Ltd. and Kreston Consulting Pte. Ltd., which provided business and financial consulting services.

Mr. Kuan graduated with a Bachelor degree in Accountancy from the Nanyang Technological University in Singapore in 1993; he also obtained a Bachelor degree in law from the University of London in 2004 as an external student. Mr. Kuan is a fellow member of The Association of Chartered Certified Accountants, United Kingdom and a member of the Institute of Singapore Chartered Accountants. Mr. Kuan is also an associate of the Chartered Secretaries Institute of Singapore and an associate member of Insolvency Practitioners Association of Singapore Limited.

Mr. Kuan is also an independent non-executive director of Green Build Technology Limited, Kori Holdings Limited and CNMC Goldmine Holdings Limited, all listed on the SGX-ST.

Save as disclosed above, Mr. Kuan did not hold any directorship in any public companies whose securities are listed on a stock exchange or any other major appointments in the last three years.

As at 31 December 2016, Mr. Kuan was not interested or deemed to be interested in any Shares or underlying Shares within the meaning of Part XV of the SFO and does not have any relationships with any Directors, senior management, substantial or controlling shareholders of the Company.

Mr. Ong Su Aun, Jeffrey (alias Mr. Wang Ci'An, Jeffrey), aged 39, was initially appointed as an Independent Non-Executive Director on 14 March 2012 and was last re-appointed on 30 May 2016. Mr. Ong graduated with a degree in law from the National University of Singapore in 2002 and passed the Singapore Bar exams in 2003. Mr. Ong was admitted as an advocate as a solicitor of the Supreme Court, England and Wales, in 2006.

Mr. Ong is a founding partner of JLC Advisors LLP, which was established in 2008. He currently heads the firm's Dispute Resolution and Restructuring department and has an active practice in commercial litigation and corporate restructuring.

Mr. Ong is currently the Independent Non-Executive Chairman of Annica Holdings Limited, a company listed on the Catalist-board of the Singapore Exchange. He was previously also an Independent Non-Executive Director of China Powerplus Limited, a company listed on the Mainboard of the Singapore Exchange.



PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

Save as disclosed above, Mr Ong did not hold any directorship in any public companies whose securities are listed on a stock exchange in the last three years. Mr. Ong does not have any relationship with any director, member of senior management, or substantial or controlling shareholders of the Company.

Mr. Chan Hon Chung, Johnny, aged 51, was initially appointed as an Independent Non-executive Director on 14 March 2012 and was last re-appointed on 30 May 2014. Mr. Chan has working in the banking industry for 12 years including ABN AMRO Bank, Standard Chartered Bank and The Bank of East Asia Limited, respectively. Mr. Chan has extensive knowledge and experience in the banking industry, including but not limited to, business banking, handling borrowing accounts and debt recovery, marketing and operation of commercial banking. Mr. Chan holds a Bachelor degree of Science in Finance from Brigham Young University, US in 1988 and a Master degree in Professional Accounting from the Hong Kong Polytechnic University in 2001.

Mr. Chan has been an executive director of Swing Media Technology Group Limited, a company listed on the SGX-ST, since September 2004, and has been its company secretary and chief financial officer since May 2003.

Save as disclosed above, Mr. Chan did not hold any directorship in any public companies whose securities are listed on a stock exchange or any other major appointments in the last three years.

As at 31 December 2016, Mr. Chan was not interested or deemed to be interested in any Shares or underlying Shares within the meaning of Part XV of the SFO and does not have any relationships with any Directors, senior management, substantial or controlling shareholders of the Company.

SENIOR MANAGEMENT

Mr. Lim Chwee Heng, aged 53, is the chief technology officer and joined the Group in November 2007. He was appointed as an Executive Director on 14 March 2012 and stepped down on 3 April 2013. Mr. Lim has over 20 years of experience in the engineering industry and is responsible for the overall technological development and the acquisition of new technology for the Group. Mr. Lim has been assigned with the task of searching and evaluating potential business targets with technology content, transferring and assimilating acquired technology and the synergizing and application of the technology to the Group.

Mr. Lim obtained a Bachelor of Engineering (Mechanical) from The National University of Singapore in 1988 and a Master of Business Administration (Accountancy) from Nanyang Technological University in 1999.

Prior to joining the Group, Mr. Lim had worked for Hewlett-Packard Singapore (Pte.) Ltd. for 18 years. Mr. Lim's last position was with Hewlett-Packard Singapore (Pte.) Ltd. as operations manager. From May 2006 to August 2007, Mr. Lim was the director of operations with R Logic International Pte. Ltd.

Save as disclosed, Mr. Lim does not hold any other positions in the Company or in any other subsidiaries of the Group as at 31 December 2016. Mr. Lim does not have any relationships with any Directors, senior management, substantial or controlling shareholders of the Company.

Mr. Foo Suan Ping, aged 40, is the Group's chief financial officer and joined the Group in June 2004. He is responsible for the corporate finance function of the Group and matters relating to accounting, financial administration and the compliance and reporting obligations of the Group.

Mr. Foo graduated from Ngee Ann Polytechnic with a Diploma in Banking and Financial Services in 1996. He has been a fellow of The Association of Chartered Certified Accountants since April 2011 and has also been a non-practising member of the Institute of Singapore Chartered Accountants since 2007.



PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

Prior to joining the Group, Mr. Foo worked for Excel Machine Tools Ltd. from February 1999 to July 2003 where he was promoted to finance manager and was assigned with the financial and accounting responsibility of that group.

Save as disclosed, Mr. Foo does not hold any other positions in the Company or in any other subsidiaries of the Group as at 31 December 2016. Mr. Foo does not have any relationships with any Directors, senior management, substantial or controlling shareholders of the Company.

Mr. Tay Choon Guan, Jimmy, aged 54, is the Group's head of operations and marketing for the Asia-Pacific Region (excluding the PRC) and joined the Group in October 2006. Mr. Tay is responsible for the day-to-day operations and marketing of the Group in the Asia-Pacific Region, excluding the PRC.

Prior to joining the Group, Mr. Tay was the sales manager of Press Automation Technologies Pte. Ltd. from 1996 to 2006 and was responsible for managing and generating sales.

Save as disclosed, Mr. Tay does not hold any other positions in the Company or in any other subsidiaries of the Group as at 31 December 2016. Mr. Tay does not have any relationships with any Directors, senior management, substantial or controlling shareholders of the Company.

COMPANY SECRETARY

Mr. Chan Kam Fuk, aged 51, is a certified public accountant (practising) of the Hong Kong Institute of Certified Public Accountants, a certified practising accountant of CPA (Australia) and a certified tax adviser of the Taxation Institute of Hong Kong. Mr. Chan is the sole-proprietor of Dominic K. F. Chan & Co., CPA, an accounting firm in Hong Kong with extensive experience in finance, auditing and accounting.

Mr. Chan is currently an independent non-executive director of Haitian Hydropower International Limited (Stock Code: 8261) which is listed on GEM and an independent non-executive director of Luks Group (Vietnam Holdings) Company Limited (stock code: 366) which is listed on the main board of the Hong Kong stock exchange.



REPORT OF THE DIRECTORS

The directors of the Company (the “**Directors**”) present the annual report together with the audited financial statements of the Group for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in Note 1 to the financial statements. There were no significant changes in the nature of the Group’s principal activities during the year.

RESULTS AND DIVIDENDS

The Group’s profit for the year ended 31 December 2016 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 118 to 119 and pages 48 to 50 respectively. The Directors have recommended the payment of a final dividend of HK2.36 cents per Share for the year ended 31 December 2016 (2015: HK2.36 cents per Share), subject to the approval of shareholders at the forthcoming AGM. Based on the issued share capital, it is expected that the total amount of final dividend payable to our shareholders is HK\$16,968,000 for the year ended 31 December 2016 (2015: HK\$16,968,000). The Company will make further announcement(s) as soon as practicable on the closure of register of members in order to determine the entitlement to attend the AGM and in order to determine the entitlement to the final dividend for the year ended 31 December 2016.

BUSINESS REVIEW

A review of the business of the Group during the year and the potential future development of the Group’s business is set out in the Chairman’s Statement on pages 3 to 5 of this annual report.

Save as disclosed in the section headed “Event after the Reporting Period” on page 41 of this annual report, there is no important event affecting the Group that has occurred since the end of the year and up to the date of this report. The performance analysis using key financial performance indicators is set out in the Management Discussion and Analysis on pages 7 to 15 of this annual report.

PRINCIPAL RISKS OF THE GROUP

The risks and uncertainties facing our business which the Directors consider as material include firstly, the potential loss of distributorship of the products which we supply. The scopes of our distributorship vary from different manufacturers and some of the distributors are of non-exclusive natures which allow the manufacturers to appoint our competitors as their distributors as well. Moreover, some manufacturers may terminate our distributorship at any time since some of the distribution agreements have not set out the period of our appointments.

We have collaborations with various international machinery manufacturers, if any of such collaborations was for whatever reason terminated, we would lose our revenue from these collaborations, and in such an event, our profitability and results of our operations would be adversely affected.

We are also exposed to the credit risks of our customers and may face long turnover period in respect of trade receivables since we grant our customers different credit periods according to business segments which is in line with the industry norm and the general range of credit period can be from 60 to 270 days or even up to 360 days. Due to the nature of our business, we do not have continuous long term business relationships with our customers since the majority of orders received from our customers are on a project basis.

A comprehensive analysis of the Group’s risk factors is set out on pages 29 to 45 of the prospectus of the Company dated 20 March 2012. The financial risks are also covered in Note 33 to the financial statements in this annual report.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS THAT HAVE A SIGNIFICANT IMPACT ON THE GROUP

The Group operates its business mainly in Hong Kong, Singapore and the PRC. As far as the Company is aware, there was no breach of or non-compliance with applicable laws and regulations in Hong Kong, Singapore and the PRC that have a significant impact on the Group's business activities in Hong Kong, Singapore and the PRC.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

For the purpose of disclosing the environmental, social and governance (“**ESG**”) information in accordance with the ESG Reporting Guide in Appendix 27 to the Listing Rules, the Company has engaged an external consultant, CSR Asia, to identify material ESG issues of the Group and assist in the reporting of the Group's performance based on its ESG management approach, strategy, priorities and objective. The ESG report will be dispatched to the shareholder of the Company and will be published on the website of the Company and the Stock Exchange in due course. For details of the Company's environmental policies and performance and its compliance with the relevant laws and regulations in the environmental and social aspects, please refer to the ESG report.

PLANT AND EQUIPMENT

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

LOANS AND BORROWINGS

Particulars of the borrowings of the Group as at 31 December 2016 are set out in Note 23 to the financial statements.

SHARE CAPITAL

Details of the Company's issued share capital during the year are set out in Note 29 to the financial statements. There were no movements in either the Company's authorized or issued share capital during the year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association of the Company or laws of the Cayman Islands where the Company was incorporated.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

There was no purchase, redemption or sale of listed securities of the Company in the year ended 31 December 2016.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in the statements of changes in equity and Note 31 to the financial statements. The Company's reserve available for distribution to shareholders comprises the share premium reserve of HK\$535,867,000 (31 December 2015: 535,867,000) and the profit for the year of HK\$17,042,000 (2015: HK\$17,250,000). Under the Companies Law (as revised) of the Cayman Islands, the share premium of the Company may be applied by the Company subject to the provisions of its memorandum and articles of association, in such manner as the Company may from time to time determine, including paying distributions or dividends to members provided that no distribution or dividend may be paid to members out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the Company will be able to pay its debts as they fall due in the ordinary course of business.



REPORT OF THE DIRECTORS

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 72.7% (2015: 62.4%) of the total sales for the year and sales to the largest customer included therein amounted to 27.1% (2015: 23.5%). Purchases from the Group's five largest suppliers accounted for 74.4% (2015: 79.2%) of the total purchases for the year and purchases from the largest supplier included therein amounted to 26.2% (2015: 26.8%). None of the Directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers of the Group.

DIRECTORS

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

Executive Directors:

Mr. Wong Koon Lup
Mr. Wong Mun Sum
Mr. Lee Tiang Soon

Non-executive Director:

Mr. Zhang Bing Cheng

Independent Non-executive Directors:

Mr. Kuan Cheng Tuck
Mr. Ong Su Aun, Jeffrey (Wang Ci'An, Jeffrey)
Mr. Chan Hon Chung, Johnny

In accordance with article 108 of the Articles of Association, Mr. Wong Koon Lup, Mr. Kuan Cheng Tuck and Mr. Chan Hon Chung, Johnny will retire from office as Directors at the forthcoming AGM. Mr. Wong Koon Lup, Mr. Kuan Cheng Tuck and Mr. Chan Hon Chung, Johnny being eligible, will offer themselves for re-election as Directors at the AGM. At the AGM, ordinary resolutions will be proposed to re-elect them as Directors.

Independence of Independent Non-executive Directors

The Company has received annual confirmations of independence from Mr. Kuan Cheng Tuck, Mr. Ong Su Aun, Jeffrey (Wang Ci'An, Jeffrey) and Mr. Chan Hon Chung, Johnny, and as at the date of this report still considers them to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 25 to 29 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of our existing Executive Directors has entered into a service contract with the Company for an initial term of three years which commenced on 13 April 2012, which was subsequently renewed on 1 July 2015, and is subject to termination by either party giving not less than three months' written notice. Mr. Lee Tiang Soon who was appointed as an Executive Director with effect from 3 April 2013, entered into a service contract with the Company on that date for an initial term of three years and was subsequently renewed on 1 July 2015. It is subject to termination by either party giving not less than three months' written notice.

Our Non-Executive Director has entered into a service contract with the Company for a term of three year which commenced on 3 February 2016 and is subject to termination by either party giving not less than three months' written notice.

Each of our Independent Non-executive Directors has entered into a service contract with the Company for a term of three year which commenced on 13 April 2012, which was subsequently renewed on 1 July 2015, and is subject to termination by either party giving not less than three months' written notice. These service contracts of the Executive Directors and Independent Non-executive Directors are exempted from the shareholders' approval requirement under Rule 13.68 of the Listing Rules.

No Director proposed for re-election at the forthcoming AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

The Board has the general power of determining the Director's remuneration, subject to authorization of the shareholders of the Company at the annual general meeting each year.

The remuneration and other emoluments are determined by the Board by recommendation of the Remuneration Committee with reference to the duties, responsibilities and performance of the Directors and the results of the Group.

Details of the remuneration of the Directors are set out in Note 12 to the financial statements.

MANAGEMENT CONTRACTS

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

REPORT OF THE DIRECTORS

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OR DEBENTURES OF THE COMPANY OR ITS ASSOCIATED CORPORATIONS

As at 31 December 2016, the interests and short positions of the Directors and Chief Executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO") which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are deemed or taken to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or pursuant to the Model Code as set out in Appendix 10 to the Listing Rules are as follows:

Name of Director	Nature of interest	Number of Ordinary shares ⁽¹⁾	Percentage of the total issued share capital of the Company
Mr. Wong Koon Lup ⁽²⁾	Interest in controlled corporation	161,300,000 (L)	22.43%
	Beneficial owner	38,860,425 (L)	5.40%
Mr. Wong Mun Sum ⁽³⁾	Beneficial owner	37,928,340 (L)	5.28%
Mr. Lee Tiang Soon ⁽⁴⁾	Beneficial owner	6,164,170 (L)	0.86%

Notes:

- (1) The letter "L" denotes the long position in such shares and the letter "S" denotes the short position in such shares.
- (2) Mr. Wong Koon Lup, an Executive Director of the Company, owned 80% of the shares in WMS Holding Pte. Ltd.. Mr. Wong Koon Lup is deemed to be interested in 161,300,000 shares held by WMS Holding Pte. Ltd. under Part XV of the SFO. Mr. Wong Koon Lup held 28,134,769 shares and 10,725,656 unexercised share options pursuant to the share option scheme of the Company adopted on 14 March 2012. Details of the share option scheme and options granted under the Scheme are set out on pages 39 to 40 of this annual report.
- (3) Mr. Wong Mun Sum held 29,709,446 shares and 8,218,894 unexercised share options pursuant to the share option scheme of the Company adopted on 14 March 2012. Details of the share option scheme and options granted under the Scheme are set out on pages 39 to 40 of this annual report.
- (4) Mr. Lee Tiang Soon held 6,164,170 unexercised share options pursuant to the share option scheme of the Company adopted on 14 March 2012. Details of the share option scheme and options granted under the Scheme are set out on pages 39 to 40 of this annual report.

Save as disclosed above, as at 31 December 2016, 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 or any of its associated corporations which had to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

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

As at 31 December 2016, the persons or entities who have interests or short positions in the shares and underlying shares of the Company which have been disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO are as follows:

Name	Capacity and nature of interest	Number of ordinary shares	Percentage of the total issued share capital of the Company
WMS Holding Pte. Ltd	Beneficial owner	161,300,000 (L)	22.43%
Mr. Wong Koon Lup ⁽²⁾⁽³⁾	Interest in controlled corporation	161,300,000 (L)	22.43%
	Beneficial owner	38,860,425 (L)	5.40%
Ms. Lou Swee Lan ⁽³⁾	Family Interest	200,160,425 (L)	27.84%
Mr. Wong Mun Sum ⁽²⁾	Beneficial owner	37,928,340 (L)	5.28%
New South Group Limited	Beneficial owner	112,885,747 (L)	15.70%
Shenzhen Hua Hang Xin Investment Center Limited Partnership* (深圳市華航鑫投資中心(有限合伙)) ⁽⁴⁾	Beneficial owner	107,848,935	15.00%
AVIC Trust Co., Ltd.* (中航信託股份有限公司) ⁽⁴⁾	Interest in controlled corporation	107,848,935	15.00%
AVIC Capital Co., Ltd.* (中航資本控股股份有限公司) ⁽⁴⁾	Interest in controlled corporation	107,848,935	15.00%

Notes:

- (1) The letter "L" denotes the long position in such shares and the letter "S" denotes the short positions in such shares.
- (2) Mr. Wong Koon Lup and Mr. Wong Mun Sum, both executive Directors of the Company, owned 80% and 20% of the shares in WMS Holding Pte. Ltd., respectively. Mr. Wong Koon Lup is deemed to be interested in the 161,300,000 Shares held by WMS Holding Pte. Ltd., under Part XV of the SFO. Mr. Wong Koon Lup and Mr. Wong Mun Sum held 10,725,656 and 8,218,894 unexercised share options respectively, pursuant to the share option scheme of the Company adopted on 14 March 2012, under which they are entitled to subscribe for an aggregate of 10,725,656 and 8,218,894 Shares respectively, at an exercise price of HK\$2.09 in accordance with the relevant terms of the grant.

For details, please refer to the Company's announcement dated 18 December 2014 and 19 December 2014.

- (3) Ms. Lou Swee Lan is the spouse of Mr. Wong Koon Lup. Ms. Lou Swee Lan is deemed to be interested in all the Shares and the underlying Shares in which Mr. Woon Koon Lup has interests in under Part XV of the SFO.
- (4) AVIC Trust Co., Ltd.* (中航信託股份有限公司) owned 99.77% of the shares in Shenzhen Hua Hang Xin Investment Center Limited Partnership* (深圳市華航鑫投資中心(有限合伙)). AVIC Capital Co., Ltd.* (中航資本控股股份有限公司) owned 67% of the shares in AVIC Trust Co., Ltd.* (中航信託股份有限公司). Both AVIC Trust Co., Ltd.* (中航信託股份有限公司) and AVIC Capital Co., Ltd.* (中航資本控股股份有限公司) are deemed to be interested in the shares held by Shenzhen Hua Hang Xin Investment Center Limited Partnership* (深圳市華航鑫投資中心(有限合伙)) under Part XV of the SFO.

* For identification purposes only

Save as disclosed above, as at 31 December 2016, the Directors are not aware of any other persons (who is not a Director or the Chief Executive of the Company) had an interest or short position in the shares or underlying shares of the Company which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register kept by the Company under Section 336 of the SFO.



REPORT OF THE DIRECTORS

SHARE OPTION SCHEME

The following is a summary of the principal terms of the Share Option Scheme (the “**Scheme**”) conditionally approved by a written resolution of the shareholders passed on 14 March 2012 and adopted by a resolution of the board of Directors (the “**Board**”) on 14 March 2012 (the “**Adoption Date**”). The terms of the Share Option Scheme are in accordance with the provisions of Chapter 17 of the Listing Rules.

“Date of Grant” means date of grant of the Option in accordance with the Scheme;

“Grantee” means any Eligible Person (as defined below) who accepts an offer of grant of any Option in accordance with the terms of the Scheme of (where the context so permits) a person who is entitled, in accordance with the laws of succession, to any Option in consequence of the death of the original Grantee;

“Option” means a right to subscribe for Shares granted pursuant to the Scheme;

“Option Period” means the period of time where the Grantee may exercise the Option, which period shall not be more than 10 years from the Date of Grant; and

“Shares” means shares of HK\$0.01 each in the capital of the Company (or of such other nominal amount as shall result from a sub-division, consolidation, reclassification or reconstruction of the share capital of the Company from time to time).

(a) Who may join

The Directors may at their absolute discretion grant Options to all Directors (whether executive or non executive and whether independent or not), any employee (whether full-time or part-time), any consultant or advisor of or to the Company or the Group (whether on an employment or contractual or honorary basis and whether paid or unpaid), who, in the absolute opinion of the Board, have contributed to the Company or the Group and each of the persons mentioned above is referred to as an “Eligible Person”.

(b) Purpose of the Scheme

The purpose of the Scheme is to provide person(s) and parties working for the interests of the Group with an opportunity to obtain an equity interest in the Company, thus linking their interests with the interests of the Group and thereby providing them with an incentive to work better for the interests of the Group.

(c) Duration and administration

The Scheme shall continue in force for the period commencing from the Adoption Date and expiring at the close of business on the tenth anniversary of the Adoption Date (the “**Scheme Period**”), after which period no further Options shall be granted but the provisions of the Scheme shall remain in full force and effect in all other respects in respect of Options remaining outstanding and exercisable on the expiry of the Scheme Period.

The Scheme shall be subject to the administration of the Board whose decision (save as otherwise provided in the Scheme) shall be final and binding on all parties.

(d) Grant of Options

An offer of the grant of an Option shall be made to an Eligible Person in writing in such form as the Board may from time to time determine specifying, inter alia, the maximum number of Shares in respect of which such offer is made and requiring the Eligible Person to undertake to hold the Option on the terms of which it is to be granted and to be bound by the provisions of the Scheme and shall remain open for acceptance by the Eligible Person to whom the offer is made for a period of 28 days (or such other period as the Board may determine) from the date upon which the offer is issued provided that no such offer shall be open for acceptance after the expiry of the Scheme Period or after the Scheme has been terminated in accordance with the terms of the Scheme.

On and subject to the terms of the Scheme, the Board shall be entitled at any time during the Scheme Period to offer to grant an Option to any Eligible Person as the Board may at its absolute discretion select, and subject to such conditions and restrictions as the Board may think fit.

An offer shall be deemed to have been accepted when the duplicate letter comprising acceptance of the Option, duly signed by the Eligible Person, together with the remittance of HK\$1 in favour of the Company, irrespective of the number of Shares in respect of which the Option is accepted, as consideration for the grant is received by the Company.

The Date of Grant shall be the date on which the offer relating to such Option is duly approved by the Board in accordance with the Scheme.

(e) Price sensitive information

No offer of Options shall be made after a price sensitive development has occurred or a price sensitive matter has been the subject of a decision, until such price sensitive information has been published by the Company. In particular, during the period commencing one month immediately preceding the earlier of (i) the date of the Board meeting for the approval of the Company's interim or annual results, and (ii) the deadline of the Company to publish its interim or annual results announcement under the Company's listing agreement, and ending on the date of the results announcement, no Options may be granted. The period during which no Option may be granted will cover any period of delay in the publication of a results announcement.

(f) Grant of Options to connected persons

A grant of Option(s) to a connected person (as defined in the Listing Rules) of the Company under the Scheme must be approved by the Independent Non-executive Directors (excluding any Independent Non-executive Director who is the relevant Grantee).

Where any Options granted to a substantial shareholder (as defined in the Listing Rules) or an Independent Non-executive Director of the Company or its associates or any of their respective associates would result in the number and value of Shares issued and to be issued upon exercise of all Options already granted and to be granted (including Options exercised, cancelled and outstanding but excluding Options which have lapsed) to such person in the 12-month period up to and including the date of such grant (i) exceeding in aggregate over 0.1% of the Shares in issue; and (ii) exceeding an aggregate value, (based on the closing price of the Shares on the Stock Exchange at the Date of Grant) in excess of HK\$5 million, such further grant of Options must be approved by the shareholders by taking of a poll in a general meeting. The Company must send a circular to the shareholders. All connected persons (as defined in the Listing Rules) of the Company must abstain from voting (except that any connected person may vote against the relevant resolution at the

general meeting provided that his intention to do so has been stated in the circular) at the general meeting. The circular must contain: (i) detail of the number and terms (including the Subscription Price (as defined below) of the Options to be granted to each Eligible Person, which must be fixed before the general meeting concerned; (ii) a recommendation from the Independent Non-executive Directors (excluding any independent non-executive Director who is the relevant Grantee) to the independent shareholders as to voting; and (iii) the information required under the relevant provisions of Chapter 17 of the Listing Rules.

(g) **Maximum number of Shares available for subscription**

The maximum aggregate number of Shares which may be issued upon exercise of all outstanding Options granted and yet to be exercised under the Scheme and any other schemes of the Company must not exceed in aggregate 30% of the Shares of the Company in issue from time to time (the “**Overall Scheme Limit**”). No Option may be granted under any schemes of the Company (or its subsidiaries) if such grant will result in the Overall Scheme Limit being exceeded. The total number of Shares which may be issued upon exercise of all Option to be granted under the Scheme and any other schemes must not in aggregate exceed 10% of the Shares of the Company (or the subsidiary) in issue immediately following the completion of the Global Offering (excluding the exercise of Over-allotment Option) and the Capitalization Issue, being 61,641,700 Shares (the “**Scheme Mandate Limit**”) for this purpose. Option lapsed in accordance with the terms of the Scheme shall not be counted for the purpose of calculating the Scheme Mandate Limit.

Subject to the Overall Scheme Limit, the Company may seek approval from its shareholders in general meeting for “refreshing” the “Scheme Mandate Limit”. However, the total number of Shares which may be issued upon exercise of all Options to be granted under all of the schemes of the Company under the limit as “refreshed” must not exceed 10% of the Shares in issue as of the date of approval by the shareholders of the renewed limited (the “**Refreshed Scheme Mandate Limit**”). Option previously granted under any existing schemes (including those outstanding, cancelled or lapsed in accordance with the Scheme or exercised Options) shall not be counted for the purpose of calculating the Refreshed Scheme Mandate Limit. The Company must send a circular to its shareholders containing the information required under the relevant provisions of Chapter 17 of the Listing Rules.

Subject to the Overall Scheme Limit, the Company may seek separate approval from its shareholders in a general meeting for granting Options to subscribe for Shares beyond the Scheme Mandate Limit or the Refreshed Scheme Mandate Limit (as the case may be) provided that the Option in excess of the Scheme Mandate Limit or the Refreshed Scheme Mandate Limit are granted only to Eligible Persons specifically identified by the Company before such approval is sought and the Company must send a circular to its shareholders containing the information specified in the relevant provisions of the Listing Rules. Unless approved by shareholders in general meeting at which the relevant Eligible Person and his associates abstain from voting in the manner prescribed by the relevant provisions of Chapter 17 of the Listing Rules, the total number of Shares issued and to be issued upon exercise of the Options granted to such Eligible Person (including exercised, cancelled and outstanding Options) in any 12-month period must not exceed 1% of the Shares in issue (the “**Individual Limit**”) at such time. With respect to any further grant of Options to an Eligible Person exceeding in aggregate the Individual Limit, the Company must send a circular to its shareholders and the circular must disclose the identity of the Eligible Person, the number and terms of the Options to be granted (and Options previously granted to such Eligible Person), and the information required under the relevant provisions of Chapter 17 of the Listing Rules. The number and terms (including the Subscription Price) of Options to be granted to such Eligible Person must be fixed before the general meeting at which the same are approved, and the date of the Board meeting for proposing such further grant should be taken as the Date of Grant for the purpose of calculating the Subscription Price.

(h) Subscription price

The subscription price in respect of any particular Option shall be such price as the Board may at its absolute discretion determine at the time of the grant of the relevant Option (and shall be stated in the letter containing the offer of the grant of the Option (the “**Subscription Price**”), but in any case the Subscription Price must be at least the highest of (i) the closing price of the Shares as stated in the Stock Exchange’s daily quotations sheet on the Date of Grant, which must be a business day; (ii) the average closing price of the Shares as stated in the Stock Exchange’s daily quotations sheets for the five (5) business days immediately preceding the Date of Grant; and (iii) the nominal value of the Shares. For the purpose of calculating the Subscription Price where the Company has been listed for less than five (5) business days, the issue price of the Shares at the time of Listing shall be used as the closing price of any business day falling within the period before Listing.

OPTIONS GRANTED UNDER THE SCHEME

Details of the Options granted and outstanding for the year ended 31 December 2016, are as follows:

Number of Options granted:

Directors, eligible employees & a consultant of the Group	At 1 January 2016	Granted during the year	Exercised during the year	Lapsed or cancelled during the year	At 31 December 2016	Date of grant	Date of Exercise	Exercise price (HK\$)	Validity period
Wong Koon Lup <i>(Chairman and Chief Executive Officer)</i>	10,725,656	-	-	-	10,725,656	17/12/2014 ⁽¹⁾	9/7/2015 ⁽²⁾	2.09	Please refer to Note 3 below
Wong Mun Sum <i>(Chief Operating Officer)</i>	8,218,894	-	-	-	8,218,894	17/12/2014 ⁽¹⁾	9/7/2015 ⁽²⁾	2.09	Please refer to Note 3 below
Lee Tiang Soon	6,164,170	-	-	-	6,164,170	17/12/2014 ⁽¹⁾		2.09	Please refer to Note 3 below
Eligible employees	9,862,672	-	-	-	9,862,672	17/12/2014 ⁽¹⁾		2.09	Please refer to Note 3 below
A consultant of the Group	6,164,170	-	-	-	6,164,170	17/12/2014 ⁽¹⁾		2.09	Please refer to Note 3 below

Notes:

- (1) The closing price of HK\$2.04 per share as stated in the daily quotation sheets issued by the Stock Exchange on the date of grant.
- (2) The closing price of HK\$3.98 per share as stated in the daily quotation sheets issued by the Stock Exchange on the date of exercise.
- (3) The Options are exercisable within a period of 5 years from the date of grant subject to the vesting schedule set out below.

The Options to the grantees shall be exercisable in three equal tranches and subject to the following vesting periods:

- (a) The first 33.33% of the shares under the Options shall be vested and exercisable from 1 March 2015;
- (b) The next 33.33% of the shares under the Options shall be vested and exercisable from 1 March 2016; and
- (c) The remaining 33.33% of the shares under the Options shall be vested and exercisable from 1 March 2017.

REPORT OF THE DIRECTORS

Valuation of Options granted:

The total fair value of the Options granted as at the date of the grant is approximately HK\$27.0 million.

The following assumptions using Binominal Options pricing model were adopted to determine the fair value of the options on the grant date:

	Granted on 17 December 2014
Underlying share price	HK\$2.04
Exercise price	HK\$2.09
Expected life of Options	2.6 years – 3.6 years
Expected volatility	37.8% – 43.8%
Expected annual dividend yield	0.656%
Risk free rate	0.62% – 0.94%

Based on the fair value of the Options granted, the Option expenses that will be recorded in the statement of comprehensive income of the Group for the financial years ended 31 December 2014, 2015, 2016 and 2017 are: HK\$2,051,408, HK\$18,106,786, HK\$5,997,740 and HK\$806,146, respectively.

CONTRACTS OF SIGNIFICANCE

No contracts of significance in relation to the Group's business in which the Company, any of its subsidiaries, fellow subsidiaries or its parent company was a party and in which a Director had a material interest, whether directly or indirectly, subsisted during or at the end of the year. No controlling shareholder of the Company had a material interest, either directly or indirectly, in any contract of significance (whether for the provision of services to the Company or not) to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

LOANS AND BORROWINGS AND COMMITMENTS

Details of loans and borrowings of the Group as of 31 December 2016 are set out in Note 23 to the financial statements. Details of commitments of the Group as of 31 December 2016 are set out in Note 34 to the financial statements.

SIGNIFICANT INVESTMENT, MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES, FUTURE PLANS FOR MATERIAL INVESTMENTS OR ACQUISITION OF CAPITAL ASSETS

Save as the above, during the year, the Group did not have any material acquisitions or investments and affiliated companies during the year ended 31 December 2016. As at the date of the Report, the Group does not have any plans for material investments or acquisition of capital assets in the coming year. The Company will make further announcement in accordance with the Listing Rules if any material investments and acquisition opportunities become materialised.

MATERIAL LITIGATION AND ARBITRATION

So far as is known to the Directors, the Group was not involved in any litigation, arbitration or claims of material importance and there was no litigation or claims of material importance pending or threatened by or against the Company during the year ended 31 December 2016.

CONTINGENT LIABILITIES

There were no material contingent liabilities as at 31 December 2016.

FOREIGN EXCHANGE RISK MANAGEMENT

Details of the foreign exchange risk management of the Group are set out in Note 33(b)(i) to the financial statements.

EVENT AFTER THE REPORTING PERIOD

Except for the event disclosed in Note 37 to the financial statements, there were no significant subsequent events which have occurred since 31 December 2016 up to the date of this report.

RELATED PARTY TRANSACTIONS

The details of the related party transactions are set out in Note 35 to the financial statements. The related party transactions disclosed in Note 35 to the financial statements do not constitute connected transactions or continuing connected transactions that are not exempt from annual reporting, announcement and independent shareholders' approval requirements in Chapter 14A of the Listing Rules. The Company confirms that it has complied with the relevant requirements in accordance with Chapter 14A of the Listing Rules.

COMPLIANCE WITH NON-COMPETITION AGREEMENT

The Company entered into a non-competition agreement with Mr. Wong Koon Lup, Mr. Wong Mun Sum and WMS Holding Pte. Ltd. (the "**Covenantors**") on 14 March 2012 (the "**Non-Competition Agreement**"), pursuant to which, the Covenantors provided certain non-competition undertakings to the Company. Pursuant to the agreement, the Directors who do not have a material interest in the Non-Competition Agreement are responsible for reviewing the implementation of the undertakings under the agreement on an annual basis. During the year, the Independent Non-executive Directors of the Company have reviewed the implementation of the Non-Competition Agreement and have confirmed that the Covenantors have been in full compliance with the agreement and there was no breach by the Covenantors.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

Save as disclosed, during the year and up to the date of this report, none of the Directors is considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group and has any other conflicts of interest, as required to be disclosed under the Listing Rules.



REPORT OF THE DIRECTORS

USE OF PROCEEDS FROM PLACING IN 2015

On 17 November 2015, the Company issued an aggregate of 93,781,682 subscription shares at HK\$3.63 per share to Shenzhen Hua Hang Xin Investment Center Limited Partnership (深圳市華航鑫投資中心(有限合夥)), a nominee of Zhejiang Hua Hang Investments Co., Ltd* (浙江華航投資有限公司) (“**Zhejiang Huaheng**”), pursuant to the terms of a subscription agreement entered into with Zhejiang Huaheng on 14 August 2015 (the “**Placing**”). The net price per share under the Placing was approximately HK\$3.61. The gross and net proceeds from the Placing were HK\$340.4 million and HK\$339.0 million, respectively. As disclosed in the announcement of the Company dated 14 August 2015 and 17 November 2015, it was intended that the net proceeds arising from the Placing will be used by the Company to fund the general working capital of the Group and finance any suitable investment opportunities, should these opportunities arise. For details, please refer to the Company’s announcements dated 14 August 2015 and 17 November 2015. As at 31 December 2016, the net proceeds from the Placing had been fully utilized for general working capital of the Group.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and to the best knowledge of the Directors, the Company has maintained sufficient public float for the year ended 31 December 2016.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of the audited financial statements.

AUDITOR

A resolution for the reappointment of Ernst & Young as auditor of the Company will be proposed at the forthcoming AGM.

CLOSURE OF THE REGISTER OF MEMBERS

The Company will make further announcement(s) as soon as practicable on the closure of register of members in order to determine the entitlement to attend the AGM and in order to determine the entitlement to the final dividend for the year ended 31 December 2016.

ON BEHALF OF THE BOARD

Chairman

Hong Kong
25 April 2017

INDEPENDENT AUDITOR'S REPORT



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To the shareholders of CW Group Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of CW Group Holdings Limited (the “**Company**”) and its subsidiaries (the “**Group**”) set out on pages 48 to 119, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (“**IFRSs**”) (which also include International Accounting Standards (“**IASs**”) and Interpretations) issued by the International Accounting Standards Board (the “**IASB**”) 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 International Standards on Auditing (“**ISAs**”) issued by the International Auditing and Assurance Standards Board. 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 International Ethics Standards Board for Accountants’ *Code of Ethics for Professional Accountants* (the “**IESBA Code**”), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

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

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

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (cont'd)

Key audit matter	How our audit addressed the key audit matter
Revenue Recognition – Gross versus Net Basis	
<p>The Group recognised revenue on a gross basis when selling the equipment to its customers as a principal and on a net basis when it distributes equipment as an agent on behalf of the principals.</p> <p>The evaluation of whether the Group was a principal or an agent as to determine whether gross or net basis should be adopted required significant judgement. It was because in making this judgement, management was required to evaluate whether the Group had met the criteria as set out in the relevant standards, including but not limited to having discretions in the selection of suppliers, setting of selling prices, bearing customer credit risk and inventory risk and whether the Group was the primary obligor in the arrangement.</p> <p>Related disclosures were included in notes 4 and 6 of the financial statements.</p>	<p>We discussed with management to obtain an understanding of the Group's sale and purchase arrangements. We performed audit procedures including, amongst others, reviewing the sales contracts, customers' orders, corresponding purchases contracts, and purchase orders to assess whether the Group has discretion in setting selling prices, bore customer credit risk and inventory risk and whether the Group was the primary obligor in the arrangement.</p> <p>We have also assessed internal controls regarding revenue recognition, including gross or net recognition.</p>
Impairment of Trade Receivables	
<p>Trade receivable balances were significant to the Group as they represented 65% of the total assets as at 31 December 2016. The trade credit period ranged from 30 days to 360 days, and the overdue trade receivables represented 23% of total trade receivables as at 31 December 2016. In addition, trade receivables impairment assessment required significant management judgement.</p> <p>The collectability of trade receivables was a key element of the Group's working capital management, which was managed on an ongoing basis by local management. The Group's management supports subsidiaries in setting credit limits for customers.</p> <p>Related disclosures were included in notes 4 and 20 of the financial statements.</p>	<p>We assessed the Group's processes and controls relating to the monitoring of trade receivables and considered the aging of trade receivables to identify collection risks. We performed audit procedures including, amongst others, sending trade receivable confirmations and reviewing the collectability by obtaining evidence of subsequent receipts of the trade receivables. We assessed management's assumptions used to calculate the trade receivable impairment amount, notably through analyses of aging of receivables and assessment of significant overdue individual trade receivables.</p>

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs 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.



INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

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



INDEPENDENT AUDITOR'S REPORT

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

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

Ernst & Young

Certified Public Accountants

Hong Kong

25 April 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2016

	Notes	2016 HK\$'000	2015 HK\$'000
Revenue	6	2,462,017	2,455,646
Cost of sales		(1,994,345)	(2,043,366)
Gross profit		467,672	412,280
Other income and gains	6	10,445	3,196
Selling and distribution expenses		(13,651)	(19,639)
Administrative expenses	7	(60,029)	(64,364)
Finance costs	8	(61,659)	(48,207)
Other operating expenses	9	(40,992)	(8,326)
Share of (loss)/profit from joint ventures	18	(28)	1,205
Profit before tax	10	301,758	276,145
Income tax expense	11	(67,298)	(55,916)
Profit for the year		234,460	220,229
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent year:			
Exchange difference related to foreign operations		(13,197)	(33,400)
Other comprehensive income for the year, net of tax		(13,197)	(33,400)
Total comprehensive income for the year		221,263	186,829
Profit for the year attributable to:			
Owners of the parent		234,460	220,229
Profit for the year		234,460	220,229
Total comprehensive income for the year attributable to:			
Owners of the parent		221,263	186,829
		221,263	186,829
Earnings per share attributable to ordinary equity holders of the parent (HK cents)			
Basic	15	32.61	34.85
Diluted	15	32.61	33.89

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Year ended 31 December 2016

	Notes	2016 HK\$'000	2015 HK\$'000
Non-current assets			
Plant and equipment	16	9,617	39,902
Goodwill	17	141	5,197
Other receivables	21	–	69,770
Investments in joint ventures	18	13,320	12,253
		23,078	127,122
Current assets			
Inventories	19	268	3,302
Trade receivables	20	2,075,259	1,413,172
Other receivables	21	901,415	762,845
Cash and cash equivalents	22	193,790	444,905
		3,170,732	2,624,224
Current liabilities			
Loans and borrowings	23	2,400	1,431
Trade payables	24	122,053	59,093
Trade financing and bills payable	25	774,814	642,907
Other payables and accruals	26	39,422	37,900
Finance leases payable	27	4,575	4,691
Tax liabilities		128,827	85,446
		1,072,091	831,468
Net current assets		2,098,641	1,792,756
Total assets less current liabilities		2,121,719	1,919,878
Non-current liabilities			
Loans and borrowings	23	–	1,489
Notes issued	30	396,254	398,884
Finance leases payable	27	3,297	7,582
Deferred tax liabilities	28	714	762
		400,265	408,717
Net assets		1,721,454	1,511,161

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Year ended 31 December 2016

	Notes	2016 HK\$'000	2015 HK\$'000
Capital and reserves			
Share capital	29	7,190	7,190
Retained earnings		1,045,872	828,380
Share premium reserve	31	784,158	784,158
Other reserves	31	(115,766)	(108,567)
Total equity attributable to owners of the parent		1,721,454	1,511,161

Wong Koon Lup
Director

Wong Mun Sum
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016

Group	Attributable to owners of the parent				Total HK\$'000
	Share capital HK\$'000 (Note 29)	Retained earnings HK\$'000	Share premium reserve HK\$'000 (Note 31)	Other reserves HK\$'000 (Note 31)	
At 1 January 2016	7,190	828,380	784,158	(108,567)	1,511,161
Profit for the year		234,460	–	–	234,460
Exchange differences related to foreign operations	–	–	–	(13,197)	(13,197)
Total comprehensive income for the year	–	234,460	–	(13,197)	221,263
Share option expense (Note 36)	–	–	–	5,998	5,998
Final 2015 dividend (Note 14)	–	(16,968)	–	–	(16,968)
At 31 December 2016	7,190	1,045,872	784,158	(115,766)	1,721,454
At 1 January 2015	6,164	622,906	421,925	(88,822)	962,173
Profit for the year	–	220,229	–	–	220,229
Exchange differences on translation of foreign operations	–	–	–	(33,400)	(33,400)
Total comprehensive income for the year	–	220,229	–	(33,400)	186,829
Equity-settled share option arrangements					
Share option exercised	88	–	22,743	(4,451)	18,380
Share option expense (Note 36)	–	–	–	18,106	18,106
New shares subscription	938	–	339,490	–	340,428
	1,026	–	362,233	13,655	376,914
Final 2014 dividend (Note 14)	–	(14,755)	–	–	(14,755)
At 31 December 2015	7,190	828,380	784,158	(108,567)	1,511,161

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	Notes	2016 HK\$'000	2015 HK\$'000
Cash flows from operating activities			
Profit before tax		301,758	276,145
Adjustments for:			
Depreciation	10	5,882	5,524
Foreign currency realignment		(26,981)	(32,177)
Interest income	6	(35)	(28)
Net gain on disposal of plant and equipment	6	(19)	–
Finance costs	8	61,659	48,207
Reversal of long overdue creditors	6	(478)	(1,702)
Allowance for unutilised leave provision		30	34
Allowance for doubtful debt	10	1	49
Allowance for impairment of goodwill	9	5,221	–
Allowance for impairment of plant and equipment	9	29,614	–
Allowance for inventory obsolescence	10	4,917	–
Share option expense	7	5,998	18,106
Share of loss/(profit) of joint ventures		28	(1,205)
		85,837	36,808
Cash flows from operating activities before movements in working capital		387,595	312,953
Movements in working capital:			
Trade receivables		(662,082)	(554,993)
Other receivables		188,210	209,452
Inventories		(1,502)	(522)
Trade payables		63,438	(13,016)
Trade financing and bills payable		131,907	161,491
Other payables and accruals		397	(28,251)
Cash generated from operations		107,963	87,114
Income taxes paid		(23,965)	(23,317)
Net cash flows generated from operating activities		83,998	63,797
Cash flows from investing activities			
Interest received		35	28
Purchase of plant and equipment	16	(4,916)	(12,385)
Dividend received from joint ventures		–	1,242
Advances for patents and trademarks		(77,589)	(69,770)
Advances for potential acquisitions	21	(217,578)	–
Net refund from/(deposit to) escrow fund		38,157	(283,224)
Net cash flows used in investing activities		(261,891)	(364,109)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	<i>Note</i>	2016 HK\$'000	2015 <i>HK\$'000</i>
Cash flows from financing activities			
Interest and finance charges paid		(57,876)	(40,557)
Repayment of obligations under finance leases		(4,402)	(4,598)
Repayment of redeemable preference shares		–	(32,888)
Proceeds from share option exercised		–	18,380
Proceeds from subscription of new shares		–	340,428
Repayment of interest-bearing loans		(1,431)	(1,375)
Net proceeds from notes issued		–	396,962
Dividend paid		(16,968)	(14,755)
		<hr/>	<hr/>
Net cash flows (used in)/generated from financing activities		(80,677)	661,597
Net (decrease)/increase in cash and cash equivalents			
Cash and cash equivalents at the beginning of the year		444,905	80,935
Effect of exchange rate changes, net		6,544	2,685
		<hr/>	<hr/>
Cash and cash equivalents at the end of the year	22	192,879	444,905
Cash and cash equivalents consist of:			
Cash and bank balances	22	193,790	444,905
Bank overdrafts		(911)	–
		<hr/>	<hr/>
		192,879	444,905
		<hr/>	<hr/>

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

1. CORPORATE AND GROUP INFORMATION

CW Group Holdings Limited (the “**Company**”) is a limited liability company incorporated in the Cayman Islands. The registered office of the Company is located at Clifton House, 75 Fort Street, PO Box 1350, Grand Cayman, KY1-1108, Cayman Islands. The Company’s principal place of business is located at 26th floor, COFCO Tower, 262 Gloucester Road, Causeway Bay, Hong Kong. The Company is an investment holding company.

The principal business activities of the Group include provision of precision engineering solutions, machine tool manufacturing and distribution and components manufacturing and distribution.

As at 31 December 2016 and 2015, the Company had direct and indirect interests in its subsidiaries, the particulars of which are set out below:

Name of subsidiary	Legal form, date and place of incorporation/ establishment/ operations	Registered capital/ issued and fully paid share capital	Attributable equity interest of the Group	Principal activities
<i>Directly held:</i>				
SG (BVI) Limited (formerly known as Gaingold Pacific Limited)	Limited liability company 18 May 2010 British Virgin Islands	Ordinary shares US\$100	100%	Investment holding
<i>Indirectly held:</i>				
SG Tech Holdings Limited	Public limited company 6 August 2007 Singapore	Ordinary shares S\$21,867,698	100%	Investment holding
CW Group Pte. Ltd.	Limited private company 28 May 1996 Singapore	Ordinary shares S\$9,651,621	100%	Manufacture and sale of dies, moulds, tools, jigs and fixtures and wholesale of industrial machineries and equipment
CW International (S) Pte. Ltd.	Limited private company 20 April 2004 Singapore	Ordinary shares S\$10,000	100%	Investment holding
創興機械設備 (上海) 有限公司	Wholly-owned foreign enterprise 18 May 2005 The People’s Republic of China (the “ PRC ”)	Registered capital US\$2,500,000 Paid-up capital US\$1,873,478	100%	Dealing in industrial machinery and equipment, technical testing and analysis services

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

1. CORPORATE AND GROUP INFORMATION (cont'd)

Name of subsidiary	Legal form, date and place of incorporation/ establishment/ operations	Registered capital/ issued and fully paid share capital	Attributable equity interest of the Group	Principal activities
<i>Indirectly held: (cont'd)</i>				
CW Tech Pte. Ltd.	Limited private company 26 October 2004 Singapore	Ordinary shares S\$6,351,624	100%	Investment holding
Sun-M Energy Pte. Ltd.	Limited private company 17 April 2004 Singapore	Ordinary shares US\$100,000	100%	Investment holding
Sun-M Energy Sdn. Bhd.	Wholly-owned foreign enterprise 17 April 2014 Malaysia	Ordinary shares RM250,000	100%	Manufacturing and trading of solar photovoltaic modules and panels
CW Advanced Technologies Pte. Ltd.	Limited private company 27 February 2003 Singapore	Ordinary shares S\$450,000	100%	Dealing in industrial machinery and equipment and providing industrial technical consultancy services
塑鼎貿易（上海）有限公司 SD Trading (Shanghai) Co., Ltd. ⁽¹⁾	Wholly-owned foreign enterprise 26 February 2004 The PRC	Registered and paid-up capital US\$140,000	100%	Dealing in industrial machinery and equipment, technical testing and analysis services
CW International (M) Sdn. Bhd.	Limited private company 25 July 2005 Malaysia	Ordinary shares RM510,002	100%	Inactive
CW Advanced Technologies Limited	Limited liability company 16 May 2013 Hong Kong	Ordinary shares HK\$1	100%	Dealing in industrial machinery and equipment and providing industrial technical consultancy services
CW Advanced Technologies Europe SA	Limited liability company 20 March 2014 Switzerland	CHF\$100,000	100%	Investment holding

⁽¹⁾ The English translation of the company names is for reference only. The official names of these companies are in Chinese.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

2.1 BASIS OF PREPARATION

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) (which include all International Financial Reporting Standards, International Accounting Standards (“IASs”) and Interpretations) issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance.

The financial statements have been prepared under the historical cost convention. The financial statements are presented in Hong Kong dollar (“HK\$”) and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2016. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group’s voting rights and potential voting rights.

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

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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

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

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

Amendments to IFRS 10, IFRS 12 and IAS 28	<i>Investment Entities: Applying the Consolidation Exception</i>
Amendments to IFRS 11	<i>Accounting for Acquisitions of Interests in Joint Operations</i>
IFRS 14	<i>Regulatory Deferral Accounts</i>
Amendments to IAS 1	<i>Disclosure Initiative</i>
Amendments to IAS 16 and IAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>
Amendments to IAS 16 and IAS 41	<i>Agriculture: Bearer Plants</i>
Amendments to IAS 27	<i>Equity Method in Separate Financial Statements</i>
<i>Annual Improvements 2012-2014 Cycle</i>	Amendments to a number of IFRSs

Except for the amendments to IFRS 10, IFRS 12 and IAS 28, amendments to IFRS 11, IFRS 14, amendments to IAS 16 and IAS 41, amendments to IAS 27, and certain amendments included in the *Annual Improvements 2012-2014 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the amendments are described below:

- (a) Amendments to IAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:
- (i) the materiality requirements in IAS 1;
 - (ii) that specific line items in the statement of profit or loss and the statement of financial position may be disaggregated;
 - (iii) that entities have flexibility as to the order in which they present the notes to financial statements; and
 - (iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss. The amendments have had no significant impact on the Group's financial statements.

- (b) Amendments to IAS 16 and IAS 38 clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are applied prospectively. The amendments have had no impact on the financial position or performance of the Group as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (cont'd)

- (c) *Annual Improvements to IFRSs 2012-2014 Cycle* issued in September 2014 sets out amendments to a number of IFRSs. Details of the amendments are as follows:
- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* clarifies that changes to a plan of sale or a plan of distribution to owners should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. Accordingly, there is no change in the application of the requirements in IFRS 5. The amendments also clarify that changing the disposal method does not change the date of classification of the non-current assets or disposal group held for sale. The amendments have had no impact on the Group as the Group did not have any non-current assets or disposal group held for sale during the year.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

Amendments to IFRS 2	<i>Classification and Measurement of Share-based Payment Transactions</i> ²
Amendments to IFRS 4	<i>Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts</i> ²
IFRS 9	<i>Financial Instruments</i> ²
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ⁴
IFRS 15	<i>Revenue from Contracts with Customers</i> ²
Amendments to IFRS 15	<i>Clarifications to IFRS 15 Revenue from Contracts with Customers</i> ²
IFRS 16	<i>Leases</i> ³
Amendments to IAS 7	<i>Disclosure Initiative</i> ¹
Amendments to IAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i> ¹
Amendments to IAS 40	<i>Transfers of Investment Property</i> ²
IFRIC 22	<i>Foreign Currency Transactions and Advance Consideration</i> ²
<i>Annual Improvements 2014-2016 Cycle</i>	Amendments to a number of IFRSs ^{1,2}

¹ Effective for annual periods beginning on or after 1 January 2017

² Effective for annual periods beginning on or after 1 January 2018

³ Effective for annual periods beginning on or after 1 January 2019

⁴ No mandatory effective date determined but available for adoption

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (cont'd)

Further information about those IFRSs that are expected to be applicable to the Group is as follows:

The IASB issued amendments to IFRS 2 in June 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet the employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The Group expects to adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

In July 2014, the IASB issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt IFRS 9 from 1 January 2018. The Group is currently assessing the impact of the standard.

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 was removed by the IASB in December 2015 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for application now.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (cont'd)

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

IFRS 16 replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC 15 Operating Leases – Incentives and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from the accounting treatment under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. The Group expects to adopt IFRS 16 on 1 January 2019 and is currently assessing the impact of IFRS 16 upon adoption.

Amendments to IAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments will result in additional disclosure to be provided in the financial statements. The Group expects to adopt the amendments from 1 January 2017.

Amendments to IAS12 were issued with the purpose of addressing the recognition of deferred tax assets for unrealised losses related to debt instruments measured at fair value, although they also have a broader application for other situations. The amendments clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Group expects to adopt the amendments from 1 January 2017.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in joint ventures

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group's share of the post-acquisition results and other comprehensive income of the joint ventures are included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and joint ventures are eliminated to the extent of the Group's investment in the joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in a joint venture becomes an investment in an associate, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the joint venture upon loss of joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

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

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

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

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

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Business combinations and goodwill (cont'd)

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

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

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

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Impairment of non-financial assets

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assets of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Impairment of non-financial assets (cont'd)

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

Related parties

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

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group.

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Plant and equipment and depreciation

Plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of 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.

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

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

Plant and machinery	6% to 10%
Renovation	9% to 33.33%
Office equipment, furniture and fittings	18% to 33.33%
Computers	18% to 33.33%
Motor vehicles	9% to 20%

Assets under construction are not depreciated as these assets are not yet available for use.

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

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

Leases

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

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Leases (cont'd)

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

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as loans and receivables. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

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

The Group's financial assets include trade and other receivables, pledged deposits, and cash and cash equivalents.

Subsequent measurement

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

Loans and receivables

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

Derecognition of financial assets

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

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

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Derecognition of financial assets (cont'd)

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

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

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Impairment of financial assets (cont'd)

Financial assets carried at amortised cost (cont'd)

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

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

Financial liabilities

Initial recognition and measurement

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

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

The Group's financial liabilities include trade payables, other payables and accruals, trade financing and bills payable, loans and borrowings, notes issued and finance leases payables.

Subsequent measurement

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

Loans and receivables

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

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

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Fair value of financial instruments

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the DCF model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Judgments include considerations of inputs such as liquidity risk, credit risk and volatility.

Inventories

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

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits that are subject to an insignificant risk of changes in value. These also include bank overdrafts that form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprises of cash on hand and at banks.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Provisions

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

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

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

Income tax

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

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

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

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

- where the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Income tax (cont'd)

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

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Revenue recognition

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

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from the rendering of services, on the straight-line basis over the specified period of time as further explained in the accounting policy for "Rendering of services" below;
- (c) commission income for rendering of services is recognised when the services are rendered;
- (d) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset;
- (e) rental income, on a time proportion basis over the lease terms; and
- (f) dividend income, when the shareholders' right to receive payment has been established.

Rendering of services

Revenue from the rendering of services is recognised on a straight-line basis over the specified period of time as the services are performed by an indeterminate number of acts over a specified period of time as stated in the service contract.

Employee benefits

Defined contribution plan

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "**MPF Scheme**") in Hong Kong under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme.

The Group's subsidiaries which operate in Singapore make contributions to the Central Provident Fund ("**CPF**") scheme in Singapore based on percentage of the employees' basic salaries, a defined contribution pension scheme. CPF contributions are recognised as an expense in the period in which the related service is performed.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Employee benefits (cont'd)

Defined contribution plan (cont'd)

The employees of the Group's subsidiaries which operate in the People's Republic of China ("PRC") are required to participate in a central pension scheme operated by the local municipal government. Contributions are made based on 20% of the employee's salary and are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

The assets of the above contribution schemes are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the schemes.

Employee leave entitlement

Employee entitlements to annual leave are recognised as a liability when they are accrued to employees. The estimated liability for leave is recognised for services rendered by employees up to the end of the reporting period.

Share-based payments

The Company operates a Share Option Scheme (as defined in Note 36) for the purpose of providing incentives and rewards to eligible participants. Senior executives of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("**equity-settled transactions**").

The cost of equity-settled transactions with is measured by reference to the fair value at the date at which they are granted. The fair value of share options is determined by an external valuer using a binomial model.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Share-based payments (cont'd)

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

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

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

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Foreign currencies

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

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

The functional currencies of certain overseas subsidiaries and joint ventures are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and their income statements are translated into Hong Kong dollar at the weighted average exchange rates for the year.

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

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

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

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

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

(a) *Determination of functional currencies*

The Group measures foreign currency transactions in the respective functional currencies of the Company and its subsidiaries. In determining the functional currencies of the entities in the Group, judgement is required to determine the currency that mainly influences sales prices for goods and services and of the country whose competitive forces and regulations mainly determines the sales prices of its goods and services. The functional currencies of the entities in the Group are determined based on management's assessment of the primary economic environment in which the entities operate and the entities' process of determining sales prices.

(b) *Income taxes*

The Group has exposure to income taxes in numerous jurisdictions. Significant judgement is involved in determining the group-wide provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax liabilities in the period in which such determination is made. The Group's current tax liabilities and net deferred tax liabilities as at 31 December 2016 were HK\$128,827,000 (2015: HK\$85,446,000) and HK\$714,000 (2015: HK\$762,000) respectively.

(c) *Revenue recognition*

The Group recognises revenue from the sales of equipment on a gross basis as opposed to a net basis where the Group has entered into several distributorship agreements to source customers, customize and sell such equipment. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that revenue should be recognised on a gross basis. In making this judgment, the Group evaluates, among other factors, whether the Group has discretions in the selection of suppliers and setting of selling prices, bears credit and inventory risks and whether the Group is the primary obligor in the arrangement.

(d) *Withholding tax provision on profit appropriation*

The Group provides for withholding tax of 5% on its PRC subsidiaries' distributable profits generated from 1 January 2008 onwards in compliance with the PRC Corporate Tax Law. The Group has provided for such withholding taxes in the form of deferred tax liabilities on the basis that the Group is expected to appropriate substantially the profits which the PRC subsidiaries generate in the foreseeable future. As at 31 December 2016, the amounts provided were HK\$714,000 (2015: HK\$762,000).

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (cont'd)

Estimation uncertainty

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

(a) *Impairment of non-financial assets*

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

(b) *Impairment of goodwill*

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2016 was HK\$141,000 (2015: HK\$5,197,000). Further details are given in Note 17.

(c) *Useful lives and residual values of plant and equipment*

In determining the useful life and residual value of an item of plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from the previous estimation. Useful lives and residual values are reviewed at each financial year end based on changes in circumstances. The carrying amounts of plant and equipment at 31 December 2016 and 31 December 2015 were HK\$9,617,000 and HK\$39,902,000, respectively. Further details are given in Note 16.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (cont'd)

Estimation uncertainty (cont'd)

(d) *Impairment of receivables*

The Group assesses at end of each reporting period whether there is any objective evidence that a financial asset is impaired. Factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments are objective evidence of impairment. In determining whether there is objective evidence of impairment, the Group considers whether there is observable data indicating that there have been significant changes in the debtor's payment ability or whether there have been significant changes with adverse effect in the technological, market, economic or legal environment in which debtor operates in.

Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics. The carrying amount of the Group's trade and other receivables as at 31 December 2016 was HK\$2,976,674,000 (2015: HK\$2,245,787,000). More details are given in Notes 20 and 21.

(e) *Allowance for inventory obsolescence*

The Group reviews the condition of its inventories and makes provision against obsolete and slow-moving inventory items which are identified as no longer suitable for sale or use. Management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions.

The Group carries out an inventory review at the end of each reporting period and makes provision against obsolete and slow-moving items. Management reassesses the estimation at the end of each reporting period. The provision against obsolete and slow-moving inventories requires the use of judgements and estimates. Where the expectation is different from the original estimate, such difference will have an impact on the carrying value of inventories and the write-down of inventories recognised in the periods in which such estimates have been changed. The carrying amount of the Group's inventories as at 31 December 2016 was HK\$268,000 (2015: HK\$3,302,000). More details are given in Note 19.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

5. OPERATING SEGMENT INFORMATION

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

- (a) Precision engineering solutions projects – relates to provision of industrial solutions specific to machine tools and industrial machinery and equipment encompassing conceptualisation and design to production set-up, commissioning and maintenance of production lines.
- (b) Sales of Computer Numeric Control (“**CNC**”) machining centres – relates to sales of precision engineering manufacturing equipment operable under CNC automation.
- (c) Sales of components and parts – relates to sales of self-manufactured and trading of components and parts.
- (d) After-sales technical support services – relates to provision of repairs and maintenance services for the above segments.
- (e) Renewable energy solutions – relates to sales of self-manufactured and trading of solar photovoltaic modules and panels.

Management monitors the results of the Group’s operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group’s profit before tax except that interest income, finance costs, dividend income as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude pledged deposits, cash and cash equivalents, and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing loans and borrowings, notes issued, tax liabilities, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

5. OPERATING SEGMENT INFORMATION (cont'd)

Year ended 31 December 2016	Precision engineering solutions projects <i>HK\$'000</i>	Sales of CNC machining centres <i>HK\$'000</i>	Sales of components and parts <i>HK\$'000</i>	After-sales technical support services <i>HK\$'000</i>	Renewable energy solutions <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue						
Sales to external customers	2,261,166	22,058	9,816	116,307	52,670	2,462,017
Intersegment sales			329		239	568
	2,261,166	22,058	10,145	116,307	52,909	2,462,585
<i>Reconciliation</i>						
Elimination of intersegment sales						(568)
Revenue						<u>2,462,017</u>
Segment results	365,861	3,928	(4,154)	96,035	6,002	467,672
<i>Reconciliation</i>						
Interest income						35
Unallocated other income and gains						10,410
Corporate and other unallocated expenses						(114,672)
Finance costs						(61,659)
Share of loss of joint ventures						(28)
Profit before tax						301,758
Income tax expense						(67,298)
Profit for the year						<u>234,460</u>
Segment assets	1,949,809	15,334	12,720	88,560	28,681	2,095,104
<i>Reconciliation</i>						
Corporate and other unallocated assets						1,098,706
Total assets						<u>3,193,810</u>
Segment liabilities	882,379	6,165	7,649	3,559	39	899,791
<i>Reconciliation</i>						
Corporate and other unallocated liabilities						443,738
Tax liabilities						128,827
Total liabilities						<u>1,472,356</u>
Other segment information						
Depreciation	-	-	(907)	-	(1,950)	(2,857)
Capital expenditure*	-	-	-	-	(602)	(602)
Allowance for impairment of plant and equipment	-	(16,707)	-	-	(12,907)	(29,614)
Allowance for inventory obsolescence	-	-	(919)	-	(3,998)	(4,917)
Allowance for impairment of goodwill	-	-	-	-	(5,221)	(5,221)

* Capital expenditure relates to addition of plant and equipment.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

5. OPERATING SEGMENT INFORMATION (cont'd)

Year ended 31 December 2015	Precision engineering solutions projects HK\$'000	Sales of CNC machining centres HK\$'000	Sales of components and parts HK\$'000	After-sales technical support services HK\$'000	Renewable energy solutions HK\$'000	Total HK\$'000
Segment revenue						
Sales to external customers	2,357,043	59,265	29,318	5,014	5,006	2,455,646
Intersegment sales	–	–	671	3,150	–	3,821
	2,357,043	59,265	29,989	8,164	5,006	2,459,467
<i>Reconciliation</i>						
Elimination of intersegment sales						(3,821)
Revenue						<u>2,455,646</u>
Segment results	399,200	12,181	1,812	5,898	(6,811)	412,280
<i>Reconciliation</i>						
Interest income						28
Unallocated other income and gains						3,168
Corporate and other unallocated expenses						(92,329)
Finance costs						(48,207)
Share of profit of joint ventures						<u>1,205</u>
Profit before tax						276,145
Income tax expense						<u>(55,916)</u>
Profit for the year						<u>220,229</u>
Segment assets	1,374,348	31,212	13,473	5,421	16,820	1,441,274
<i>Reconciliation</i>						
Corporate and other unallocated assets						<u>1,310,072</u>
Total assets						<u>2,751,346</u>
Segment liabilities	675,914	13,041	8,481	1,434	1,456	700,326
<i>Reconciliation</i>						
Corporate and other unallocated liabilities						454,413
Tax liabilities						<u>85,446</u>
Total liabilities						<u>1,240,185</u>
Other segment information						
Depreciation	–	–	(957)	–	(1,865)	(2,822)
Capital expenditure*	–	–	–	–	(11,977)	(11,977)

* Capital expenditure relates to addition of plant and equipment.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

5. OPERATING SEGMENT INFORMATION (cont'd)

Reconciliation of other segment information

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Depreciation		
Directly attributable to operating segments	(2,857)	(2,822)
Corporate and other unallocated depreciation	(3,025)	(2,702)
Total depreciation	(5,882)	(5,524)
Capital expenditure		
Directly attributable to operating segments	(602)	(11,977)
Corporate and other unallocated capital expenditure	(4,314)	(408)
Total capital expenditure	(4,916)	(12,385)

Geographical information

The Group's revenues from external customers by geographical location are as follows:

	2016		2015	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Asia Pacific region:				
The PRC	79,468	3.2	185,242	7.5
Singapore	195,384	7.9	112,162	4.6
Indonesia	467,385	19.0	277,439	11.3
Malaysia	667,856	27.1	322,955	13.2
Thailand	683,702	27.8	930,905	37.9
India	323,291	13.1	612,568	24.9
Hong Kong	3,835	0.2	2,326	0.1
Others	–	–	42	0.0
Europe	41,096	1.7	12,007	0.5
Total	2,462,017	100.0	2,455,646	100.0

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

5. OPERATING SEGMENT INFORMATION (cont'd)

The Group's non-current assets (other than goodwill) by geographical location are as follows:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
PRC	6,933	20,187
Singapore	2,754	86,210
Malaysia	12,869	15,523
Switzerland	381	5
	22,937	121,925

Information about major customers

During the year ended 31 December 2016, the top five customers were: Welea Solutions (M) Sdn Bhd (2016: 27.1%, 2015: 12.5%), Siam Technos Co., Ltd. (2016: 15.4%, 2015: 23.5%), PT. Buana Prima Raya (2016: 10.4%, 2015: 6.8%), Japan Machine Tools Asia Co., Ltd. (2016: 10.7%, 2015: 14.5%) and PT. Abadi Toolsindo (2016: 9.1%, 2015: 5.1%), contributing to approximately 72.7% (2015: 62.4%) of the Group's total revenue for the year ended 31 December 2016.

6. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts and the value of services rendered during the year. An analysis of revenue, other income and gains is as follows:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Revenue		
Sale of goods	2,345,710	2,450,632
Rendering of services	116,307	5,014
	2,462,017	2,455,646
Other income and gains		
Commission for projects	5,885	–
Consultancy fee income	2,791	1,179
Reversal of long overdue creditor	478	1,702
Government grants ¹	417	216
Compensation from supplier	411	–
Rental income	317	–
Bank interest income	35	28
Gain on disposal of plant and equipment	19	–
Others	92	71
	10,445	3,196

¹ Government grants mainly include Special Employment Credit ("SEC") for older employees, Temporary Employment Credit ("TEC"), childcare leave grants, maternity leave and wage credit scheme from Singapore government. There are no unfulfilled conditions or contingencies relating to these subsidiaries.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

7. ADMINISTRATIVE EXPENSES

Administrative expenses include:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Depreciation	2,622	2,264
Employee benefit expenses	9,638	9,081
Share option expenses (<i>Note 36</i>)	5,998	18,106
Legal and professional fees	13,359	6,331
Auditor's remuneration	2,364	2,024
Rental expenses	7,444	7,111

8. FINANCE COSTS

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Interest on finance leases	554	797
Bank overdraft interest and charges	41	38
Letters of credit and trust receipt charges	28,389	25,118
Interest on redeemable preference shares	–	5,655
Interest on notes issued	32,660	16,599
Others	15	–
	61,659	48,207

9. OTHER OPERATING EXPENSES

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Allowance for impairment of goodwill (<i>Note 17</i>)	5,221	–
Allowance for impairment of plant and equipment (<i>Note 16</i>)	29,614	–
Net foreign exchange loss	6,157	8,326
	40,992	8,326

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

10. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Cost of inventories sold	1,985,343	2,035,495
Depreciation* (<i>Note 16</i>)	5,882	5,524
Net foreign exchange loss	6,157	8,326
Employee benefit expenses (including directors' remuneration)**	30,611	46,348
Allowance for doubtful debt (<i>Note 20</i>)	1	49
Allowance for impairment of goodwill*** (<i>Note 17</i>)	5,221	–
Allowance for inventory obsolescence# (<i>Note 19</i>)	4,917	–
Minimum lease payments recognised as an operating lease##	9,845	9,982

* These amounts are included in "Cost of sales" of HK\$3,260,000 (2015: HK\$3,260,000) and "Administrative expenses" of HK\$2,622,000 (2015: HK\$2,264,000) in the consolidated statement of profit or loss and other comprehensive income.

** This amount includes contribution to pension scheme contributions of HK\$2,936,000 (2015: HK\$2,651,000) and share option expense of HK\$5,998,000 (2015: HK\$18,106,000).

*** The allowance for impairment of goodwill is included in "Other operating expenses" in the consolidated statement of profit or loss and other comprehensive income.

These amounts are included in "Cost of sales" in the consolidated statement of profit or loss and other comprehensive income.

These amounts are included in "Cost of sales" of HK\$2,401,000 (2015: HK\$2,871,000) and "Administrative expenses" of HK\$7,444,000 (2015: HK\$7,111,000) in the consolidated statement of profit or loss and other comprehensive income.

11. INCOME TAX EXPENSE

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Current tax:		
– Current year	68,100	58,155
– Overprovision in respect of previous year	(802)	(2,239)
Total income tax for the year	67,298	55,916

11. INCOME TAX EXPENSE (cont'd)

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

Taxes on profits assessable in Singapore, Hong Kong, Malaysia and the PRC have been calculated at the prevailing tax rates, based on existing legislation, interpretations and practices in respect thereof.

Hong Kong income tax

The corporate income tax rate applicable to Hong Kong company of the Group was 16.5% for the year ended 31 December 2016 (2015: 16.5%).

The actual income tax payable for assessable profits arising from Hong Kong is generally determined and agreed with the Hong Kong Inland Revenue Department, which might be different from the income tax liabilities as provided in these financial statements.

Singapore income tax

The corporate income tax rate applicable to Singapore companies of the Group was 17% for the year ended 31 December 2016 (2015: 17%).

The PRC income tax

Pursuant to the PRC Corporate Income Tax Law, a 5% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. The Group is therefore liable for withholding taxes on dividends distributed by its subsidiary established in the PRC in respect of earnings generated from 1 January 2008.

Malaysia income tax

The corporate income tax rate applicable to Malaysia company of the Group was 24% for the year ended 31 December 2016 (2015: 25%). There was no assessable profits derived from or earned in Malaysia for the year ended 31 December 2016.

The major tax concession applicable to the joint venture established in the PRC are as follows:

Name of joint venture	Details of tax concessions
KIWA-CW Machine Manufacturing (Shanghai) Co., Ltd.	KIWA-CW Machine Manufacturing (Shanghai) Co., Ltd. is a foreign invested enterprise (FIE) which engages in manufacturing. It has tax concession as a high-technology company for the years ended 31 December 2015 and 31 December 2016 and therefore, it was subject to corporate income tax at a reduced rate of 15% for the year.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

11. INCOME TAX EXPENSE (cont'd)

The reconciliation between tax expense and the product of accounting profits multiplied by the applicable corporate tax rates are as follows:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Profit before tax	<u>301,758</u>	276,145
Tax at the domestic rates applicable to profits in the countries where the Group operates	46,920	44,532
Expenses not deductible for tax	17,560	11,247
Overprovision in respect of previous year	(802)	(2,239)
Income not subject to tax	(760)	(1,164)
Effect of tax incentives	(1,030)	(259)
Deferred tax assets not recognised	5,403	3,565
Others	<u>7</u>	234
Income tax expense for the year	<u>67,298</u>	55,916

12. DIRECTORS' REMUNERATION

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Fees	<u>1,182</u>	984
Other emoluments:		
– Salaries and bonuses	5,327	5,239
– Equity-settled share option expense	4,073	12,296
– Pension scheme contributions	<u>231</u>	238
	<u>9,631</u>	17,773
	<u>10,813</u>	18,757

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

12. DIRECTORS' REMUNERATION (cont'd)

(a) Independent non-executive directors

The fees of the independent non-executive directors during the year are as follows:

	2016 HK\$'000	2015 HK\$'000
Mr. Kuan Cheng Tuck	506	422
Mr. Ong Su Aun, Jeffrey (Wang Ci'An, Jeffrey)	338	281
Mr. Chan Hon Chung, Johnny	338	281
	1,182	984

There are no other emoluments payable to the independent non-executive directors during the year (2015: Nil).

(b) Executive directors and non-executive director

	Salaries HK\$'000	Fees HK\$'000	Bonuses HK\$'000	Equity-settled share options expenses HK\$'000	Pension scheme contributions HK\$'000	Total HK\$'000
2016						
Executive directors:						
Mr. Wong Koon Lup	1,992	–	159	1,851	97	4,099
Mr. Wong Mun Sum	1,433	–	113	1,481	67	3,094
Mr. Lee Tiang Soon	1,433	–	113	741	67	2,354
	4,858	–	385	4,073	231	9,547
Non-executive director:						
Mr. Zhang Bing Cheng*	–	84	–	–	–	84
	4,858	84	385	4,073	231	9,631
2015						
Executive directors:						
Mr. Wong Koon Lup	1,886	–	240	5,590	84	7,800
Mr. Wong Mun Sum	1,397	–	170	4,471	65	6,103
Mr. Lee Tiang Soon	1,376	–	170	2,235	89	3,870
	4,659	–	580	12,296	238	17,773

* Mr. Zhang Bing Cheng was appointed as a non-executive director of the Company on 3 February 2016.

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

During the years ended 31 December 2016 and 2015, no remuneration was paid by the Group to a director as an inducement to join or upon joining the Group or as compensation for loss of office.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

13. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees with the highest remuneration in the Group for the years ended 31 December 2016 and 2015 are as follows:

	2016	2015
	HK\$'000	HK\$'000
Directors	9,547	17,773
Employees	3,570	5,395
	13,117	23,168

The five highest paid employees for the year ended 31 December 2016 included three directors (2015: three), details of whose remuneration are set out in Note 12 above. Details of the remaining two non-directors (2015: two), highest paid employees who are neither a director nor chief executive of the Company for the years ended 31 December 2016 and 2015 are as follows:

	2016	2015
	HK\$'000	HK\$'000
Salaries	2,331	2,290
Bonuses	181	273
Equity-settled share option expenses	889	2,682
Pension scheme contributions	169	150
	3,570	5,395

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

	2016	2015
	HK\$'000	HK\$'000
HK\$1,000,001 to HK\$1,500,000	2	2

During the years ended 31 December 2016 and 2015, no remuneration was paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the five highest paid individuals has waived any remuneration during the years ended 31 December 2016 and 2015.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

14. DIVIDENDS

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Declared and paid during the financial year		
<i>Dividend on ordinary shares:</i>		
Final dividend for 2015: HK2.36 cents (2014: HK2.36 cents) per share	<u>16,968</u>	<u>14,755</u>
Proposed but not recognised as a liability as at 31 December		
<i>Dividend on ordinary shares, subject to shareholders' approval at the Annual General Meeting:</i>		
Final dividend for 2016: HK 2.36 cents (2015: HK 2.36 cents) per share ¹	<u>16,968</u>	<u>16,968</u>

¹ Expected payout date of the proposed final dividend, if approved at the Annual General Meeting, is on or around 27 July 2017.

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 718,993,000 (2015: 631,963,000) in issue during the year.

The calculation of diluted earnings per share amount for the year ended 31 December 2015 is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year ended 31 December 2015, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

No adjustment has been made to the basic earnings per share amount presented for the year ended 31 December 2016 in respect of a dilution as the exercise price of the outstanding share options exceeds the average market price of the Company's ordinary shares.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

15. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (cont'd)

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

	2016 HK\$'000	2015 HK\$'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	234,460	220,229
	No. of shares '000	No. of shares '000
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	718,993	631,963
Effects of dilution – weighted average number of ordinary shares:		
– Share options	–	17,816
	718,993	649,779

16. PLANT AND EQUIPMENT

	Plant and machinery HK\$'000	Renovation HK\$'000	Office equipment, furniture and fittings HK\$'000	Computers HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost						
At 1 January 2016	40,751	9,113	4,259	1,967	2,033	58,123
Exchange differences	(1,514)	(559)	(119)	(46)	(142)	(2,380)
Additions	716	2,682	312	268	938	4,916
Disposal	–	–	–	(21)	(9)	(30)
At 31 December 2016	39,953	11,236	4,452	2,168	2,820	60,629
Accumulated depreciation and impairment						
At 1 January 2016	7,815	3,856	3,405	1,500	1,645	18,221
Exchange differences	(2,053)	(449)	(74)	(49)	(80)	(2,705)
Charge for the year (Note 10)	4,253	895	175	364	195	5,882
Impairment (Note 9)	24,983	4,631	–	–	–	29,614
At 31 December 2016	34,998	8,933	3,506	1,815	1,760	51,012
Carrying amount						
At 31 December 2016	4,955	2,303	946	353	1,060	9,617

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

16. PLANT AND EQUIPMENT (cont'd)

	Plant and machinery HK\$'000	Renovation HK\$'000	Office equipment, furniture and fittings HK\$'000	Computers HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost						
At 1 January 2015	32,437	9,796	4,613	1,913	2,152	50,911
Exchange differences	(3,663)	(588)	(459)	(162)	(119)	(4,991)
Additions	11,977	87	105	216	–	12,385
Disposal	–	(182)	–	–	–	(182)
At 31 December 2015	40,751	9,113	4,259	1,967	2,033	58,123
Accumulated depreciation						
At 1 January 2015	3,945	3,623	3,525	1,243	1,634	13,970
Exchange differences	(484)	(301)	(274)	(116)	(98)	(1,273)
Charge for the year (Note 10)	4,354	534	154	373	109	5,524
At 31 December 2015	7,815	3,856	3,405	1,500	1,645	18,221
Carrying amount						
At 31 December 2015	32,936	5,257	854	467	388	39,902

Assets held under finance leases

At 31 December 2016, the carrying amount of the Group's assets held under finance leases was HK\$2,984,000 (2015: HK\$15,951,000).

Impairment of assets

During the financial year, subsidiaries of the Group within the renewable energy solutions and sales of CNC machining centres segments carried out reviews of the recoverable amounts of their plant and equipment because they have been persistently making losses. An impairment loss of HK\$29,614,000 (2015: Nil), representing the write-down of these plant and equipment to the recoverable amount, was recognised in the line item of "Other operating expenses" (Note 9) in the consolidated statement of profit or loss and other comprehensive income in the financial year ended 31 December 2016.

The recoverable amount of production equipment within the renewable energy solutions segment was determined based on its fair value less cost of disposal, which was measured using comparable market prices. The recoverable amount of production equipment within the sales of CNC machining centres segment was determined based on its value in use and the discount rate used was 17% (2015: 17%). Certain renovations arising from these subsidiaries were also written down as their recoverable amounts were estimated to be nil.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

17. GOODWILL

HK\$'000

Cost:

At 1 January 2015	5,580
Exchange difference	<u>(383)</u>

At 31 December 2015 and 1 January 2016	5,197
Exchange difference	<u>(83)</u>

At 31 December 2016	<u>5,114</u>
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Accumulated impairment:

At 1 January 2015, 31 December 2015 and 1 January 2016	–
Impairment during the year (Note 9)	5,221
Exchange difference	<u>(248)</u>

At 31 December 2016	<u>4,973</u>
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Net carrying amount:

At 31 December 2015	<u>5,197</u>
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At 31 December 2016	<u>141</u>
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17. GOODWILL (cont'd)

Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the respective cash-generating units (“CGUs”) for impairment testing.

The carrying amount of goodwill has been allocated to CGUs as follows:

	2016	2015
	HK\$'000	HK\$'000
CW Advanced Technologies Pte. Ltd.	141	144
Sun M Energy Pte. Ltd.	–	5,053
	141	5,197

The recoverable amounts of the above CGUs were determined based on value-in-use calculations which use cash flow projections based on financial budgets approved by the management for the next financial years, and the discount rate of 17% (2015: 17%) per annum for those financial years reported. These growth rates did not exceed the average long-term growth rates for the relevant markets.

Management estimated the discount rates using pre-tax rate that reflected current market assessments of the time value of money and the risks specific to the individual CGUs. The growth rates were based on industry growth forecasts. Changes in selling prices and direct costs were based on past practices and expectations of future changes in the relevant markets.

During the financial year, an impairment loss of HK\$5,221,000 (2015: Nil) was recognised to write down the carrying amount of goodwill allocated to the Sun M Energy Pte. Ltd. CGU. The impairment loss is recognised in the consolidated statement of profit or loss and other comprehensive income under the line item “Other operating expenses” (Note 9).

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

18. INVESTMENTS IN JOINT VENTURES

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Investment, at cost	9,277	8,182
Share of post-acquisition reserves	4,043	4,071
Share of net assets	13,320	12,253

Particulars of the joint ventures are as follows:

Name of entity	Legal form and place of incorporation/ establishment/ operations	Percentage of ownership interest and voting power held		Principal activities
		2016	2015	
		%	%	
KIWA-CW Machine Manufacturing Pte. Ltd.	Limited private company Singapore	50	50	Investment holding
紀和機械製造(上海)有限公司 KIWA-CW Machine Manufacturing (Shanghai) Co., Ltd. ⁽¹⁾	Foreign enterprise The PRC	50	50	Manufacturing and trading of CNC machining centres
Dominic Schindler Creations (Singapore) Pte. Ltd. ⁽²⁾	Limited private company Singapore	50.1	–	Industrial design activities and design solution consultancy work
上海斯程科技有限公司 ⁽³⁾ Shanghai Sicheng Technology Co., Ltd. ⁽¹⁾	Limited liability company The PRC	50	–	Import and export activities, robotics, CNC machineries, technical consultancy services, technology transfers, jigs and fixtures

⁽¹⁾ The English translation of the company name is for reference only. The official name of the company is in Chinese.

⁽²⁾ Incorporated on 28 June 2016

⁽³⁾ Incorporated on 28 December 2016

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

18. INVESTMENTS IN JOINT VENTURES (cont'd)

The summarised financial information of the joint ventures of KIWA-CW Machine Manufacturing Pte. Ltd. and KIWA-CW Machine Manufacturing (Shanghai) Co., Ltd., not adjusted for the proportion of ownership interests held by the Group, is as follows:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Cash and cash equivalents	1,328	5,041
Other current assets	25,238	25,449
Current assets	26,566	30,490
Non-current assets	10,047	12,513
Current liabilities	11,717	16,384
Net assets	24,896	26,619
	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Reconciliation to the Group's interest in the joint ventures:		
Proportion of the Group's ownership	50%	50%
Group's share of net assets of the joint ventures	12,448	13,310
Translation differences	(223)	(1,057)
Carrying amount of the investment	12,225	12,253
Revenue	47,081	67,938
Interest income	14	49
Depreciation and amortisation	(1,793)	(2,051)
Income tax expense	(67)	(5)
(Loss)/profit and total comprehensive income for the year	(55)	2,409

Aggregate information about the Group's investments in joint ventures that are not individually material are as follows:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Carrying amount of the investment	1,095	–
Profit and total comprehensive income for the year	–	–

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

19. INVENTORIES

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Financial position:		
Raw materials (at cost)	14	1,187
Work-in-progress (at cost)	–	308
Finished goods (at cost or net realisable value)	254	1,807
	268	3,302
Profit or loss:		
Inventories recognised as an expense in cost of sales inclusive of the following charge:		
– Allowance for inventory obsolescence (<i>Note 10</i>)	1,985,343	2,035,495
	4,917	–
Movement in allowance for inventory obsolescence account:		
At 1 January	361	388
Write-down during the year	4,917	–
Exchange differences	(381)	(27)
At 31 December	4,897	361

20. TRADE RECEIVABLES

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Trade receivables	1,137,316	1,058,956
Less: Allowance for doubtful debt	(236)	(240)
	1,137,080	1,058,716
Accrued revenue	938,179	354,456
	2,075,259	1,413,172

The Group's trading terms with its customers are mainly on credit except for certain new customers where payment in advance is required. The average trade credit period ranged from 30 days to 360 days. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly and actively monitored by senior management to minimise credit risk. Overdue balances are reviewed regularly by management. Trade receivables are non-interest bearing.

Accrued revenue represents amounts due from customers with respect to machinery and equipment delivered to customers or where customers have taken over the ownership of the equipment for which billings have not been performed.

Included in the trade receivables of HK\$313,805,000 (2015: HK\$154,447,000) have been pledged to secure the Group's trade financing and bill payables as set out in Note 25.

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Year ended 31 December 2016

20. TRADE RECEIVABLES (cont'd)

The aging analysis of the trade receivables as at the end of the financial year, based on the invoice date (net of allowance for doubtful debts and excluding accrued revenue) is as follows:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
0 to 90 days	546,322	469,191
91 to 180 days	336,899	517,662
181 to 360 days	253,311	71,401
Over 360 days	548	462
	1,137,080	1,058,716

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Past due but not impaired:		
– Less than 3 months past due	350,282	306,207
– 3 months to 6 months past due	132,182	32,771
– 6 months to 12 months past due	3,970	755
– More than 12 months past due	537	346
	486,971	340,079
Neither past due nor impaired	650,109	718,637
	1,137,080	1,058,716

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

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

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

20. TRADE RECEIVABLES (cont'd)

The movements in allowance for the doubtful debt are as follows:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
At 1 January	240	207
Impairment during the year (<i>Note 10</i>)	1	49
Exchange differences	(5)	(16)
At 31 December	<u>236</u>	<u>240</u>

The individually impaired trade receivables relate to customers that were in financial difficulties or were in default in payments and only a portion of the receivables is expected to be recovered.

Included in trade receivables are the following amounts denominated in currencies other than the functional currencies of the relevant companies of the Group:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Singapore dollar	114	116
United States dollar	4,807	2,522
Euro	1,234	59
Japanese yen	<u>401</u>	<u>356</u>

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

21. OTHER RECEIVABLES

Other receivables (current):

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Other receivables	29,931	113,760
Deposits	3,077	2,790
Prepayments for expenses	1,183	1,813
Prepayments for patents and trademarks	147,368	–
Prepayments to suppliers	252,959	356,001
Deposits in escrow fund	245,067	283,224
Advances for potential acquisitions	217,578	–
Amounts due from joint ventures	4,252	5,257
	901,415	762,845

Other receivables (non-current):

Prepayments for patents and trademarks	–	69,770
Total other receivables (current and non-current)	901,415	832,615

Included in other receivables are amounts of approximately HK\$26,663,000 (2015: HK\$113,000,000) relating to the remaining proceeds receivable from the acquirer of a disposed business segment in 2014.

The Group entered into strategic co-operations with various working partners, who will identify and introduce suitable potential merger and acquisition opportunities in Europe to the Group. As at 31 December 2016, total deposit and advances of HK\$462,645,000 (2015: HK\$283,224,000) were paid to escrow fund and advances in relation to the potential acquisitions ahead.

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

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

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

21. OTHER RECEIVABLES (cont'd)

Included in other receivables are the following amounts denominated in currencies other than the functional currencies of the relevant companies of the Group:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Singapore dollar	172,562	283,228
United States dollar	135,326	178,604
Euro	4,693	3,133
Japanese yen	–	316
Hong Kong dollar	1,170	1,617

The Group does not hold any collateral or other credit enhancements over these balances.

22. CASH AND CASH EQUIVALENTS

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Cash on hand	49	298
Bank balances	193,281	444,195
Pledged fixed deposits	460	412
	193,790	444,905
Bank overdrafts (<i>Note 23</i>)	(911)	–
Cash and cash equivalents in the statement of cash flows	192,879	444,905

Cash at banks earns interest at floating rates based on daily bank deposit rates. Pledged deposits earn interest at the respective short-term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

Included in cash and cash equivalents are the following amounts denominated in currencies other than the functional currencies of the relevant companies of the Group:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
United States dollar	1,223	3,119
Euro	2,524	2,588
Japanese yen	570	1,183
Hong Kong dollar	7,794	201,184

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

23. LOANS AND BORROWINGS

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Bank overdrafts repayable on demand (Note 22)	911	–
Interest-bearing loan	1,489	2,920
	2,400	2,920
Carrying amount repayable:		
On demand or within one year	2,400	1,431
Within five years	–	1,489

The bank overdrafts bore interest at the higher of (i) the bank's prime lending rate less 2.00% and (ii) bank's cost of fund during the years ended 31 December 2016.

The interest-bearing loan bore interest at 4% per annum at 31 December 2016 (2015: 4%). This loan was secured by corporate guarantee given by the Company.

Included in loans and borrowings are the following amounts denominated in currencies other than the functional currencies of the relevant companies of the Group:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Hong Kong dollar	2,400	2,920

24. TRADE PAYABLES

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Trade payables	94,235	47,621
Trade payable to joint ventures	–	32
Accrued payables	27,818	11,440
	122,053	59,093

The trade payables are non-interest-bearing and are normally settled on 90-day terms.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

24. TRADE PAYABLES (cont'd)

The aging analysis of the trade payables as at the end of the financial year, based on the invoice date (excluding accrued payable and trade payable to joint ventures) is as follows:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
0 to 90 days	56,453	34,707
91 to 180 days	9,034	714
181 to 360 days	15,334	103
Over 360 days	13,414	12,097
	94,235	47,621

Included in trade payables are the following amounts denominated in currencies other than the functional currencies of the relevant companies of the Group:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Singapore dollar	525	534
Euro	865	206
Japanese yen	552	129

25. TRADE FINANCING AND BILLS PAYABLE

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Trade financing and bills payable	774,814	642,907

Trade financing and bills payable to the banks generally would mature within 180 days for the years ended 31 December 2016 and 2015. The interest rates ranges from 2.70% to 3.57% (2015: 2.81% to 6.00%) per annum.

Included in trade financing and bills payable are the following amounts denominated in currencies other than the functional currencies of the relevant companies of the Group:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
United States dollar	2,410	4,503
Euro	2,790	4,256
Japanese yen	–	2,320

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

26. OTHER PAYABLES AND ACCRUALS

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Other payables	13,685	11,942
Deposits received	10,031	12,353
Accrued expenses	15,706	13,605
	39,422	37,900

The other payables are non-interest-bearing.

Included in other payables and accruals are the following amounts denominated in currencies other than the functional currencies of the relevant companies of the Group:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Singapore dollar	5,470	2,644
United States dollar	3,872	6,209
Euro	5,165	3,634
Hong Kong dollar	2,781	2,411

27. FINANCE LEASES PAYABLE

	Minimum lease payments		Present value of minimum lease payments	
	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Amounts payable:				
Within one year	4,837	5,128	4,575	4,691
In the second to fifth years, inclusive	3,889	7,879	3,285	7,582
More than five year	12	–	12	–
Total minimum finance lease payments	8,738	13,007	7,872	12,273
Less: Future finance charges	(866)	(734)		
Total net finance leases payable	7,872	12,273		
Portion classified as current liabilities			(4,575)	(4,691)
Non-current portion			3,297	7,582

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

27. FINANCE LEASES PAYABLE (cont'd)

The Group leased certain of its plant and equipment under finance leases. The average lease term is 4 years (2015: 4 years). Interest rates underlying all obligations under finance leases were fixed at respective contract dates ranging from 4.0% to 9.38% (2015: 4.0% to 9.38%) per annum. All leases were on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

All lease obligations were denominated in the functional currencies of the respective entities.

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

28. DEFERRED TAX

At the end of the years ended 31 December 2016 and 2015, the Group has tax losses of approximately HK\$35,450,000 and HK\$12,849,000 respectively, that are available for offset against future taxable profits of the companies in which the losses arose, for which no deferred tax asset is recognised due to uncertainty of its recoverability. The use of these tax losses is subject to the agreement of the tax authorities and compliance with certain provisions of the tax legislation of the respective countries in which the companies operate.

The following are the deferred tax liabilities recognised and movements thereof during the years ended 31 December 2016 and 2015:

	Undistributed profits of PRC subsidiaries HK\$'000
At 1 January 2015	800
Exchange differences	<u>(38)</u>
At 31 December 2015 and 1 January 2016	762
Exchange differences	<u>(48)</u>
At 31 December 2016	<u>714</u>

Pursuant to the PRC Corporate Income Tax Law, withholding tax is levied on dividends declared to foreign investor in respect of profits earned by the PRC subsidiary effective from 1 January 2008. Deferred taxation has been provided for in the consolidated statement of financial position in respect of temporary differences attributable to the profits earned by CW International (Shanghai) Co., Ltd. for the years ended 31 December 2016 and 2015.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

29. SHARE CAPITAL

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Authorised:		
10,000,000,000 (2015: 10,000,000,000) ordinary shares of HK\$0.01 each	<u>100,000</u>	100,000
Issued and fully paid:		
718,992,897 (2015: 718,992,897) ordinary shares of HK\$0.01 each	<u>7,190</u>	7,190

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

	Number of shares in issue	Share capital <i>HK\$'000</i>
At 1 January 2015	616,417,000	6,164
Subscription of shares	93,781,682	938
Exercise of the share options	<u>8,794,215</u>	88
At 31 December 2015	<u>718,992,897</u>	7,190
At 1 January and 31 December 2016	<u>718,992,897</u>	7,190

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

30. NOTES ISSUED

Notes issued relate to fixed rate notes amounting to S\$75,000,000 (in Singapore dollars) (approximately HK\$408,497,000) issued by CW Advanced Technologies Pte. Ltd. on 25 June 2015 (the “**Notes**”) under the Multicurrency Debt Issuance Programme (the “**Programme**”). These Notes bore fixed interest rate at 7% per annum (effective interest rate of 7.2% per annum), secured through a corporate guarantee by CW Group Holdings Limited and mature on 25 June 2018. The net proceeds of approximately S\$73,200,000 (approximately HK\$396,962,000) arising from the issue of the Notes under the Programme will be used for general corporate purposes, including refinancing of existing borrowings, general working capital requirements, investments (including mergers and acquisitions) and/or capital expenditure requirements of the Group.

The Group has covenanted, amongst others, with the trustee in the trust deed that for so long as any of the Notes or coupons remains outstanding, it will ensure that:

- i. its consolidated total equity will not at any time be less than HK\$700,000,000;
- ii. the ratio of its consolidated net debt to its consolidated total equity shall not at any time be more than 1.75:1;
- iii. the ratio of its consolidated EBITDA to its consolidated interest expense in respect of any test period shall not be less than 2.5:1 for that test period; and
- iv. the ratio of its consolidated secured debt to its consolidated total assets shall not at any time be more than 0.6:1.

Event after the Reporting Period

On 3 April 2017, the Company announced that a repurchase from the holders of the Notes will be made. Details are set out in Note 37.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

31. SHARE PREMIUM AND OTHER RESERVES

(a) Share premium

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
At 1 January	784,158	421,925
Subscription shares	–	339,490
Share options exercised	–	22,743
At 31 December	784,158	784,158

(b) Other reserves

	<i>Notes</i>	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Statutory reserve	<i>(i)</i>	2,406	2,406
Foreign currency translation reserve	<i>(ii)</i>	(45,155)	(31,958)
Merger reserve	<i>(iii)</i>	(4,709)	(4,709)
Share option reserve	<i>(iv)</i>	21,704	15,706
Premium paid for acquisition of non-controlling interest		(90,012)	(90,012)
		(115,766)	(108,567)

(i) Statutory reserve

In accordance with the Foreign Enterprise Law applicable to the subsidiaries of the Group in the PRC, the subsidiaries are required to make appropriation to a Statutory Reserve Fund (“SRF”). At least 10% of the statutory after tax profits as determined in accordance with the applicable PRC accounting standards and regulations must be allocated to the SRF until the cumulative total of the SRF reaches 50% of the respective subsidiaries’ registered capital. Subject to approval from the relevant PRC authorities, the SRF may be used to offset any accumulated losses or increase the registered capital of the subsidiaries. The SRF is not available for dividend distribution to shareholders.

(ii) Foreign currency translation reserve

The foreign currency translation reserve represents exchange differences arising from translation of the financial statements of foreign operations, whose functional currencies are different from the Group’s presentation currency.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

31. SHARE PREMIUM AND OTHER RESERVES (cont'd)

(b) Other reserves (cont'd)

(iii) Merger reserve

Merger reserve represents the difference between the consideration paid and the share capital of a subsidiary restructured under common control.

(iv) Share option reserve

The share-based payment reserve is used to recognise the value of equity-settled share-based payments to employees, including key management personnel, as part of their remuneration. Refer to Note 36 for further details of this plan.

32. CAPITAL RISK MANAGEMENT

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, issue new shares as well as the issue of new debt or the redemption of existing debt. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2016 and 31 December 2015.

The Group monitors capital using a gearing ratio, which is defined as the sum of interest-bearing loan and borrowings, notes issued, finance leases payable and trade financing and bills payables divided by total assets. The gearing ratios as at the end of the reporting periods are as follows:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Loan and borrowings	2,400	2,920
Notes issued	396,254	398,884
Finance leases payable	7,872	12,273
Trade financing and bills payable	774,814	642,907
	1,181,340	1,056,984
Total assets	3,193,810	2,751,346
Gearing ratio %	37.0	38.4

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

33. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

The carrying amounts of each of the categories of financial instruments as at years ended 31 December 2016 and 2015 are as follows:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Financial assets		
Trade receivables	2,075,259	1,413,172
Other receivables	499,905	405,031
Cash and cash equivalents	193,790	444,905
	<hr/>	<hr/>
Total receivables carried at amortised cost	2,768,954	2,263,108
	<hr/>	<hr/>
	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Financial liabilities		
Loans and borrowings (current and non-current)	2,400	2,920
Trade payables	122,053	59,093
Trade financing and bills payable	774,814	642,907
Other payables and accruals	29,391	25,547
Finance leases payable (current and non-current)	7,872	12,273
Notes issued	396,254	398,884
	<hr/>	<hr/>
Total liabilities carried at amortised costs	1,332,784	1,141,624
	<hr/>	<hr/>

(b) Financial risk management objectives and policies

The Group has various financial assets and liabilities such as trade and other receivables and trade and other payables which arise directly from its operations. The Group does not hold or issue derivative financial instruments for speculative purposes. There has been no change to the Group's exposure to these financial risks or the manner in which it manages and measures the risk.

(i) Foreign exchange risk management

The Group's transacts business in various foreign currencies, including the Singapore dollar, United States dollar, Euro, Chinese Renminbi and Japanese yen and therefore is exposed to foreign exchange risk.

The Group manages its foreign exchange exposure as far as possible by matching the currencies that it transact with its customers to the currencies that it purchased in to create a natural hedge.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

33. FINANCIAL INSTRUMENTS BY CATEGORIES (cont'd)

(b) Financial risk management objectives and policies (cont'd)

(i) Foreign exchange risk management (cont'd)

The Group has a number of investments in foreign subsidiaries, whose net assets are exposed to currency translation risk. No hedge has been taken up to mitigate this exposure as it does not impact cash flows.

At the reporting date, the carrying amounts of significant monetary assets and monetary liabilities denominated in currencies other than the respective group entities' functional currencies are as follows:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Liabilities		
Singapore dollar	5,995	336,539
United States dollar	3,874	5,779
Euro	8,820	3,840
Japanese yen	552	129
Hong Kong dollar	5,181	2,411
Assets		
Singapore dollar	172,805	410,909
United States dollar	141,356	184,245
Euro	8,451	5,780
Japanese yen	971	1,854
Hong Kong dollar	8,964	613,257

Foreign currency sensitivity

The following table details the sensitivity to a 10% increase in the relevant foreign currencies against the functional currency of each entity. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible maximum change in foreign exchange rates of major trading currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items with adjusted at the end of the reporting period for a 10% change in foreign currency rates.

33. FINANCIAL INSTRUMENTS (cont'd)

(b) Financial risk management objectives and policies (cont'd)

(i) Foreign exchange risk management (cont'd)

Foreign currency sensitivity (cont'd)

If the relevant foreign currency strengthens by 10% against the functional currency of each entity, with all other variables held constant, profit before tax will increase by:

	2016	2015
	HK\$'000	HK\$'000
Impact of:		
Singapore dollar	16,681	7,437
United States dollar	13,748	17,847
Euro	(37)	194
Japanese yen	42	173
Hong Kong dollar	378	61,085

If the relevant foreign currency weakens by 10% against the functional currency of the each entity, the effects on profit or loss will be vice versa.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the years ended 31 December 2016 and 2015.

(ii) Interest rate risk management

Interest rate risk arises from potential changes in interest rates that may have an adverse effect on the Group's results in the years ended 31 December 2016 and 2015 and in future years.

The sensitivity analysis below have been determined based on the exposures to interest rates for significant non-derivatives instruments at the end of each reporting period and the stipulated change taking place at the beginning of each reporting period and the assumption that the interest rates held constant throughout the period in the case of instruments that have floating rates.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

33. FINANCIAL INSTRUMENTS (cont'd)

(b) Financial risk management objectives and policies (cont'd)

(ii) Interest rate risk management (cont'd)

At 31 December 2016 and 2015, it was estimated that a 50 basis point increase in interest rates would decrease the Group's profit before tax by approximately HK\$6,000 and HK\$6,000 respectively.

(iii) Credit risk management

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

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

In addition, the credit worthiness of customers, receivables that are past due and aggregate risks to individual customers are regularly reviewed and monitored by the key management team (which comprises the Chief Executive Officer and Chief Operating Officer).

Excessive risk concentration

Concentration arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to development affecting a particular industry.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentration of credit risks are controlled and managed accordingly.

At the end of the reporting period, the Group had certain concentrations of credit risk as 19% (2015: 24%) and 70% (2015: 80%) of the Group's trade receivables (excluding accrued revenue) were due from the Group's largest customer and the largest five customers respectively.

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

33. FINANCIAL INSTRUMENTS (cont'd)

(b) Financial risk management objectives and policies (cont'd)

(iv) Liquidity risk management

Liquidity risk reflects the risk that the Group will have insufficient resources to meet its financial liabilities as they fall due. In the management of the liquidity risks, the Group actively manages its debt maturity profile, operating cash flows and availability of funding so as to ensure that all refinancing, repayment and funding needs are met. As part of its overall liquidity management, the Group maintains sufficient level of cash to meet its working capital requirement. In addition, the Group strives to maintain available banking facilities of a reasonable level to its overall debt position.

(v) Non-derivative financial liabilities

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

Group	On demand or within 1 year <i>HK\$'000</i>	Within 2 to 5 years <i>HK\$'000</i>	Total <i>HK\$'000</i>
31 December 2016			
Loans and borrowings	2,464	–	2,464
Trade payables	122,053	–	122,053
Trade financing and bills payable	800,200	–	800,200
Other payables and accruals	29,391	–	29,391
Notes issued	–	424,784	424,784
Finance leases payable	4,837	3,901	8,738
31 December 2015			
Loans and borrowings	1,488	1,549	3,037
Trade payables	59,093	–	59,093
Trade financing and bills payable	663,971	–	663,971
Other payables and accruals	25,547	–	25,547
Notes issued	–	479,984	479,984
Finance leases payable	5,128	7,879	13,007

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

33. FINANCIAL INSTRUMENTS (cont'd)

(c) Fair value and fair value hierarchy

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

Cash and bank balances, pledged deposits, trade receivables, trade payables, financial assets included in other receivables and financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The fair values of the non-current portion of loan, notes issued and finance leases payables are reasonable approximation of fair values either due to the relatively short term nature or that they are floating rate instruments that are re-priced to market interest rates on or near the end of the reporting period.

34. OPERATING LEASE ARRANGEMENTS

(a) As lessee

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Minimum lease payments paid under operating leases		
Premises	9,713	9,882
Office equipment	132	100
	<u>9,845</u>	<u>9,982</u>

At 31 December 2016 and 2015, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises and office equipment which fall due as follows:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Within one year	9,350	8,981
In the second to fifth years, inclusive	8,740	5,189
	<u>18,090</u>	<u>14,170</u>

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

34. OPERATING LEASES ARRANGEMENTS (cont'd)

(b) As lessor

At 31 December 2016, the Group had future lease receivables under a non-cancellable operating lease in respect of the sublease of its office premise, which falls due as follows:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Within one year	1,267	–
In the second to fifth years, inclusive	106	–
	<u>1,373</u>	–

35. RELATED PARTY DISCLOSURES

(a) Transactions with related parties

During the years ended 31 December 2016 and 2015, the Group entered into the following significant transactions with related parties:

<u>Relationship/Name of related party/Nature of transaction</u>	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
<i>Joint ventures</i>		
KIWA-CW Machine Manufacturing (Shanghai) Co., Ltd.		
Purchases of goods	–	<u>515</u>

The directors considered that the above transactions were conducted on normal commercial terms and in the ordinary course of the Group's business.

The related party transactions disclosed in Note (a) do not constitute connected transactions or continuing connected transactions that are not exempt from annual reporting, announcement and independent shareholders' approval requirements in Chapter 14A of the Listing Rules. The Company confirms that it has complied with the relevant requirements in accordance with Chapter 14A of the Listing Rules.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

35. RELATED PARTY DISCLOSURES (cont'd)

(b) Outstanding balances with related parties

An analysis of the balances with related parties is as follows:

Due from related parties (Other receivables)

Name of related party	Notes	2016 HK\$'000	2015 HK\$'000
KIWA-CW Machine Manufacturing (Shanghai) Co., Ltd.	(i)	4,252	5,257
Escrow fund placed with a director-related entity	(ii)	245,067	283,224
		249,319	288,481

Notes:

- (i) Joint venture.
- (ii) An escrow fund placed with an entity, of which an independent non-executive director of the Company is a partner.

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

Due to related parties (Trade payables)

Name of related party	Note	2016 HK\$'000	2015 HK\$'000
KIWA-CW Machine Manufacturing (Shanghai) Co., Ltd.	(i)	–	32

Note:

- (i) Joint venture

Due to related parties (Other payables)

Name of related party	Note	2016 HK\$'000	2015 HK\$'000
Mr. Wong Koon Lup, a director of the Company		8	33
Mr. Wong Mun Sum, a director of the Company		529	170
Dominic Schindler Creations (Singapore) Pte. Ltd	(i)	537	–
Shanghai Sicheng Technology Co., Ltd.	(i)	558	–
		1,632	203

Note:

- (i) Joint ventures

The amounts due to related parties are unsecured, interest-free and repayable on demand.

35. RELATED PARTY DISCLOSURES (cont'd)

(c) Compensation of key management personnel

The remuneration of the Company's directors, who are also identified as members of key management of the Group, is set out in Note 12.

36. SHARE-BASED PAYMENTS

In 2014 ("Grant Date"), the Group granted 49,929,777 share options (the "Options") to certain eligible participants of the Company (the "Grantees"), subject to the acceptance of the Options by the Grantees, to subscribe for a total of 49,929,777 ordinary shares of HK\$0.01 each in the share capital of the Company. The Options shall entitle the Grantees to subscribe for an aggregate of 49,929,777 ordinary shares upon the exercise of the Options in full at an exercise price of HK\$2.09 per share. These options expire on 17 December 2019. The contractual term of each option granted is five years. There are no cash settlement alternatives. The Group does not have a past practice of cash settlement for these share options.

The expense recognised for employee services received during the year is shown in the following table:

	2016 HK\$'000	2015 HK\$'000
Expense arising from equity-settled share-based payment transactions (Note 7)	<u>5,998</u>	18,106

There was no cancellation or modification to the awards as at 31 December 2016.

Movement of share options during the financial year

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of, and movements in, share options during the financial year:

	2016		2015	
	No.	WAEP (\$)	No.	WAEP (\$)
Outstanding at 1 January	41,135,562	2.09	49,929,777	2.09
– Exercised	<u>–</u>	–	<u>(8,794,215)</u>	2.09
Outstanding at 31 December	<u>41,135,562</u>	2.09	<u>41,135,562</u>	2.09
Exercisable at 31 December	<u>7,849,044</u>	2.09	<u>7,849,044</u>	2.09

- The weighted average share price at the date of exercise of the options exercised during the financial year was nil (2015: HK\$2.82).
- The exercise price for options outstanding at the end of the year was HK\$2.09. The weighted average remaining contractual life for these options is 2.96 years (2015: 3.96 years).

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

37. EVENT AFTER THE REPORTING PERIOD

On 3 April 2017, the Group announced that its indirect wholly-owned subsidiary, CW Advanced Technologies Pte Ltd ("CWATPL"), would like to repurchase from the holders of the fixed rate Notes of up to S\$15,000,000 in aggregate principal amount of Notes for cash in the open market at repurchase price of 90% of their principal amount, together with interest accrued from the last preceding interest payment date to the settlement date of repurchase during the repurchase period from 3 April 2017 to 17 April 2017. On 12 April 2017, CWATPL had repurchased S\$15,000,000 in aggregate principal amount of Notes.

38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

	2016 HK\$'000	2015 HK\$'000
Non-current assets		
Plant and equipment	22	23
Investments in subsidiaries	47	47
	<u>69</u>	<u>70</u>
Current assets		
Other receivables	891,694	885,013
Cash and bank balances	95	289
	<u>891,789</u>	<u>885,302</u>
Current liabilities		
Other payables and accruals	339,002	338,588
	<u>339,002</u>	<u>338,588</u>
Net current assets	<u>552,787</u>	546,714
Total assets less current liabilities	<u>552,856</u>	546,784
Net assets	<u>552,856</u>	546,784
Equity		
Share capital	7,190	7,190
Accumulated losses	(7,287)	(7,361)
Share premium reserve	535,867	535,867
Other reserves	17,086	11,088
	<u>552,856</u>	<u>546,784</u>
Total Equity	<u>552,856</u>	546,784

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (cont'd)

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

Company	Attributable to owners of the Company				
	Share capital HK\$'000 (Note 29)	Accumulated losses HK\$'000	Share premium reserve HK\$'000	Other reserves HK\$'000 (Note 31)	Total HK\$'000
Balance at 1 January 2016	7,190	(7,361)	535,867	11,088	546,784
Profit for the year	-	17,042	-	-	17,042
Total comprehensive income for the year	-	17,042	-	-	17,042
Share option expense (Note 36)	-	-	-	5,998	5,998
Final 2015 dividend (Note 14)	-	(16,968)	-	-	(16,968)
Balance at 31 December 2016	7,190	(7,287)	535,867	17,086	552,856

Year ended 31 December 2015

Company	Attributable to owners of the Company				
	Share capital HK\$'000 (Note 29)	Accumulated losses HK\$'000	Share premium reserve HK\$'000	Other reserves HK\$'000 (Note 31)	Total HK\$'000
Balance at 1 January 2015	6,164	(9,856)	173,634	(2,567)	167,375
Profit for the year	-	17,250	-	-	17,250
Total comprehensive income for the year	-	17,250	-	-	17,250
Share option exercised	88	-	22,743	(4,451)	18,380
New shares subscription	938	-	339,490	-	340,428
Share option expense (Note 36)	-	-	-	18,106	18,106
Final 2014 dividend (Note 14)	-	(14,755)	-	-	(14,755)
Balance at 31 December 2015	7,190	(7,361)	535,867	11,088	546,784

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 25 April 2017.

FIVE YEARS FINANCIAL SUMMARY

RESULTS

	Year ended 31 December				2016 HK\$'000
	2012 ^{(a)(b)} HK\$'000 (Restated)	2013 ^(b) HK\$'000 (Restated)	2014 HK\$'000	2015 HK\$'000	
Revenue from continuing operations	664,696	976,115	1,654,603	2,455,646	2,462,017
Cost of sales	(502,648)	(783,750)	(1,356,427)	(2,043,366)	(1,994,345)
Gross profit	162,048	192,365	298,176	412,280	467,672
Other income and gains	2,561	7,242	2,690	3,196	10,445
Selling and distribution expenses	(14,524)	(9,514)	(10,705)	(19,639)	(13,651)
Administrative expenses	(57,755)	(34,725)	(42,502)	(64,364)	(60,029)
Finance costs	(30,489)	(11,091)	(18,094)	(48,207)	(61,659)
Other operating expenses	(7,383)	–	(2,908)	(8,326)	(40,992)
Share of (loss)/profit from joint venture	2,092	1,809	2,071	1,205	(28)
Profit before tax	56,550	146,086	228,728	276,145	301,758
Income tax expense	(18,083)	(27,114)	(41,821)	(55,916)	(67,298)
Profit for the year from continuing operations	38,467	118,972	186,907	220,229	234,460
Profit from discontinued operation	16,648	10,973	117,515	–	–
Profit for the year	55,115	129,945	304,422	220,229	234,460
Profit for the year attributable to:					
Owners of the parent	55,115	129,945	304,422	220,229	234,460
	55,115	129,945	304,422	220,229	234,460

ASSETS AND LIABILITIES

	As at 31 December				2016 HK\$'000
	2012 ^(a) HK\$'000 (Restated)	2013 ^(b) HK\$'000 (Restated)	2014 HK\$'000	2015 HK\$'000	
Total assets	1,163,101	1,386,314	1,685,964	2,751,346	3,193,810
Total liabilities	(592,613)	(695,587)	(723,791)	(1,240,185)	(1,472,356)
	570,488	690,727	962,173	1,511,161	1,721,454

Notes:

(a) Certain amounts shown here do not correspond to the 2010, 2011 & 2012 financial statements and reflect adjustments for the adoption of IFRS 11 which take effect as of 1 January 2013. IFRS 11 required joint ventures to be accounted for using the equity method. Prior to the adoption of IFRS 11, the Group's share of the joint venture's assets, liabilities, revenue, income and expenses were proportionately consolidated in the consolidated financial statements under IAS 31.

(b) Amount shown here reflect changes in accounting standard IFRS 5.