# ANNUAL REPORT 2016

Jolimark Holdings Limited
映美控股有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 2028

# Contents

# Corporate Information

## Directors

### Executive Directors

Mr. Au Pak Yin *(Chairman)*
Mr. Au Kwok Lun *(Chief Executive Officer)*
Mr. Ou Guo Liang

### Independent Non-Executive Directors

Mr. Lai Ming, Joseph
Mr. Meng Yan
Mr. Xu Guangmao
Mr. Yeung Kwok Keung

## Registered Office

Clifton House
75 Fort Street
PO Box 1350 GT
George Town, Grand Cayman
Cayman Islands

## Principal Place of Business in Hong Kong

Unit 01, 23A Floor
K. Wah Centre
191 Java Road
North Point
Hong Kong

## Company Secretary

Mr. Lai Sai Wo, Ricky

## Authorised Representatives

Mr. Au Kwok Lun
Mr. Lai Sai Wo, Ricky

## Audit Committee

Mr. Lai Ming, Joseph *(Chairman)*
Mr. Meng Yan
Mr. Xu Guangmao
Mr. Yeung Kwok Keung

## Remuneration Committee

Mr. Yeung Kwok Keung *(Chairman)*
Mr. Meng Yan
Mr. Xu Guangmao
Mr. Lai Ming, Joseph
Mr. Au Kwok Lun

## Nomination Committee

Mr. Lai Ming, Joseph *(Chairman)*
Mr. Meng Yan
Mr. Xu Guangmao
Mr. Yeung Kwok Keung

## Auditor

PricewaterhouseCoopers
Certified Public Accountants
22nd Floor, Prince's Building
Central
Hong Kong

## Legal Adviser to the Company as to Hong Kong Law

Sidley Austin
Level 39
Two International Finance Centre
8 Finance Street
Central
Hong Kong

## Hong Kong Branch Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

## Principal Bankers

China Construction Bank
Agricultural Bank of China
Nanyang Commercial Bank

## Stock Code

2028

## Website

www.jolimark.com

# Chairman's Statement

*Dear Shareholders,*

In 2016, the Group recorded revenue of approximately RMB526,637,000, representing an increase of approximately 6% from 2015, and recorded profit attributable to shareholders of the Company during the year of approximately RMB61,176,000, representing a decrease of approximately 31% from 2015. In spite of the increase in revenue, the increase in the start-up exits on mobile Internet businesses namely "Yingmei.Kamo" and "Yingmei.me" resulted in a decrease in recurring profit, while the decrease in profit attributable to shareholders was mainly attributable to an one-off compensation from Epson (China) Limited ("Epson") in 2015.

During the year, the State implemented the "BT to VAT" policy, resulting in an increase in market demand and an increase in revenue of the printer business by approximately 11%. However, revenue of the OEM business (other electronic products business) decreased by approximately 21%, which was mainly due to reduction in production orders from an important customer. The Group will terminate the OEM business of the important customer in 2017.

In December 2016, the State Administration of Taxation announced that the state would intensify its effort in tax source monitoring. This will benefit the dot matrix printer industry. In 2017, regular VAT invoices (roll type invoices) will be put into use. This will be very beneficial to Jolimark as the Company is able to offer a wide range of products in the roll type invoice printing field for applications in a wide range of areas. On the other hand, regular electronic VAT invoices have been implemented since 2016, and the Company will launch red and black inkjet color printers to cater to customers which will facilitate the preparation of supporting documents and the application of reimbursements. The Company is also planning to launch self-service terminals for on-site printing of electronic invoices. We will break into the electronic invoice printer market with confidence.

In 2016, the Company continued to actively develop new businesses such as the mobile Internet business as well as the market for Android POS all-in-one terminal, inkjet printers and multifunctional integrated machines. Our efforts in the launching new products or upgraded products in the past year have also proved to be successful. This especially goes in the "Kamo" mobile payment and marketing platform, "Yingmei.me" cloud printing and micro cloud printing and cloud printing platform in the mobile Internet. 2016 witnessed an increase in "Kamo" merchants and users. Kamo Membership Management System and Kamo beauty industry, retail and catering cashier management systems will be put into online operation, providing merchants with a complete solutions of hardware, industry management software, customer management platform, online marketing platform and payment platform. In 2017, the Company will launch inkjet printers and color multifunctional integrated machines (integrating printing, copying and scanning functions) targeting office usage in small and medium-sized enterprises, and will expand the market potential of the Company's printer business greatly by virtue of its advantages in channels, brands, manufacturing capabilities and technology.

Looking forward to 2017, the macro economy is still subject to some uncertainties. The considerable investment in the development of new products and new businesses also poses certain uncertainties. However, I believe the Company has the capability to effectively overcome challenges, and to further develop the business of the Company successfully.

Finally, on behalf of the board of directors, I would like to express our deep thanks to all the shareholders, the management team, the staff and the customers for their strong support for the Group over the past year. With the efforts, enthusiasm and optimism of all staffs, the Group is confident to continuously devote itself to bringing more long-term and more satisfactory returns to our shareholders.

By Order of the Board
**Au Pak Yin**
*Chairman*
**Jolimark Holdings Limited**

Hong Kong, 24 March 2017

# Management's Discussion and Analysis

## Business Review

### Printer Business

For the year ended 31 December 2016, the revenue of Jolimark Holdings Limited (the "Company", and together with its subsidiaries, the "Group") derived from the printer business amounted to approximately RMB469,874,000, representing an increase of approximately 11% as compared with the corresponding period of 2015, and accounted for approximately 89% of the total revenue of the Group. The increase in revenue was mainly due to the implementation of the "BT to VAT" policy (replacing business tax with value-added tax) by the PRC local government in the first half of 2016, which brought about an increase in the market demand for the Group's printer products.

### Other Electronic Products Business

For the year ended 31 December 2016, the revenue of the Group derived from other electronic products business amounted to approximately RMB56,763,000, representing a decrease of approximately 21% as compared with the corresponding period of 2015, and accounted for approximately 11% of the total revenue of the Group. The decrease in revenue was mainly due to reduction in the production orders from an important customer during the year under audit. The Group planned to terminate the OEM business of the important customer in 2017.

## Future Business Outlook

### Tax-controlled Invoice Printer

On 23 December 2016, the State Administration of Taxation issued the Notice on Enabling National VAT Invoice Verification Platform (No. [87] of 2016), pointing out that this verification platform is used to verify the invoice information of special VAT invoices, regular VAT invoices, uniform invoices of motor vehicle sales, and regular electronic VAT invoices issued by the new system. This indicates that the PRC local government is further reinforcing tax source monitoring, and the original issuing methods for special VAT invoices, regular VAT invoices and uniform invoices of motor vehicle sales remain unchanged. As the development progresses, the use of quota invoices and handwritten invoices will be eliminated further inevitably, thus expanding the coverage scope of and printing demand for printed invoices. This will benefit the dot matrix printer industry. Besides, the State Administration of Taxation also issued the Notice on the Issues Concerning the Enabling of Regular Value-Added Tax Invoices (Roll Type Invoices) (No. [87] of 2016) on 13 December 2016. This Notice specifies that from 1 January 2017, regular VAT invoices (the roll type invoices) shall be used, and the paper-made roll type invoices shall be used primarily by taxpayers engaged in the consumer services. The Company has numerous products in the roll type invoice printing field, including the 9, 12 and 24 pin micro printers, as well as integrated micro printer cores and integrated invoicing machines. Products of the Company support wireless connection via Bluetooth and WiFi and the printing technologies such as Google Print and Air Print. Particularly, the portable roll type invoice printers launched by the Company can be widely used for invoice printing in the fields such as logistics, express delivery, online car reservation and ambulances.

### Electronic Invoice Printer

The State Administration of Taxation permitted use of electronic invoices starting from 2016. It is expected that electronic invoices will become more widely used in e-commerce, telecommunication services and large chained food providers and retail shops. The Company will launch ink-jet printers in red and black colors for printing electronic invoices bearing red seals to cater customers who require certificates for reimbursement purpose. After several years' R&D, the Cloud printing technologies of the Company have become more and more mature. The Company plans to launch the self-service terminal for on-site printing of electronic invoices, which is a powerful competition approach for the Company to make inroads into such areas proactively against the new market backdrop.

## Inkjet Printer

The Company launched the continuous paper inkjet printer IP-800 in 2016. The machine is a type of inkjet printer that can offer continuous paper printing and flat push printing. The application in hospitals proves that the advantages of IP-800 such as faster speed, less noise and higher printing quality as compared with dot matrix printers have been maximized. The machine is equipped with a paper cutter that can cut the paper for printing according to the actual bill or report size, reducing unnecessary use of paper. The Company will also launch the upgraded product of IP-800 in 2017, which is developed with a built-in character library and a larger cartridge, and thus can cater to faster printing speed and more different applications. The launch of the inkjet printer and the color multifunctional integrated machine (integrating the printing, copying and scanning functions) which the Company initially planned to launch in 2016 targeting the office use of small and medium-sized enterprises will be delayed to 2017, which is expected to further expand the market potential of the Company's printer business.

## Cloud Projection Video Conference System

The Company embedded Android OS and application software on its physical document projector with unique features to achieve the Cloud projection function, and use independently-developed or third party application software to realize multi-party network video conference system function, as well as synchronous sharing of documents and files for multi-party conference.

## Android POS All-in-one Terminal

The Android POS All-in-one Terminal (with Android computer and printer functions) newly launched by the Company is the only Android platform product featuring a 7" touch-screen panel and built-in printer, which may be applied to invoice printing and commercial retailing's POS and O2O mobile on-line marketing platform. The Company believes there is great market potential for this product. The actual market conditions in 2016 further verified the prospect of its wide application. For example, the product has been promoted in a number of provinces and cities in the PRC as online billing machine and "BT to VAT" billing machine. Especially after the official implementation of roll type invoices by the State Administration of Taxation in 2017, its application by taxpayers below the minimum threshold will show the competitive advantages such as convenient use, simple maintenance, low cost, and occupation of less desktop space. In addition to the 7" touch-screen panel, the Company also organized development of 13.3" Android POS machine configured with the magnetic stripe card reader, RFID/NFC and IC card reader and can be combined with Kamo system to form a Kamo integrated machine, becoming an O2O mobile online payment and marketing platform controlled by merchants. Besides, Kamo beauty industry, retail, catering and other cashier systems will also add more abundant application systems to Android POS all-in-one terminal successively, providing complete commercial system solutions to the retail and service sectors.

## "Kamo" Mobile Payment and Marketing Platform

"Kamo" prepaid card mobile payment and marketing platform system was promoted and developed rapidly in the market in 2016. The functions of the system have been strengthened continuously, and will integrate various online payment functions such as UnionPay, Alipay, WeChat payment, prepaid card payment and coupons, as well as multi-channel promotion and marketing, membership management, and Kamo online shopping mall. Development of Kamo Membership Management System and Kamo beauty industry, retail and catering cashier management systems have been completed and will be put into online operation step by step, providing merchants with a complete solutions of hardware, industry management software, customer management platform, online marketing platform and payment platform.

## Management's Discussion and Analysis (continued)

### "Yingmei.me" Cloud Printing and Micro Cloud Printing and Cloud Printing Platform

The fee-based "Yingmei.me" cloud printing O2O version was launched smoothly in 2016, enabling such processes as local file uploading of mobile phone, placed order printing, payment and printing, as well as print shop searching based on map positioning and displaying offer activities. Moreover, WeChat official account version of "Yingmei.me" was also launched in 2016. Along with the Company's launch of inkjet printers with a large cartridge, low cost printing, a large paper box and network functions, the Cloud printer technology combined with "Yingmei.me" can easily change the Company's inkjet printer into a print shop or self-service print terminal. Micro Cloud printing is an open Cloud platform for bill printing, which provides an open Cloud printing interface through a third party application. The third party application can print bills simply and rapidly. The platform covers the Company's thermal printers, dot matrix printers and inkjet printers and offers printing solutions to a lot of WeChat businesses and takeaway businesses. The platform was released and put into online operation officially in 2016, and the form master and the latest version of Kamo have been connected to the Company's Micro Cloud printing platform successfully.

### 2017 Outlook

Looking forward to 2017, many new products of the Company will be put onto market, which will bring about certain market opportunities. However, the macro economy is still subject to some uncertainties. The considerable investment in development of new products and new businesses is also expected to pose certain uncertainties. Thus, the Company takes a prudent attitude towards its overall business in 2017.

## Financial Review

### Results Summary

In 2016, the Group's turnover amounted to approximately RMB526,637,000, representing an increase of approximately 6% as compared with last year. The profit attributable to shareholders of the Company amounted to approximately RMB61,176,000, representing a decrease of approximately 31% as compared with last year. The basic earnings per share was approximately RMB0.098 (31 December 2015: RMB0.147). The decrease in the profit attributable to shareholders for the year of 2016 as compared with 2015 was mainly due to an one-off receipt of the compensation payments of approximately RMB26,038,000 from a former supplier in 2015 and the increased investment expenses on the Company's mobile Internet businesses namely "Yingmei.Kamo" and "Yingmei.me" in 2016.

### Analysis of Sales and Gross Profit

In 2016, the revenue from printer business, which was the main contributor to the total revenue of the Group, amounted to approximately RMB469,874,000, accounting for approximately 89% of total revenue of the Group, whereas the revenue from other electronic products business amounted to approximately RMB56,763,000, accounting for approximately 11% of the revenue of the Group. Comparing with 2015, the revenue of the Group increased by approximately 6%. Of which, the revenue from the printer business increased by approximately 11%, and the revenue from other electronic products business decreased by approximately 21%.

The Group's gross profit margin decreased from approximately 38% in last year to approximately 37% for the year ended 31 December 2016. The slight decrease in gross profit margin was mainly because most of "BT to VAT" customers selected cost-effective products with a lower gross profit margin.

## Capital Expenditure

For the year ended 31 December 2016, capital expenditure of the Group amounted to approximately RMB12,692,000 which was mainly used to acquire production equipment, technologies and moulds for new products.

## Financial and Liquidity Position

As at 31 December 2016, the total assets of the Group amounted to approximately RMB589,802,000 (31 December 2015: RMB596,154,000), controlling shareholder's equity amounted to approximately RMB322,107,000 (31 December 2015: RMB448,613,000); non-controlling interests amounted to approximately RMB(77,000) (31 December 2015: RMB60,000); and current liabilities amounted to approximately RMB213,029,000 (31 December 2015: RMB146,682,000), the current ratio (the ratio of current assets to current liabilities) of the Group was approximately 1.9 (31 December 2015: 3.2).The decrease in current ratio was mainly attributable to a decrease of approximately RMB79,173,000 in current assets and an increase of current liabilities in the amount of approximately RMB66,347,000 (being increase in bank loans) during the year under audit. The gearing ratio (the ratio of total borrowings to total equity) of the Group for the year ended 31 December 2016 was approximately 50% (31 December 2015: 7%). The increase in the gearing ratio was mainly attributable to an increase of borrowings and a decrease of total equity due to the dividend payments during the year under audit.

As at 31 December 2016, the cash and cash equivalents, restricted cash of the Group amounted to approximately RMB326,297,000 (31 December 2015: RMB339,188,000) in aggregate, whereas the bank loans of the Group amounted to approximately RMB161,010,000 (31 December 2015: RMB29,625,000).Out of the banks loans, the bank borrowing of RMB53,670,000 which bore an interest of 1.90% per annum over one-month HIBOR and repayable within three-year was secured by the Group's bank deposit of RMB57,960,000. The bank borrowing of RMB53,670,000 which bore an interest of 1.65% per annum over one-month HIBOR and repayable within two years was secured by the Group's bank deposit of RMB57,960,000. The bank borrowing of RMB53,670,000 which bore an interest of 1.45% per annum over one-month HIBOR and repayable within one year was secured by the Group's bank deposit of RMB11,590,000. The Group was in a net cash position after deducting the loans.

As at 31 December 2016, the Group held no financial asset at fair value through profit or loss (equity securities traded in China's A share stock exchanges) (31 December 2015: RMB5,426,000). The outstanding bank acceptance bills received from customers amounted to approximately RMB5,647,000 (31 December 2015: RMB2,739,000).

## Pledge of Assets

As of 31 December 2016, deposits with certain banks totaling RMB127,510,000 (31 December 2015: RMB30,000,000) were pledged as securities for bank loans facilities. The pledged bank deposits will be released upon the settlement of relevant bank loans.

## Foreign Currency Risks

The Group mainly operates in Mainland China with most of the transactions denominated and settled in RMB, however, the Group is exposed to foreign exchange risks for assets and liabilities denominated in United States dollars ("US$"), Taiwanese dollars ("TWD"), Euro and Hong Kong dollars ("HK$") arising from importation of certain raw materials and machinery from overseas suppliers, sales of goods to overseas customers and borrowings that are denominated in foreign currencies. As at 31 December 2016, the Group had more monetary financial liabilities than financial assets outside the Mainland China.

The Group manages and monitors its foreign exchange risks by performing regular review of the Group's net foreign exchange exposures and mitigates the impact of exchange rate fluctuations by reducing the financial liabilities if needed.

## Management's Discussion and Analysis (continued)

### Acquisition and Disposal

On 21 July 2016, the Group acquired 20% of the equity interest of Wuhan Shuyuan Network Technology Company Limited ("Wuhan Shuyuan") at a cash consideration of RMB9,000,000. Wuhan Shuyuan is a PRC registered high-tech company engaged in sales of software products, development, manufacturing and selling of software and hardware products and provision of software-related services.

On 27 July 2016, the Group entered into a share subscription agreement with Gowin Technology International Holdings Limited ("Gowin"), to further subscribe an additional 15% share capital of Gowin at a consideration of HK$1. Upon the completion of such subscription, the Group hold an aggregate of 65% share capital of Gowin. Gowin is a Hong Kong registered high-tech company engaged in research and development of internet technology and electronic products.

Save as disclosed otherwise, the Group did not have any other material acquisitions and disposals during the year under review.

### Contingent Liabilities

The Group had no material contingent liabilities as at 31 December 2016 (2015: nil).

### Staff

As at 31 December 2016, the Group employed a total of 1,431 staffs (2015: 1,397 staffs). Apart from 22 employees employed in Hong Kong and overseas, the rest were based in mainland China. The Group determined its remuneration and bonus policies for all employees with reference to the business results and individual performance of the staff. In addition, fringe benefits, such as social security insurance, medical allowance and housing provident fund, were provided to ensure the competitiveness of the Group. In addition, the Group has adopted a share option scheme with the objective to reward and incentivize its employees.

## Proposed final dividend and closure of register of members

The board (the "Board") of directors (the "Directors") of the Company recommended a final dividend of RMB0.033 per share for the year ended 31 December 2016 to shareholders whose names appear on the register of members on Thursday, 1 June 2017. The final dividend will be paid on or before Wednesday, 28 June 2017. There is no arrangement under which a shareholder has waived or agreed to waive any dividend.

The proposed final dividend shall be declared in RMB and paid in Hong Kong dollars. The final dividend payable in Hong Kong dollars will be converted from RMB to Hong Kong dollars based on an exchange rate which was the average middle exchange rates for RMB to Hong Kong dollars announced by the People's Bank of China for the week prior to the date of the declaration of the final dividend.

The average of the middle exchange rate for RMB to Hong Kong dollars as announced by the People's Bank of China for the week from Friday, 17 March 2017 to Thursday, 23 March 2017 prior to 24 March 2017, the date on which the final dividend was declared RMB0.8878 to HK$1.00. Accordingly, the amount of final dividend payable in Hong Kong dollars will be HK$0.037 per share.

The annual general meeting of the Company will be held on Friday, 19 May 2017. For determining the entitlement to attend and vote at the annual general meeting, the register of members of the Company will be closed from Tuesday, 16 May 2017 to Friday, 19 May 2017, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the annual general meeting, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's share registrar and transfer office, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Monday, 15 May 2017.

For determining entitlement to the proposed final dividend, the register of members of the Company will be closed from Monday, 29 May 2017 to Thursday, 1 June 2017, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the final dividend, all share transfers, accompanied by the relevant share certificates must be lodged with the Company's share registrar and transfer office, Computershare Hong Kong Investor Services Limited, Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Friday, 26 May 2017.

## Audit committee

The audit committee of the Company (the "Audit Committee") comprises Mr. Lai Ming, Joseph as the chairman, and Mr. Meng Yan, Mr. Xu Guangmao and Mr. Yeung Kwok Keung. All of them are independent non-executive Directors. For the year ended 31 December 2016, the Audit Committee held two meetings to review the accounting standards and practices adopted by the Group and to discuss on matters regarding the internal control and financial reporting (including the interim and annual results before proposing them to the Board for approval) with the management and external auditor. The Audit Committee has reviewed the results of the Group for the year ended 31 December 2016.

# Report of the Directors

The Board is pleased to present its report together with the audited financial statements of the Group for the year ended 31 December 2016.

## Principal Activities and Analysis of Operations

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in Note 9 to the financial statements.

An analysis on sales and gross profit of the Group using financial key performance indicators for the year ended 31 December 2016 is set out in the section headed "Management Discussion & Analysis" of this annual report.

## Results and Appropriations

The results of the Group for the year ended 31 December 2016 are set out in the consolidated income statement on page 42.

Interim dividend of RMB0.0448 and special dividend of RMB0.2400 per share for the six months ended 30 June 2016 was paid by the Company. At the Board meeting held on 24 March 2017, the Board recommended to declare a final dividend of RMB0.033 per share (2015: final dividend of RMB0.053 per ordinary share) for the year ended 31 December 2016, subject to approval by shareholders at the annual general meeting of the Company.

## Reserves

Movements in the reserves of the Group during the year under review are set out in Note 19 to the financial statements.

## Property, Plant and Equipment

Details of the movements in property, plant and equipment of the Group are set out in Note 6 to the financial statements.

## Share Capital

Details of the movements in share capital of the Company are set out in Note 18 to the financial statements.

## Distributable Reserves

As at 31 December 2016, the Company's reserve available for cash distribution as computed in accordance with the Companies Law of the Cayman Islands (2013 Revision), amounted to approximately RMB44,018,000.

## Pre-Emptive Rights

There is no provision regarding pre-emption rights under the Company's Article of Association or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## Buy-Back, Sale or Redemption of the Company's Listed Securities

Neither the Company nor any of its subsidiaries bought back, sold or redeemed any of the Company's listed securities during the year ended 31 December 2016.

## Issue of new Shares and use of proceeds

### Placing of Existing Shares and Subscription of New Shares

On 13 December 2016, the Company, the Kytronics Holdings Limited ("Kytronics") as vendor and Changjiang Securities Brokerage (HK) Limited as the placing agent entered into the placing and subscription agreement (the "Placing and Subscription Agreement") pursuant to which the placing agent has agreed to place an aggregate of 12,000,000 shares of the Company (the "Placing Shares") at the price of HK$1.60 per Placing Share to not less than six placees on behalf of Kytronics (the "Placing"). The Placing had been completed on 16 December 2016.

Pursuant to the Placing and Subscription Agreement, Kytronics has also conditionally agreed to subscribe for the aggregate of 12,000,000 shares of the Company (the "Subscription Shares") at the price of HK$1.60 per Subscription Share (the "Subscription", together with the Placing, the "Top-up Placing"). The Subscription had been completed on 21 December 2016.

The Placing Shares or the Subscription Shares represent (i) approximately 1.92% of the existing issued share capital of the Company as at the date of the Placing and Subscription Agreement, and (ii) approximately 1.88% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares. Based on the closing price of the Subscription Shares of HK$1.88 on 13 December 2016, the date of the Placing and Subscription Agreement, the Subscription Shares have a market value of approximately HK$22.56 million.

The placing price of HK$1.60 per Placing Share or the subscription price of HK$1.60 per Subscription Share represents: (i) a discount of approximately 14.89% to the closing price of HK$1.88 per Share as quoted on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") as at the date of the Placing and Subscription Agreement; (ii) a discount of approximately 14.89% to the average closing price of HK$1.88 per Share as quoted on the Stock Exchange for the last five trading days up to and including 12 December 2016, the last trading day immediately preceding the date of the Placing and Subscription Agreement; and (iii) a discount of approximately 9.60% to the average closing price of HK$1.77 per Share as quoted on the Stock Exchange for the last ten trading days up to and including 12 December 2016, the last trading day immediately preceding the date of the Placing and Subscription Agreement.

The net proceeds (after deducting all applicable costs and expenses of the Top-up Placing) was approximately HK$18 million, which the Company will use as to approximately HK$18 million for the development of the Company's new mobile payment business. As at 31 December 2016, all the net proceeds is currently held in cash and cash equivalents and will be applied in the manner consistent with the intended use.

### Issue of shares pursuant to share option scheme

During the year ended 31 December 2016, the Company has allotted and issued 492,500, 1,237,000 and 307,500 new shares pursuant to the exercise of the share options granted pursuant to the share option scheme adopted by the Company on 13 June 2005 at an exercise prices of HK$1.00, HK$1.18 and HK$1.70 each, respectively.

Report of the Directors (continued)

## Major Risks and Uncertain Factors

The operations and results of the Group are subject to the effects of various factors, some are specific to the dot matrix printer sector and some are external. The following are the major risks and uncertain factors identified by the Group:

### (a) Policy Risk

The sale of dot matrix invoice printers is one of the principal businesses of the Group, the PRC State's taxation policies may affect the above-mentioned business of the Group, in particular, the implementation of the "BT to VAT" policy by the State may increase the market demand for the above-mentioned printers, especially for the daily life services and decoration and improvement sectors. However, the implementation schedule of the "BT to VAT" policy involves many complementary policies and relevant preparation and the details and scope of such policy and implementation is uncertain to some extent.

The electronic invoicing (limited to regular value added tax invoice) currently under pilot testing of the State may reduce the market demand for dot matrix printers. The materialization of electronic evidence accounting of electronic invoicing requires complementary policies and relevant technical preparation, and may need some time before extension to full utilization. In response to such risk, the Company has launched or will launch the continuous cum paper feed inkjet printers and black and red inkjet ink printers which are more suitable for electronic invoice printing.

### (b) Risk of New Business

The mobile internet business (including "Kamo" mobile payment and "Yingmei. me" cloud printing), Android POS integrated terminals and inkjet printers and multi-function integrated printers are new businesses to the Group, the development and prospects of which are subject to uncertainties.

### (c) Risk of Supply Chain

To guarantee that the products are of high quality, the Group procures part of the highly sophisticated parts or chips from overseas, (amongst others) the quality, delivery schedule and the production capacity of the manufacturers of the relevant parts and components may affect the product quality, production capacity and sales and the implementation of marketing strategies of the Group to a certain extent. The Group controls or reduces the supply chain risk that may exist by measures such as entering into quality guarantee agreement and procurement framework agreement with the suppliers, stocking buffer inventories, enhancing communications with suppliers as well as enhancing administration and control over the quality of the manufacturing system.

### (d) Risk of Macro-Economy

The domestic macro-economy has been seizing down since 2015, which may led to expenses tightening by the government or other sectors, and the demand in dot matrix printers may decrease. Accordingly, the Group needs to monitor the changes in macro-economic environment to formulate reasonable operation plan and strategy, step up the efforts in development of products under proprietary brand, optimize product structures and marketing strategies as well as expand both of the domestic and overseas sales channels.

### (e) Risk of Competition

As on-line marketing becomes popular, together with the emergence of new small scale dot matrix printer manufacturers, the competition of the dot matrix printer sector which the Group operates has become more and more intensified and price competition among other competitors and other marketing measures may affect the gross profit and market share of the products of the Group to certain extent. Therefore, the Group is required to continuously improve the core technology of the products, develop new models suitable for industry sales, optimize suppliers resources, reasonably reduce procurement cost, enhance administration of the supply chain and product quality, increase investment in marketing activities, strengthen the administration of distribution channel and outlet terminals, increase industry-targeted marketing efforts, strengthen the cooperation with e-commerce platforms such as JD.com, Suning and Gome and Wechat Mall as well as strengthen the development of Tmall store and Jolimark wechat shop, thereby expanding sales in various channels and enhancing core competitiveness continuously, so as to maintain profitability at reasonable level and expand market shares.

There may be other risks and uncertainties which are not known to the Group or which may not be material now but could turn out to be material in the future.

## Discussion on Environmental, Social and Governance Issues

### Important relationship

### (i) Employee

The Board recognises that human resources is one of the valuable assets of the Group. The Group adheres to its people-orientated philosophy, and promotes the personal career development and plan of employee in line with the development of the Group. The Group aims to become an attractive employer.

The Group strives to motivate its employees by offering clear career development path and opportunities to enhance and improve their skills. The Group provides orientation trainings and in-house trainings, as well as development opportunities for employees. Training programmes cover different areas including management skill, sale and production, customer service, quality control, exhibition planning, code of conduct and other trainings related to the industry.

The Group conducts annual employee satisfaction survey for its operations in Hong Kong and the Mainland China, and carefully considers all valuable feedbacks from employees with an aim to enhance operating efficiency and create harmony working environment in the long run.

In addition, the Group offers employees with competitive remuneration packages. The Group has also adopted the share option scheme in order to honour and provide incentive for employees who have contributed to the growth and development of the Group.

### (ii) Supplier

The Group has established long-term cooperation relationship with numerous suppliers, and ensure those suppliers fulfilled their commitments in respect of quality, environment protection, low-carbon operation and ethic conducts. The Group also selects its suppliers carefully. Suppliers are required to meet several assessment indicators, including track record, experience, financial capability, reputation, capability in producing high quality products, efficiency in quality control, as well as environment protection and safety requirements. Upon selection, suppliers are also required to comply with the Group's anti-corruption policy.

Report of the Directors (continued)

(iii) Distributor

The Group sells its products to end users through third party distributors, and closely cooperates with distributors in conducting its operations, so as to reach a mutual consent in adding value to the Group's brand and improving customer services, especially in attracting and keeping customers as to achieve sales growth. Before placing orders, distributors will have to reach an agreement with the Group in respect of retail goals and store expansion plans.

(iv) Customer

The Group strives to offer different types of computer peripherals with different specifications at competitive price which provide excellent product quality and after-sale services to customers. The Group maintains a VIP database, and communicates with customers through various channels such as the Company's website, phone calls, mails, marketing materials and social media. The Group also cooperates with distributors in providing trainings for their front-line sale personnel, aiming to provide quality and value-added services for its end users at retail stores.

### Environment protection policy

The Group focuses on preservation of natural resources and strives to create an environmentally-friendly working environment. Through saving electricity consumption and promoting the recycling of packaging materials, office supplies and other materials, the Group adheres to lower harm to the environment. Moreover, all of the Group's dot matrix printers have obtained the environmental labelling and energy conservation labelling.

The Group also requires its suppliers to strictly comply with relevant environment protection laws and regulations, and obtain all necessary permits and approvals from relevant regulators in China.

### Compliance in laws and regulations

The operations of the Group are primarily conducted by subsidiaries of the Company in the Mainland China, and the Company is listed in the Stock Exchange. Therefore, the establishment and operations of the Group is subject to relevant laws and regulations in the mainland China and Hong Kong. Compliance procedures are in place to ensure the adherence to applicable laws, rules and regulations.

For the year ended 31 December 2016 and as at the date of this annual report, the Group has complied with all relevant laws and regulations in the Mainland China and Hong Kong that have significant impact on the operations of the Group.

## Share Options

Pursuant to the share option scheme approved by a written resolution of all shareholders of the Company on 13 June 2005 (the "2005 Scheme"), the Company may grant to, amongst others, the Directors and employees of the Company and its subsidiaries, for the recognition of their contribution to the Group, options to subscribe for the Shares. According to the 2005 Scheme, the Board may, at its discretion, invite any eligible participants, including employees and directors, to take up options to subscribe for the Shares in the Company. The total number of Shares which may be issued upon the exercise of all options to be granted under the 2005 Scheme and any other scheme must not, in aggregate, exceed 10% of the number of Shares in issue as at the date dealings in the Shares first commence on the Stock Exchange unless further shareholders' approval had been obtained pursuant to the conditions set out in the 2005 Scheme. Subject to the requirements of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"), the total number of Shares that may be granted to a participant in any 12-month period must not exceed 1% of the issued share capital of the Company.

## Report of the Directors (continued)

The offer for the grant of options ("Offer") must be taken up within 28 days from the date of offer, with a payment of HK$1.00 as consideration for the option. The exercise price of the share option will be determined at the higher of (i) the average closing price of Shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of Offer; (ii) the closing price of Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; and (iii) the nominal value of the Shares. The total number of shares available for issue should be 50 million which is equivalent to 10% of the shares in issue when the 2005 Scheme was adopted by the shareholders. The share options are exercisable at any time during a period of no more than 10 years from the date of Offer, subject to the terms and conditions of the 2005 Scheme and any conditions of grant as may be stipulated by the Board. Unless terminated by the Company by resolution in general meeting, the 2005 Scheme shall be valid and effective for a period of 10 years commencing on the date on which the 2005 Scheme becomes unconditional. The 2005 Scheme has been terminated on 18 May 2015.

In the annual general meeting of the Company held on 18 May 2015, as the 2005 Scheme was due to expire on 26 June 2015, the shareholders approved to terminate the 2005 Scheme and adopted a new share option scheme (the "2015 Scheme"). The adoption of the 2015 Scheme and the termination of the 2005 Scheme will not in any way affect the terms of the options already granted under the 2005 Scheme, which will continue to be valid and subject to the terms of the 2005 Scheme. The total number of shares available for issue in the 2015 Scheme should be 60,481,950 which is equivalent to 10% of the shares in issue when the 2015 Scheme was adopted by the shareholders. Since adoption, no options have been granted under the 2015 Scheme.

The following table discloses movements in the Company's share options during the year under audit:

| Name | Date of grant | Exercise price HK$ | Outstanding as at 1 January 2016 | Granted during the period | Exercised during the period | Forfeited during the period | Outstanding as at 31 December 2016 | Percentage of the issued share capital of the Company as at the date of this report | Exercise period |
|---|---|---|---|---|---|---|---|---|---|
| Employees – Type 3 | 22 July 2011 | 1.00 (Note 2 and 3) | 557,500 | – | (492,500) (Note 10) | – | **65,000** | 0.01% | Six years from the date of grant (Note 1) |
| Employees – Type 3 | 10 December 2013 | 1.18 (Note 4 and 5) | 4,017,500 | – | (1,237,000) (Note 11) | – | **2,780,500** | 0.42% | Six years from the date of grant (Note 1) |
| Employees – Type 3 | 17 December 2014 | 1.70 (Note 6 and 7) | 18,800,000 | – | (307,500) (Note 12) | (300,000) | **18,192,500** | 2.77% | Six years from the date of grant (Note 1) |
| Employees – Type 4 | 15 May 2015 | 2.17 (Note 8 and 9) | 12,720,000 | – | – | (100,000) | **12,620,000** | 1.92% | Six years from the date of grant (Note 1) |
| Total | | | 36,095,000 | – | (2,037,000) | (400,000) | **33,658,000** | 5.12% | |

Notes:

1. The first 25% of the option can be exercisable at any time on and after the first anniversary of the date of grant. The next 25% of the option can be exercisable at any time commencing from the second anniversary of the date of grant. The third 25% of the option can be exercisable at any time commencing from the third anniversary of the date of grant. The remaining 25% of the option can be exercisable at any time commencing from the fourth anniversary of the date of grant.

Report of the Directors (continued)

2. The closing price immediately before the date of grant was HK$0.80.

3. The exercise price was determined by the Board and was fixed at HK$1.00 per share.

4. The closing price immediately before the date of grant was HK$1.18.

5. The exercise price was determined by the Board and was fixed at HK$1.18 per share.

6. The closing price immediately before the date of grant was HK$1.72.

7. The exercise price was determined by the Board and was fixed at HK$1.70 per share.

8. The closing price immediately before the date of grant was HK$2.17.

9. The exercise price was determined by the Board and was fixed at HK$2.17 per share.

10. The weighted average closing price of the Company's shares immediately before the exercise dates of the share options was HK$1.59 per share.

11. The weighted average closing price of the Company's shares immediately before the exercise dates of the share options was HK$1.61 per share.

12 The weighted average closing price of the Company's shares immediately before the exercise dates of the share options was HK$1.63 per share.

## Directors

As at the date of this annual report, the Directors are as follows:

### Executive Directors

Mr. Au Pak Yin *(Chairman)*
Mr. Au Kwok Lun *(Chief Executive Officer)*
Mr. Ou Guo Liang

### Independent Non-Executive Directors

Mr. Lai Ming, Joseph
Mr. Meng Yan
Mr. Xu Guangmao
Mr. Yeung Kwok Keung

Pursuant to Article 108 (a) of the Articles of Association, at each of the annual general meeting, one third of the Directors for the time being, or, if their number is not 3 or a multiple of 3, then the number nearest to but not less than one-third, shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every 3 years. Mr. Au Pak Yin, Mr. Au Kwok Lun and Mr. Ou Guo Liang will hold office only until the coming annual general meeting of the Company to be held on Friday, 19 May 2017 (the "AGM") and, being eligible, will offer themselves for re-election at the AGM.

## Indemnity and Insurance Provision

The Articles of Association of the Company provides that every Director shall be entitled to be indemnified out of assets of the Company against any liabilities, action, proceeding, claim, demand or expenses as a result of any act or failure to act in carrying out his functions.

The Company has also arranged appropriate directors and officers liability insurance in respect of legal action against Directors.

## Directors' Service Contracts

Mr. Yeung Kwok Keung and other Directors have renewed their service contracts with the Company for another term of 3 years commencing from 1 August 2014 and 13 June 2014, respectively. Save as above, none of the Directors had entered into a service contract with any member of the Group which does not expire or is not determinable within one year without payment of compensation (other than statutory compensation).

## Directors' Interests in Contracts

Save as disclosed under the heading "Connected Transactions", no contracts of significance in relation to the Group's business to which the Company, any of its fellow subsidiaries or its parent company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## Director's Rights to Acquire Shares

Apart from the 2005 Scheme and the 2015 Scheme disclosed in the section headed "Share Options" of this annual report, at no time during the year under review was the Company, its holding company or any its subsidiaries and fellow subsidiaries a party to any arrangement to enable the Directors, their respective spouse or minor children to acquire benefit by means of the acquisition of shares in, or debentures of, the Company or in any other body corporate.

## Biographical Details of Directors and Senior Management

Brief biographical details of Directors and senior management are set out on page 24 to page 26.

## Employees and Remuneration Policy

### Retirement benefit plans

As stipulated by the rules and regulations in the PRC, the Group participates in the retirement benefit scheme operated by the relevant local government authorities. The Group is required to make contribution on behalf of its employees in the PRC in accordance with the relevant PRC regulations.

## Report of the Directors (continued)

Employees in the Group's PRC subsidiaries are required to participate in a defined contribution retirement scheme administrated and operated by the local municipal government. The Group's PRC subsidiaries contribute 13% of the minimum wage used for payment of basic pension insurance as agreed by local government to fund the retirement benefits of the employees.

In Hong Kong, the Group has set up a retirement scheme according to the mandatory provident fund requirement prescribed by the Mandatory Provident Scheme Ordinance. All the Hong Kong based employees and the Group is required to contribute 5% of their respective monthly wages (up to a maximum contribution of HK$1,500 by each of the employee and the Group) on a monthly basis to the fund.

## Disclosure of Interests

### (a) Interests and short positions of the Directors and chief executives of the Company

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 any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set forth in Appendix 10 of the Listing Rules (the "Model Code") to be notified to the Company and the Stock Exchange were as follows:

| Name of Director | Company/Name of associated corporation | Capacity | Number of ordinary shares held(Note 1) | Percentage in the relative class of share capital (approx.) |
|---|---|---|---|---|
| Mr. Au Pak Yin ("Mr. Au") | Company | Interest in controlled corporation(Note 2) | 417,721,533 (L) | 65.45% |
| Mr. Au | Kytronics Holdings Limited ("Kytronics") | Beneficial owner | 5 (L) | 100% |

Notes:

1. The letter "L" denotes the Director's long position in such securities.

2. 417,721,533 Shares were owned by Kytronics. The issued share capital of Kytronics is owned as to 100% by Kytronics Growth Limited, which in turn is 100% held by Au Pak Yin, Tai Noi Kit Family Holdings Limited, a company wholly-owned by Mr. Au. Mr. Au Pak Yin is therefore deemed to be interested in these shares by virtue of his interests in Kytronics pursuant to Part XV of the SFO.

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 and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which are required, pursuant to section 352 of the SFO to be entered in the register referred to therein or which are required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

Report of the Directors (continued)

(b) Substantial shareholders and other person's interest in the Shares

As at 31 December 2016, as far as is known to the Directors and the chief executive of the Company, the following persons (not being a Director or chief executive of the Company) had an interest or short position in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO:

| Name | Company/name of associated corporation | Capacity | Number of ordinary shares held | Percentage in the relevant class of share capital (approx.)(Note 1) |
|---|---|---|---|---|
| Kytronics | Company | Beneficial Owner | 417,721,533(Note 2) | 65.45%(L) |
| Kent C. McCarthy | Company | Interest in controlled corporation | 73,637,120(Note 3) | 11.54%(L) |

Notes:

1. The letter "L" denotes the person's long position in such securities.

2. 417,721,533 Shares were owned by Kytronics. The issued share capital of Kytronics is owned as to 100% by Kytronics Growth Limited, which in turn is 100% held by Au Pak Yin, Tai Noi Kit Family Holdings Limited, a company wholly-owned by Mr. Au. Mr. Au Pak Yin is therefore deemed to be interested in these shares by virtue of his interests in Kytronics pursuant to Part XV of the SFO.

3. An aggregate of 73,637,120 Shares were held by (i) Jayhawk Private Equity Fund II, L.P., (ii) Kent C McCarthy Revocable Trust, (iii) AMC Fund, LP, (iv) Mary E. McCarthy Revocable Trust, (v) Kent C. McCarthy Dynasty Trust, (vi) McCarthy Family SD LLC and (vii) 7-2010 GRAT 8 Under Kent C. McCarthy GRAT Tr Dtd 4-23-2010, all of which are wholly-owned by Kent C. McCarthy.

Saved as disclosed above, the Directors and the chief executive of the Company are not aware of any person (other than a Director or chief executive of the Company) who, as at 31 December 2016, had any interest or short position in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

## Management contracts

Save as disclosed under the heading "Connected Transactions", no other contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

## Major suppliers and customers

During the year, the aggregate sales attributable to the Group's five largest customers represented approximately 39% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 14% of total sales. The aggregate purchases attributable to the Group's five largest suppliers during the year represented approximately 30% of the total purchases of the Group and the purchases attributable to the Group's largest supplier were approximately 11% of total purchases.

Report of the Directors (continued)

In the Group's five largest suppliers, it included Guangdong Kong Yue Precision Industry Limited ("Guangdong Precision") which is connected to the Company. Details of the transaction had been stated under the section headed "Connected Transactions" of this annual report.

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

## Connected Transactions

Details of the connected transactions entered into by the Group during the year are set out below:

| | | Note | **Actual transaction amount for the year ended 31 December 2016** RMB'000 |
|---|---|---|---|
| Continuing connected transactions | | | |
| (I) | Import and Export Agency Agreement with Jiangmen Kong Yue Information Product Import Export Limited ("KY Import/Export") – Handling fees for import and export agency services | (i) | 974 |
| (II) | Supply agreements with Guangdong Kong Yue Precision Industry Limited ("Guangdong Precision") | (ii) | 20,457 |
| (III) | Supply agreement with Guang Dong Jotech Kong Yue Precision Industry Limited ("Jiangmen Yida") | (iii) | 13 |
| (IV) | Master Services Agreement with Palace International Hotel ("Palace") | (iv) | 251 |

Notes:

(i) Pursuant to the agreement entered into by Kong Yue Electronics & Information Industry (Xin Hui) Limited ("Kongyue Information", a subsidiary of the Company) and KY Import/Export on 8 November 2013, the service fees charged by KY Import/Export in relation to import of materials for the Group are approximately 1% of purchase price of the materials. The service fees charged by KY Import/Export in relation to export products are equivalent to 1% of the full contract price of the products. The annual cap of the transactions for the year ended 31 December 2016 is RMB3,794,000. The service fee was determined after arm's length negotiation. In respect of import handling services, KY Import/Export will charge 1% of the contract price of direct materials, equipment and technology handled by KY Import/Export as handling fee. In respect of export handling services, KY Import/Export will charge Kongyue Information a service fee equivalent to 1% of the full contract price of the products and relevant technology sold to customers.

(ii) Pursuant to the agreement entered into by Kong Yue Electronics & Information Industry (Xin Hui) Limited ("Kongyue Information", a subsidiary of the Company) with Guangdong Precision on 8 November 2013 (collectively referred to as the "Precision Agreements"), Guangdong Precision agreed to supply plastic parts, components and molds to Kongyue Information from time to time as requested by the Kongyue Information. The annual cap of the transactions for the year ended 31 December 2016, in aggregate, is RMB58,182,000. The purchase prices for the plastic parts, components and molds supplied by Guangdong Precision was determined after arm's length negotiations with reference to the prevailing market prices of similar or comparable products offered by Guangdong Precision to independent third parties. The purchase prices will be settled by the Group on a monthly account basis.

(iii) Pursuant to the agreement entered into by Kongyue Information and Jiangmen Yida on 8 November 2013, Jiangmen Yida agreed to supply metal stamped parts and molds to Kongyue Information from time to time as requested by Kongyue Information. The annual cap of the transactions for the year ended 31 December 2016 is RMB25,205,000. The purchase prices for the stamped metal parts and molds supplied by Jiangmen Yida was determined after arm's length negotiations with reference to the prevailing market prices of similar or comparable products offered by Jiangmen Yida to independent third parties. The purchase prices will be settled by the Group on a monthly account basis.

(iv) Pursuant to the agreement entered into by Kongyue Information and Palace on 8 November 2013, Palace agreed to provide hotel accommodation services, catering and other related services to Kongyue Information from time to time as requested by Kongyue Information. The annual cap of the transactions for the year ended 31 December 2016 is RMB2,028,000. The service fee was determined based on the prevailing prices of similar services offered by Palace to its regular customers.

The aforesaid continuing connected transactions have been reviewed by the independent non-executive Directors. The independent non-executive Directors confirmed that the aforesaid continuing connected transactions were entered into (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms or better; and (c) according to the agreements governing them on terms that are fair and reasonable; and (d) have not exceeded the relevant annual maximum amount stipulated in the relevant agreements.

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

Several related party transactions as disclosed in Note 33 to the financial statements prepared in accordance with HKFRS fall under the definition of "continuing connected transaction" in Chapter 14A of the Listing Rules. The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

## Sufficiency of Public Float

On 2 December 2016, the Company announced that it noted from the disclosure of interest form filed by Mr. Kent C. McCarthy ("Mr. McCarthy") on 30 November 2016 that he has acquired an additional 1,150,000 shares in the Company and thereby increased his interest in the Company from approximately 9.95% to 10.14%. Given that Mr. McCarthy's interest in the Company was over 10%, he became a substantial shareholder and a connected person of the Company. Accordingly, the shares held by him would not be counted towards the public float of the Company. To the best of the Directors' knowledge, save for his interest as a substantial shareholder of the Company, Mr. McCarthy and the companies he controlled are independent of the Company and its Directors. His interest when aggregated with the shareholding interest of Kytronics, the controlling shareholder of the Company holding approximately 66.72% interest in the Company as at the date of the announcement, is approximately 76.86% of the Company's total issued share capital. Accordingly, the Company's public float had then fallen below the required 25% as stipulated under Rule 8.08 of the Listing Rules.

On 20 December 2016, the Company announced that it further noted from the disclosure of interest form filed by Mr. McCarthy on 15 December 2016 that he acquired an additional 6,802,000 shares in the Company and thereby increased his interest in the Company further from approximately 10.14% to 11.22%.

In an attempt to restore the public float to the required level, the Company had successfully completed the Top-up Placing (as further detailed in the section headed "Report of the Directors" of this annual report) on 21 December 2016, pursuant to which 12,000,000 shares held by Kytronics had been placed to not less than six individual placees and Kytronics had subscribed for up to 12,000,000 new shares. Upon the completion of the Top-up Placing, the public float of the Company was 23.54% and was still below the 25% minimum public float requirement under Rule 8.08 of the Listing Rules.

Between 22 December 2016 and 23 December 2016, Mr. McCarthy had further acquired additional shares in the Company, thereby increased his interest in the Company to approximately 14.53%. On 27 December 2016, Mr. McCarthy, however, had disposed of 19,070,880 shares of the Company and thereby decreased his interest in the Company from approximately 14.53% to 11.54%. As a result of which, the public float of the Company was still below the 25% minimum public float requirement under Rule 8.08 of the Listing Rules.

To restore the public float to the required level, the Company had successfully completed another top-up placing on 26 January 2017 (the "2017 Top-up Placing") as further detailed in the paragraph headed "Subsequent Events" of this section of this annual report, pursuant to which up to 18,000,000 shares held by Kytronics had been placed to not less than six individual placees and Kytronics had subscribed for up to 18,000,000 new shares. Upon the completion of the 2017 Top-up Placing on 26 January 2017, approximately 25.18% of the shares of the Company was held by the public.

As at the date of this annual report, public shareholders are holding more than 25% interest in the Company, the public float of the Company has been restored and the Company is in compliance with the minimum public float requirement under Rule 8.08 of the Listing Rules as at the date of this annual report.

## Subsequent Events

On 19 January 2017, the Company, the Kytronics Holdings Limited as vendor and Changjiang Securities Brokerage (HK) Limited as the placing agent entered into the placing and subscription agreement (the "2017 Placing and Subscription Agreement") pursuant to which the placing agent has agreed to place an aggregate of 18,000,000 shares of the Company at the price of HK$1.65 per placing share to not less than six placees on behalf of the vendor. The placing was completed on 24 January 2017. Pursuant to the 2017 Placing and Subscription Agreement, the vendor has also conditionally agreed to subscribe for the aggregate of 18,000,000 shares of the Company at the price of HK$1.65 per subscription share. The subscription had been completed on 26 January 2017. The Company raised net proceeds of approximately HK$29 million from the 2017 Top-up Placing. The Company proposes to use approximately HK$29 million for the development of the Company's new mobile payment business. As at the date of this annual report, all the net proceeds is currently held in cash and cash equivalents and will be applied in the manner consistent with the intended use.

## Model Code for Securities Transactions

The Company has adopted the Model Code as its own code of conduct regarding directors' securities transactions contained in Appendix 10 to the Listing Rules. The Company has made specific enquiries with all Directors regarding any non-compliance with the Model Code during the year ended 31 December 2016 and all Directors confirmed that they have fully complied with the required standard set out in the Model Code during the year ended 31 December 2016.

## Compliance with the Corporate Governance Code

The Company is committed to the establishment of stringent corporate governance practices and procedures with a view to enhancing investor confidence and the Company's accountability and transparency. The Company strives to maintain high corporate governance standard and has complied with all code provisions of the Corporate Governance Code as set out in Appendix 14 of Listing Rules as in effective from time to time (the "CG Code") during the year ended 31 December 2016, save for the deviation from code provision E.1.2 below.

In accordance with the requirements of code provision E.1.2 of the CG Code, the chairman of the Board should attend the annual general meeting. However, due to other business commitments, the chairman of the Board, Mr. Au Pak Yin, was unable to attend the annual general meeting of the Company held on 17 May 2016.

At the annual general meeting of the Company held on 17 May 2016, there was one executive Director and other independent non-executive Directors present to enable the Board to develop a balanced understanding of the views of the shareholders of the Company.

Further information of the corporate governance practice of the Company is also be set out in the corporate governance report in this annual report.

## Auditor

The financial statements have been audited by the auditor of the Company, PricewaterhouseCoopers, who, being eligible, will retire and offer themselves for re-appointment at the upcoming AGM.

On behalf of the Board
**Au Pak Yin**
*Chairman*

Hong Kong, 24 March 2017

# Biographical Details of Directors and Senior Management

## Directors

### Executive Directors

**Mr. Au Pak Yin**, aged 70, is the chairman of the Company and a founder of the Group. He is in charge of corporate strategy and planning and the overall development of the Group. He has over 25 years of experience in distribution and manufacturing of business equipment in the PRC. Mr. Au first started to trade in Hong Kong in 1986 and in 1989, he began to engage in the trading of printers in the PRC. In 1997, Mr. Au and his family members commenced the production of SDM printers by establishing Kongyue Printing. The Group was founded by Mr. Au in 1998 through the establishment of Kongyue Information. Mr. Au is an honorary citizen of Jiangmen. He is the father of Mr. Au Kwok Lun and Mr. Ou Guo Liang.

**Mr. Au Kwok Lun**, aged 44, is an Executive Director and the chief executive officer of the Company. He is primarily in charge of strategy execution and overall management of the Group. Mr. Au obtained a bachelor of arts degree in technical English from Huazhong University of Science & Technology in 1994 and a bachelor of business administration degree in information and system management from the Hong Kong University of Science & Technology in 1998. Prior to joining the Group in May 1999, Mr. Au Kwok Lun worked as a trainee engineer for Motorola Semiconductor Hong Kong Limited and assistant general manager of Kongyue Technology. He has over 15 years of operational experience in the distribution and manufacturing of business equipment in the PRC and has been overseeing the expansion of the Group. He is experienced in marketing and distribution, product development and supply procurement. Mr. Au is a standing member of the China Computer Industry Association, the Vice Chairman of the Printer Profession Committee of the China Computer Industry Association and a standing member of the China Computer Users Association and a standing member of the Printing and Image Display Application Sub-Committee of the China Computer Users Association, a member of the Executive Committee of Jiangmen Division, Pearl River Delta Industries Committee, Hong Kong Federation of Industries, and the Chinese People's Political Consultative Conference of Jiangmen City. In 2005, Mr. Au received the 2005 Young Industrialist Awards of Hong Kong from the Federation of Hong Kong Industries. Mr. Au Kwok Lun is the son of Mr. Au Pak Yin and the brother of Mr. Ou Guo Liang.

**Mr. Ou Guo Liang**, aged 41, is an Executive Director of the Company. He assists the chief executive officer in formulation of strategy, development of new business and the management of sales and marketing networks. He has over 15 years of experience in sales and marketing. Mr. Ou obtained a bachelor of economics degree in international corporate management from the Central University of Finance and Economics (中央財經大學) in 1998. Mr. Ou joined the Group in November 1998. He is the son of Mr. Au Pak Yin and the brother of Mr. Au Kwok Lun.

# Biographical Details of Directors and Senior Management (continued)

## Independent Non-Executive Directors

**Mr. Lai Ming, Joseph**, aged 72, was appointed as an Independent Non-Executive Director on 8 March, 2005. Mr. Lai is a fellow member of the Hong Kong Institute of Certified Public Accountants ("HKICPA"), CPA Australia, the Chartered Institute of Management Accountants ("CIMA") and the HK Institute of Directors. He was also the President of the HKICPA in 1986.

He co-founded the HK Centre of CIMA (then known as the Institute of Cost and Management Accountants) in 1973 and served as its President in 1974/75 and 1979/80.

Until his retirement in 2004, Mr. Lai held key management positions in corporate finance and organisation and management information in several HK listed companies. He is an independent non-executive director of Guangzhou R&F Properties Co., Limited and Country Garden Holdings Company Limited. He was an independent non-executive director of Shinhint Acoustic Link Holdings Limited but retired on 23 May 2014. All of which are companies listed on the Stock Exchange of Hong Kong. Mr. Lai is also an independent non-executive director of Nan Fung Group Holdings Limited.

**Mr. Meng Yan**, aged 61, was appointed as an Independent Non-Executive Director on 8 March 2005. Mr. Meng obtained a doctorate degree in economics from the Financial Science Research Centre of the Ministry of Finance (財政部政科學研究所) in 1997 and was a consultant to the Accounting Standard Committee of the Ministry of Finance (財政部會計準則委員會) for two years from September 2002 to September 2004. From 2001 to 2003, Mr. Meng served as a member of the Listing Committee of the China Securities Regulatory Commission (中國證券監督管理委員會股票發行審核委員會). Mr. Meng has over 30 years experience in tertiary education of accountancy in the PRC. He had served as the dean of the School of Accountancy of the Central University of Finance and Economics (中央財經大學). Mr. Meng is currently a professor and PHD supervisor of the School of Accountancy of the Central University of Finance and Economics.

**Mr. Xu Guangmao**, aged 70, was appointed as an Independent Non-Executive Director on 8 March 2005. Mr. Xu graduated in 1968 from the computer science department of Tsinghua University. Mr. Xu has over 35 years of experience in computer and peripheral equipment development and research. He served as a managing deputy chairman of China Computer Industry Association for eight years. He was a director and president of Beijing CCID Information Limited and a vice-chairman of the computer engineering & application branch of Chinese Institute of Electronics.

**Mr. Yeung Kwok Keung**, aged 69, was appointed a non-executive director of the Company on 1 August 2011 and assumed the role of an Independent Non-Executive Director since 21 October 2013. He was involved in information technology, logistics and venture capital investment until his retirement in 2008. As a Distinguished Fellow of the Hong Kong Computer Society, Mr. Yeung had also served as its President. He was also the Chairman of the Information Technology Committee of the Hong Kong SAR Government.

Mr. Yeung participated broadly in public and community services, and served on professional bodies for many years. He had also served on a variety of high level advisory bodies in academia, industry and the government. He was a member of Hong Kong Productivity Council, Hong Kong Vocational Council and Hong Kong Logistics Council.

He is a Justice of the Peace in Hong Kong and an honorary citizen of Changchun.

Save as disclosed otherwise, there is no relationship (including financial, business, family or other material/relevant relationship) between any members of the Board.

Biographical Details of Directors and Senior Management (continued)

## Senior Management

**Mr. Liang Qi Jiang** is the Vice President and General Manager of the Group's information equipment business division. He is responsible for the development and production of printer products. Mr. Liang graduated from Huazhong Polytechnic (華中工學院) (now known as Huazhong University of Science & Technology (華中科技大學). Mr. Liang has over 20 years of experience in the research and development and production management of printers. Mr. Liang joined the Group in August 1996.

**Mr. Sng Seng Poh** is the Production Director for the Group's manufacturing assembly. He is responsible for the manufacturing assemblies activities of Jolimark machines. In March 1990, Mr. Sng obtained the Diploma in Business Efficiency & Productivity (Production Management) from NPB Institute for Productivity Training in Singapore. Mr. Sng has over 20 years of experience in production management of SMT. Before joining the Group, Mr. Sng has worked for Richgold Industries Pte Limited in Singapore. Mr. Sng joined the Group in December 1998.

**Mr. Rao Zi Neng** is the assistant to the President of the Group, General Manager of the Group's Marketing Center and Director of the President's Office. He is responsible for the management of the Group's marketing, sales, after-sales and administration department. Mr. Rao is a senior engineer and has over 30 years of experience in software development, information technology management and system integration. Mr. Rao graduated from Zhejiang University in 1982, majoring in computer software. Before joining the Group, Mr. Rao worked for various electronics and information technology companies in the PRC, including Shenzhen Electronics Institute Ai Hua Electronics Limited (深圳愛華電子研究所), Shenzhen Ai Hua Ketuo Electronics Limited (深圳愛華科拓電子公司), Founder iASPEC (S7) Information Technologies Limited (方正永泰(深圳)信息技術有限公司) and Founder Cyber-Tech Co. Limited (深圳北大方正數碼科技有限公司). Mr. Rao joined the Group in July 2001.

# Corporate Governance Report

The Company has adopted and complied with all the code provisions as set out in the Corporate Governance Code during the year ended 31 December 2016, save as disclosed below.

In accordance with the requirements of code provision E.1.2 of the Corporate Governance Code, the chairman of the Board should attend the annual general meeting. However, due to other business commitments, the chairman of the Board, Mr. Au Pak Yin, was unable to attend the annual general meeting of the Company held on 17 May 2016.

At the annual general meeting of the Company held on 17 May 2016, there was one executive Director and other independent non-executive Directors present to enable the Board to develop a balanced understanding of the views of the shareholders of the Company.

The following summarises the Company's corporate governance practices and explains deviations, if any, from the Corporate Governance Code.

## Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules. The Company has made specific enquiry of all Directors regarding any non-compliance with the Model Code during the year ended 31 December 2016 and all Directors confirmed that they have fully complied with the required standard set out in the Model Code during the year ended 31 December 2016.

## Board of Directors

As at 31 December 2016, the Board comprises three Executive Directors, being Mr. Au Pak Yin, Mr. Au Kwok Lun and Mr. Ou Guo Liang and four Independent Non-Executive Directors, being Mr. Lai Ming, Joseph, Mr. Meng Yan, Mr. Xu Guangmao and Mr. Yeung Kwok Keung. Mr. Au Kwok Lun and Mr. Ou Guo Liang are the sons of Mr. Au Pak Yin. The Directors are considered to have a balance of skills and experience appropriate for the requirements of the business of the Company. Details of the Directors are shown on pages 24 to 25 of this annual report.

During the year ended 31 December 2016, five board meetings and two general meeting were held and the attendance was as follows:

| Name of Director | General meeting attendance | Board meeting attendance |
|---|---|---|
| **Executive Director** | | |
| Mr. Au Pak Yin | 0/2 | 5/5 |
| Mr. Au Kwok Lun | 1/2 | 5/5 |
| Mr. Ou Guo Liang | 0/2 | 5/5 |
| | | |
| **Independent Non-Executive Director** | | |
| Mr. Lai Ming, Joseph | 2/2 | 4/5 |
| Mr. Meng Yan | 0/2 | 5/5 |
| Mr. Xu Guangmao | 0/2 | 5/5 |
| Mr. Yeung Kwok Keung | 2/2 | 5/5 |

All of the above Directors had participated in continuous professional development to develop and refresh their knowledge and skills.

Corporate Governance Report (continued)

The Company has a formal schedule of matters specifically reserved to the Board and those delegated to management. There is a clear division of responsibilities amongst committees and each of them has a specific term of reference. The Board is responsible for determining the overall strategy and approving the annual business plan of the Group, and ensuring the business operations are properly planned, authorised, undertaken and monitored. All policy matters of the Group, material transactions or transactions where there is conflict of interests are reserved for the Board's decisions.

The Board has delegated the day-to-day responsibilities to the executive management.

## Chairman and Chief Executive Officer

Mr. Au Pak Yin has been appointed by the Board as the Chairman, who is responsible for the leadership and effective running of the Board, and ensuring that all key and appropriate issues were discussed by the Board in a timely and constructive manner.

Mr. Au Kwok Lun has been appointed by the Board as the Chief Executive Officer, who is delegated with the responsibilities of operations, business development, investor relations and public relations of the Group. The Board also comprises Independent Non-Executive Directors who bring strong independent judgement, knowledge and experience to the Board. As noted under the paragraph headed "Audit Committee" of this annual report, all the Audit Committee members are Independent Non-Executive Directors. This structure is to ensure a sufficient balance of power and authority in place within the Group.

## Independent Non-Executive Directors

Mr. Yeung Kwok Keung has been re-appointed for another three-year term on 1 August 2014 and other Independent Non-Executive Directors are re-appointed for another three-year term on 13 June 2014.

The Board also confirmed receipt of the annual confirmation letter from each of the Independent Non-Executive Directors confirming his independence for the year ended 31 December 2016.

## Remuneration Committee

The Board has established a Remuneration Committee ("RC"). The RC comprises Mr. Yeung Kwok Keung (Chairman), Mr. Meng Yan, Mr. Xu Guangmao and Mr. Lai Ming, Joseph, who are all Independent Non-Executive Directors and Mr. Au Kwok Lun who is an Executive Director. During the year ended 31 December 2016, the RC had reviewed the remuneration packages of the Directors and senior management.

For the year ended 31 December 2016, the RC held one meeting. The attendance record of each member is as follows:

| Name of Director | Attendance |
|---|---|
| Mr. Yeung Kwok Keung *(Redesignated as Chairman of RC on 22 March 2016)* | 1/1 |
| Mr. Meng Yan | 1/1 |
| Mr. Xu Guangmao | 1/1 |
| Mr. Au Kwok Lun | 1/1 |
| Mr. Lai Ming, Joseph *(Redesignated as member of RC on 22 March 2016)* | 1/1 |

The principal responsibility of the RC is to determine the remuneration of the Directors and members of the senior management.

## Nomination Committee

The Board has established a Nomination Committee ("NC"). The NC comprises Mr. Lai Ming Joseph (Chairman), Mr. Meng Yan, Mr. Xu Guangmao and Mr. Yeung Kwok Keung, who are all Independent Non-Executive Directors. During the year ended 31 December 2016, NC had reviewed the structure, diversity and composition of the Board, and put forward recommendation to the Board on re-election of retiring directors.

For the year ended 31 December 2016, the NC held one meeting. The attendance record of each member is as follows:

| Name of Director | Attendance |
|---|---|
| Mr. Lai Ming, Joseph *(Chairman of NC)* | 1/1 |
| Mr. Meng Yan | 1/1 |
| Mr. Xu Guangmao | 1/1 |
| Mr. Yeung Kwok Keung | 1/1 |

The Board adopted a board diversity policy setting out the approach to diversify members of the Board. The Company believes that a diversified perspective can be achieved through considering a number of factors, including but not limited to skills, regional and industry experience, background, race, gender and other qualities. The Company will also take into account factors based on its own business model and specific needs from time to time. Board appointments will continue to be made on a merit basis and candidates will be considered against objective criteria, with due regard for the benefits of diversity on the Board.

The NC will review the board diversity policy on a regular basis to ensure its continued effectiveness.

## Auditor's Remuneration

PricewaterhouseCoopers had been appointed as the auditor of the Group. During the year ended 31 December 2016, fee for audit services (including review on interim results) was RMB1,340,000 and fee for non-audit services was RMB40,000.

## Audit Committee

The Board establishes a formal and transparent arrangement for considering how it applies the financial reporting and internal control principles and for maintaining an appropriate relationship with the Company's auditors. The Audit Committee ("AC") established by the Company has clear terms of reference. The Company confirmed receipt of acknowledgement from all directors of their responsibility for preparing the accounts.

All the members of the AC are Independent Non-Executive Directors. The AC is chaired by Mr. Lai Ming, Joseph who is a certified public accountant and the committee members are Mr. Meng Yan, Mr. Xu Guangmao and Mr. Yeung Kwok Keung.

The functions specified in Code Provision C.3.3(a) to (n) of the Corporate Governance Code were included in the Terms of Reference of the AC. The Terms of Reference of the AC also explains the role and the authority delegated by the Board.

During the year, the AC also performed the Company's corporate governance function and reviewed related policy and made recommendation to the Board.

Two meetings were convened by the AC during the year ended 31 December 2016. The attendance record of each member is as follows:

| Name of Director | Attendance |
|---|---|
| Mr. Lai Ming, Joseph *(Chairman of Audit Committee)* | 2/2 |
| Mr. Meng Yan | 2/2 |
| Mr. Xu Guangmao | 2/2 |
| Mr. Yeung Kwok Keung | 2/2 |

During the year ended 31 December 2016, the AC discussed and reviewed the final results of 2015 and interim results of 2016 and other reports for the year. Also, the AC met with the external auditor to discuss auditing and internal control matters.

## Directors' Training

Pursuant to A.6.5 of the Corporate Governance Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. The Directors are regularly briefed on the amendments to or updates on the relevant laws, rules and regulations. From time to time, Directors are provided with written materials to develop and refresh their professional skills. The Directors had fulfilled the relevant requirements under A.6.5 of the Corporate Governance Code during the year.

## Company Secretary's Training

Pursuant to rule 3.29 of the Listing Rules, the Company Secretary must take no less than 15 hours of relevant professional training in each financial year. The Company Secretary confirmed no less than 15 hours of relevant professional development by means of attending seminars and reading relevant guideline materials.

## Internal Control and Risk Management

The Board is entrusted with the overall responsibility for establishing and maintaining the Group's internal control and risk management systems and reviewing their effectiveness. The Group's internal control system has been designed for safeguarding assets, maintaining proper accounting records and ensuring reliability of the financial information. The Board has conducted a review of the effectiveness of the internal control and risk management systems of the Group which covers all material controls, including operational, financial and compliance controls and risk management functions. The internal audit department of the Company is implementing a procedure to review the major operational, financial and compliance controls and risk management functions of the Group on a continuing basis which aims to cover all major operations of the Group on a rotational basis.

The Group's risk management framework includes the following elements:

- identify significant risks in the Group's operation environment and evaluate the impacts of those risks on the Group's business;
- develop necessary measures to manage those risks;
- monitor and review the effectiveness of such measures.

The implementation of risk management framework of the Group was assisted by the Group's internal audit department so that the Group could ensure new and emerging risks relevant to the Group's operation are promptly identified by management, assess the adequacy of action plans to manage these risks and monitor and evaluate the effectiveness of the action plans. These are on-going processes and the AC reviews periodically the Group's risk management systems.

Based on the reports from the Group's internal audit department, the Board considers the Group's risk management and internal control system is adequate and effective and the Group has complied with the provisions on risk management and internal controls as set out in the Corporate Governance Code.

## Shareholders' Rights

Extraordinary general meetings shall be convened on the requisition of one or more Shareholders holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the company secretary of the Company for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Shareholders may send their enquiries and concerns to the Board by addressing them to the company secretary of the Company by mail at Unit 01, 23A/F., K. Wah Centre, 191 Java Road, North Point, Hong Kong or by email at investor@jolimark.com. The Company Secretary forwards communications relating to matters within the Board's direct responsibilities to the Board and communications relating to ordinary business matters, such as suggestions, inquiries and customer complaints, to the chief executive officer of the Company.

## Investor Relations

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

# Environment, Society and Governance Report

## Introduction

This is the environmental, social and governance (the "ESG") report (the "ESG Report") of Jolimark Holdings Limited (the "Company" and together with its subsidiaries, the "Group") for the year ended 31 December 2016.

The Company believes that this ESG Report enables the Company to communicate the Group's sustainability related matters in a transparent and accountable manner, which is key to gaining the trust of its stakeholders. The Group is committed to making continuous contribution to the sustainable development in China and overseas, and fulfilling corporate social responsibilities at various operational levels. This ESG Report provides an overview of the Group's performance related to sustainable development in the areas of the environment, community, employment and labor practices and operation convention for the year ended 31 December 2016.

### Reporting Standard and Scope

This ESG Report has been prepared with reference to the ESG Reporting Guide as set forth under Appendix 27 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

### Social Responsibility Management

Based on future development and focusing on social responsibility construction, the Group constantly deepened responsibility concept building, improved responsibility management, and made steady progress in integrating social responsibility into its functional management and business operation. The Group also intensified communication and dialogues with stakeholders, enhanced operation transparency, and built a responsible brand so as to increase responsible competitiveness and promote harmonious and coordinated development among the Company, society and environment.

For businesses, fulfilling social responsibility is the only way to achieve sustainable economic, environmental and social development and an inevitable path to achieve their own sustainability; it is not only an objective requirement under the new normal of economic and social development but also a strategic need for businesses to transform their growth patterns and realize scientific development. As such, the Group upholds the responsibility concept of harmony and common prosperity, enhances awareness and capability for corporate social responsibility, integrates corporate social responsibility indicators into every aspect of business management and operation, and actively performs its responsibility for the stakeholders to promote harmonious development among the Company, society and environment.

Based on the needs of the stakeholders and the Group's own development, the Company conducted a substantial analysis of the sustainable development issue through research on and analysis of internal and external stakeholders and benchmarking against domestic and overseas guidelines concerning corporate social responsibility matters, in order to accurately and comprehensively disclose information on operation and management.

## Environment

### Layer A1: Emissions

The Company strictly monitors waste discharge during its production process, and implement recycling and comprehensive treatment of recyclable substances through reasonable classification and collection. No waste water is produced during its production process. Domestic waste water is discharged to the local municipal drainage system after undergoing septic tank treatment. Waste gas produced during its production process is discharged after high-altitude concentrated treatment through pipeline in the exhausting system. The Company monitors emissions regularly, and the monitoring results of all years indicate that the emissions comply with the relevant standards during the year ended 31 December 2016. The waste produced during the production/office process is classified and collected, the waste with recycling value is handed over to a waste recycler, and the hazardous waste is handed over to a qualified professional recycling agency for disposal.

# Environment, Society and Governance Report

### Layer A2: Use of Resources

The Company is committed to making good use of resources and reducing energy and resource consumption during its operation. The Company vigorously promotes and advocates the idea of energy conservation and consumption reduction among all its employees, and have always implemented and reviewed the energy conservation and consumption reduction measures throughout the whole business process and their effectiveness. The Company attaches particular importance to control up from the design and development, and all its products have passed the national grade-I energy-saving certification and environmental label certification. While guaranteeing the quality of products, the Company also endeavours to achieve rational use of resources by reducing the use of raw materials and improving the recycling efficiency of raw materials. The total amount of electric power consumed by the Company in production in 2016 was reduced by 153,000 kWh as compared with 2015, and the total amount of electric power consumed for life was reduced by 42,000 kWh; the average amount of electric power consumed per unit product in 2016 was 1.848 kWh/set, down by 29.7% as compared with the average electric power consumption per unit product of 2.628 kWh/set in 2015.

### Layer A3: Environment and Natural Resources

The Company consciously takes the impact of its activities and decisions on the environment into overall consideration. The Company has established, promoted and improved the environmental management system and environmental label product management system, strengthened various internal control measures, reinforced environmental monitoring and inspection and implemented strict environmental risk prevention and control measures so as to minimize the impact on the environment during its production and operation process.

The Company tried to alleviate the impact on the environment by reducing use of electricity, water and paper, encouraging its employees/suppliers to recycle packaging materials, office supplies and other materials as well as obtaining environmental label certification and energy saving certification for all the products designed and sold by the Group.

## Society

### Layer B1: Employment

98.5% of the staff employed by the Company is stationed in Mainland China. The Company strictly abides the provisions of the PRC Labor Law, and had not violated with the relevant rules and regulations during the year ended 31 December 2016. The Company has a labor contract with all its employees, and pays the salaries & wages, overtime compensation and related benefits in a timely manner according to (or higher than) the local minimum wage standard, never defaults payment; grants entitlements of all holidays and statutory paid leaves in compliance with national regulations; the Company treats every employee equally that their employment, remuneration or promotion will not be affected by their social identities such as nation, race, nationality, gender, religion, age, political faction and marital status.

The Company has established a trade union organization and a number of staff clubs relating to football, badminton, basketball, and family, and allocate special funds on a monthly basis to provide rich and colourful amateur cultural life to its employees. The Company also organizes its employees to receive free health check-up annually to show its care for them and give them a sense of belonging.

Besides, the Company offers competitive remuneration packages to its employees. The Company has also adopted the share option scheme and set up the honour system to recognise and reward the employees who have made a contribution to the growth and development of the Group. The Company adopts a transparent system for assessing staff performance. At the end of each year, the Company will appraise the performance of all employees, and together with the results of the assessment results and employees' personal desire to adjust their job nature and pay arrangement as appropriate.

## Environment, Society and Governance Report (continued)

The Company conducts an employee satisfaction survey on an annual basis. Upon receipt of survey results, the Company will carefully consider all the valuable feedbacks from employees on improving the working environment, enhancing the operating efficiency and creating a harmonious working atmosphere, etc.

### Layer B2: Health and Safety

The Company is committed to implementing health and safety procedures. The Company has established a complete occupational health and safety management system according to the OHSAS18001 standards, and continuously and effectively promoted and implemented them to ensure a safe and healthy working environment for employees. Moreover, the Company has implemented safety management and adopted a series of safety measures to consolidate the achievements of three-layer safety production standardization. The Company also regularly reviews the implementation and effectiveness of related measures and monitors the environmental data of the workplace. The Company has added preventive measures for risk-related positions, trained related personnel to have awareness of risks, and informed them of risks. Employees at risk positions are organized to receive occupational disease examination each year. On top of this, the pre-recruitment and post-recruitment occupational disease examination mechanism was also enhanced to ensure the physical and mental healthiness of the Group's employees.

In addition to organizing the employees of the Group to receive trainings on the relevant occupational health and safety risks and taking protective measures for them, the Company also supervised and guided its related parties and strived to enhance their safety awareness and sense of safety responsibilities by exerting influence on them.

During the year ended 31 December 2016, no work-related fatalities were recorded, and there were no confirmed material non-compliance incident or grievance in relation to human rights and labour practices.

### Layer B3: Development and Training

The Company strives to motivate its employees by offering clear career development paths and opportunities to enhance and improve their skills, maintain their competitiveness, professional expertise and codes of ethic. The Company has a training room that can hold more than 100 people in the Company, with complete training facilities and internal trainers to provide orientation trainings and in-house trainings to its employees. The Company works out detailed training programs according to the needs of employees at the beginning of each year. Training programs cover different areas including management skills, sales & production, customer services, quality control, exhibition planning, code of conduct, and other trainings related to the industry. The Company conducted trainings according to the program and paid much attention to the effectiveness of training. Employees were also organised to receive trainings from external entities to get more knowledge and skills every year. In 2016, the Company completed 330 training programs, involving 10,483 person-trainings and a total of 54,604 hours.

### Layer B4: Labor Standards

The Group prohibits the employment of child and forced or compulsory labor in any of its operations. All the employees have the right to terminate employment with the Company freely by giving a reasonable notice. The Group complies with national and local laws, all employees are employed on a voluntary basis and no child labor is employed. The Group is dedicated to ensuring that operations remain free from child labor, and is developing systems and procedures to handle the management of such incidents. Should a child be discovered working on the Group's premises, he or she will immediately be transported back to their hometown or place of origin. The Group will then file necessary documentation with the local authorities while consulting with the child's guardians on avenues for his or her return to school. During the year of 2016, the Group did not receive any complaints from government authorities, nor compensated employees, or received punishment due to violation of labor standards.

## Layer B5: Supply Chain Management

The Company actively promotes sustainable development of the supply chain, leading its partners to fulfil their social responsibilities jointly. The Company has established long-term cooperative relationship with many of its suppliers, and endeavored to ensure their compliance with the Group's commitment to quality, environmental protection, low carbon operation, safety and ethic conduct. The Company selected suppliers carefully, and required them to satisfy several evaluation criteria, including such elements as track records, experience, financial strength, reputation, capability to produce high-quality products, effectiveness of quality control, environmental protection, safety, and public welfare responsibility. The Company also required its suppliers to observe the Company's anti-bribery policy. The Company is committed to equal cooperation, mutual benefit and win-win with its suppliers, and also conducted long-term quality monitoring and periodic review of all the suppliers to ensure effective influence and control on the supply chain.

## Layer B6: Product Responsibilities

The Company believes that products are at the core of corporate competitiveness. To effectively improve the product quality and ensure customers' rights and interests, the Company keeps strict control over the product quality up from research and development. The Company ensures the product quality through product quality control in all such activities as design, engineering measurement, procurement, production, testing, and after-sales services, thus satisfying customers.

Thanks to the stable and reliable quality, products of the Group were deemed qualified in the sample-based quality supervision and inspection conducted by government authorities in the past. The Company adopted the internal product standards of the Company which are more stringent than the national standards to control the product quality and ensure the superior product quality. A lot of the Group's products have received the Scientific and Technological Progress Awards issued by the government authorities, and the dot matrix type printer of "Jolimark" brand was awarded the title of Provincial Famous Brand Product.

The Company also attaches great importance to the after-sale service quality of products, and have constructed a complete sales and after-sales service network by licensing more than 1,300 certified sales outlets in medium and large-sized cities and tier-2 and tier-3 cities throughout China.

## Layer B7: Anti-corruption

The Company allows zero tolerance over corruption practices and bribery throughout its operations. The Company has an internal audit department to conduct regular business audit on relevant departments. All the business contracts with a third party are subject to professional reviews by the legal department, and a series of internal financial management systems were formulated for standard management purpose and to ensure corruption practices and bribery are prevented at the origin.

To ensure that employees comply with relevant policies and maintain high ethical standards, the Company educates relevant employees about prevention of corruption practices and bribery. The Company also advocates the related thoughts and warns employees against fraud, extortion and money laundering activities.

During the year of 2016, there had been no confirmed case of corruption.

## Layer B8: Community Investment

The Company has been contributing to promotion of the community and education programs of much concern. The Company encourages its employees to participate in the blood donation activity of community medical services without compensation, with the cumulative amount of donated blood exceeding 40,000 ml. Furthermore, the Company is enthusiastic about the development of education undertakings. The Company has established "Scholarships for Outstanding Students of Jolimark Employees" and "Jolimark Education Scholarship" and organized the "Jolimark Cup" literary creation contest of Jiangmen primary and secondary school students, etc. The Company allocates hundreds of thousands of Yuan to award these students who are excellent in virtues and study each year. These efforts have played a good exemplary role in promoting the development of educational undertakings, creating a good style of study, encouraging students to explore actively, become confident and self-reliant and seek pluralistic development, and inspiring a great number of students to rise in great vigor. Meanwhile, the Company supported the Chinese Chess League Division A as a title sponsor and donated money to sponsor "Jolimark Cup' 2016-2025 Jiangmen Youth Campus Football League Four", making a contribution to the social welfare undertakings.

# Independent Auditor's Report

**To the shareholders of Jolimark Holdings Limited**
*(Incorporated in the Cayman Islands with limited liability)*

## Opinion

### *What we have audited*

The consolidated financial statements of Jolimark Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 40 to 94, which comprise:

- the consolidated balance sheet as at 31 December 2016;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

### *Our opinion*

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 Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Independence*

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

## Key Audit Matters

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

Key audit matter identified in our audit is related to impairment of goodwill.

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| **Impairment of goodwill**<br><br>Refer to note 4(d) and note 8 to the consolidated financial statements<br><br>The goodwill balance of RMB5,742,000 arose on the acquisition of Shenzhen Coolwi Technology Company Limited ("Coolwi") in 2014, which is subject to an annual impairment assessment according to HKAS 36.<br><br>Management adopted the discounted cashflow method to perform the assessment. When management prepared the assessment, they exercised critical judgement in regard of selection of the methodology, estimation of revenue growth rate and the discount rate. Since Coolwi's new business was still in trial run for the development of number of users and sales volume, future market or economic conditions will impact the management's estimation.<br><br>We focused on this area due to the significant value of goodwill and the critical estimates made by management. | We involved our internal valuation experts in assessing the appropriateness of the methodology used by management.<br><br>We challenged the reasonableness of the estimations by performing the following procedures:<br><br>✓ compared the operating result with historical information of the number of users and sales volume for the year ended 31 December 2016 prepared by management and assessed the reasonableness of the updated future profit and cash flow forecasts for the years after 2016;<br><br>✓ compared the growth rate of revenue, approved budgets and business plans to historical results of Coolwi as well as the economic and industry forecasts;<br><br>✓ benchmarked the discount rate against our own internal data, taking into account the cost of capital of Coolwi and comparable entities;<br><br>✓ benchmarked the inflation rate against available government data.<br><br>We performed sensitivity analysis over growth rate of revenue to assess the potential impact of a range of possible outcomes.<br><br>Based on our audit procedures, we considered the judgement and estimates made by the management were supportable by available evidence and consistent with our understanding. |

Independent Auditor's Report (continued)

## Other Information

The directors of the Company are responsible for the other information. The other information comprises all of 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 Directors and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

As part of an audit in accordance with HKSAs, we exercise professional judgment 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.

## Independent Auditor's Report (continued)

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Pang Ho Yin.

**PricewaterhouseCoopers**
Certified Public Accountants

Hong Kong, 24 March 2017

# Consolidated Balance Sheet

As at 31 December 2016
(All amounts in Renminbi thousands unless otherwise stated)

| | Note | 2016 | 2015 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 6 | **89,488** | 88,642 |
| Land use rights | 7 | **8,588** | 8,877 |
| Intangible assets | 8 | **12,681** | 9,463 |
| Investments accounted for using the equity method | 10 | **18,570** | 10,176 |
| Available-for-sale financial assets | 11 | **3,349** | 3,349 |
| Deferred income tax assets | 21 | **2,682** | — |
| Restricted cash | 17 | **58,130** | 160 |
| | | **193,488** | 120,667 |
| **Current assets** | | | |
| Inventories | 13 | **89,113** | 102,367 |
| Trade and other receivables | 14 | **39,034** | 28,666 |
| Financial assets at fair value through profit or loss | 15 | **—** | 5,426 |
| Restricted cash | 17 | **69,651** | 30,289 |
| Cash and cash equivalents | 16 | **198,516** | 308,739 |
| | | **396,314** | 475,487 |
| **Total assets** | | **589,802** | 596,154 |
| **EQUITY** | | | |
| **Capital and reserves attributable to shareholders of the Company** | | | |
| Share capital and premium | 18 | **24,578** | 147,449 |
| Other reserves | 19 | **245,913** | 232,769 |
| Retained earnings | | **51,616** | 68,395 |
| **Non-controlling interests** | | **(77)** | 60 |
| **Total equity** | | **322,030** | 448,673 |

# Consolidated Balance Sheet (continued)

As at 31 December 2016
(All amounts in Renminbi thousands unless otherwise stated)

| | Note | 2016 | 2015 |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Borrowings | 20 | **53,670** | — |
| Deferred income tax liabilities | 21 | **1,073** | 799 |
| | | **54,743** | 799 |
| **Current liabilities** | | | |
| Trade and other payables | 22 | **98,768** | 112,814 |
| Current income tax liabilities | | **6,921** | 4,243 |
| Borrowings | 20 | **107,340** | 29,625 |
| | | **213,029** | 146,682 |
| **Total liabilities** | | **267,772** | 147,481 |
| **Total equity and liabilities** | | **589,802** | 596,154 |

The notes on pages 46 to 94 are an integral part of these consolidated financial statements.

The financial statements on pages 40 to 94 were approved by the Board of Directors on 24 March 2017 and were signed on its behalf:

**Mr. Au Pak Yin**
*Director*

**Mr. Au Kwok Lun**
*Director*

# Consolidated Income Statement

For the year ended 31 December 2016
(All amounts in Renminbi thousands unless otherwise stated)

| | Note | 2016 | 2015 |
|---|---|---|---|
| Revenue | 5 | **526,637** | 496,975 |
| Cost of goods sold | 24 | **(331,730)** | (306,373) |
| **Gross profit** | | **194,907** | 190,602 |
| Other income | 23 | **9,962** | 12,952 |
| Selling and marketing expenses | 24 | **(43,263)** | (37,593) |
| Administrative expenses | 24 | **(48,629)** | (48,223) |
| Research and development expenses | 24 | **(26,834)** | (25,430) |
| Other gains — net | 26 | **376** | 25,257 |
| **Operating profit** | | **86,519** | 117,565 |
| Finance expenses — net | 27 | **(7,408)** | (3,948) |
| Share of losses of investments accounted for using the equity method | 10 | **(606)** | (613) |
| **Profit before income tax** | | **78,505** | 113,004 |
| Income tax expenses | 28 | **(17,440)** | (24,098) |
| **Profit for the year** | | **61,065** | 88,906 |
| **Profit attributable to:** | | | |
| — Shareholders of the Company | | **61,176** | 88,921 |
| — Non-controlling interests | | **(111)** | (15) |
| | | **61,065** | 88,906 |
| **Earnings per share for profit attributable to the shareholders of the Company during the year (expressed in RMB per share)** | | | |
| — Basic | 29 | **0.098** | 0.147 |
| — Diluted | 29 | **0.098** | 0.147 |

The notes on pages 46 to 94 are an integral part of these consolidated financial statements.

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2016
(All amounts in Renminbi thousands unless otherwise stated)

| | 2016 | 2015 |
|---|---|---|
| **Profit for the year** | **61,065** | 88,906 |
| Other comprehensive income for the year | **—** | — |
| **Total comprehensive income for the year** | **61,065** | 88,906 |
| **Total comprehensive income for the year attributable to:** | | |
| — Shareholders of the Company | **61,176** | 88,921 |
| — Non-controlling interests | **(111)** | (15) |
| | **61,065** | 88,906 |

The notes on pages 46 to 94 are an integral part of these consolidated financial statements.

# Consolidated Statement of Changes In Equity

For the year ended 31 December 2016
(All amounts in Renminbi thousands unless otherwise stated)

| | Attributable to shareholders of the Company | | | | |
|---|---|---|---|---|---|
| | Share capital and premium (note 18) | Other reserves (note 19) | Retained earnings | Non-controlling interests | Total equity |
| **Balance at 1 January 2015** | 102,806 | 217,428 | 68,453 | 75 | 388,762 |
| **Comprehensive income** | | | | | |
| Profit for the year | — | — | 88,921 | (15) | 88,906 |
| **Contributions by and distributions to the shareholders of the Company recognized directly in equity** | | | | | |
| Transfer to the statutory reserve and enterprise expansion fund | — | 10,716 | (10,716) | — | — |
| Share options granted to employees | — | 5,354 | — | — | 5,354 |
| Exercise of share options | 2,959 | (691) | — | — | 2,268 |
| Share options forfeited during the year | — | (38) | — | — | (38) |
| Placing of new shares | 75,637 | — | — | — | 75,637 |
| Dividends | (33,953) | — | (78,263) | — | (112,216) |
| | 44,643 | 15,341 | (88,979) | — | (28,995) |
| **Balance at 31 December 2015** | 147,449 | 232,769 | 68,395 | 60 | 448,673 |
| **Balance at 1 January 2016** | **147,449** | **232,769** | **68,395** | **60** | **448,673** |
| **Comprehensive income** | | | | | |
| Profit for the year | **—** | **—** | **61,176** | **(111)** | **61,065** |
| Non-controlling interests arising on newly acquired subsidiary (note 9) | **—** | **—** | **—** | **(26)** | **(26)** |
| **Contributions by and distributions to the shareholders of the Company recognized directly in equity** | | | | | |
| Transfer to the statutory reserve and enterprise expansion fund | **—** | **8,604** | **(8,604)** | **—** | **—** |
| Share options granted to employees | **—** | **5,102** | **—** | **—** | **5,102** |
| Exercise of share options | **2,664** | **(553)** | **—** | **—** | **2,111** |
| Share options forfeited during the year | **—** | **(9)** | **—** | **—** | **(9)** |
| Placing of new shares (note 18) | **16,548** | **—** | **—** | **—** | **16,548** |
| Dividends (note 30) | **(142,083)** | **—** | **(69,351)** | **—** | **(211,434)** |
| | **(122,871)** | **13,144** | **(16,779)** | **(137)** | **(126,643)** |
| **Balance at 31 December 2016** | **24,578** | **245,913** | **51,616** | **(77)** | **322,030** |

The notes on pages 46 to 94 are an integral part of these consolidated financial statements.

# Consolidated Statement of Cash Flows

For the year ended 31 December 2016
(All amounts in Renminbi thousands unless otherwise stated)

| | Note | 2016 | 2015 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations | 31 | **80,187** | 146,770 |
| Income tax paid | | **(17,170)** | (25,211) |
| Interest paid | | **(2,116)** | (2,219) |
| **Net cash generated from operating activities** | | **60,901** | 119,340 |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | | **(7,578)** | (10,541) |
| Purchase of intangible assets | | **(1,075)** | (331) |
| Disposals of property, plant and equipment | | **753** | 911 |
| Acquisition of interest in associates | | **(9,000)** | (10,700) |
| Proceeds from structured deposits in a bank | | **—** | 30,000 |
| Interests received | | **7,848** | 13,012 |
| **Net cash (used in)/generated from investing activities** | | **(9,052)** | 22,351 |
| **Cash flows from financing activities** | | | |
| Bank deposits (secured for)/released from borrowings | | **(97,510)** | 60,000 |
| Proceeds from borrowings | | **155,718** | — |
| Repayments of borrowings | | **(29,625)** | (83,600) |
| Dividends paid to shareholders of the Company | | **(211,434)** | (112,216) |
| Exercise of share options | | **2,111** | 2,268 |
| Placing of new shares | | **16,548** | 75,637 |
| **Net cash used in financing activities** | | **(164,192)** | (57,911) |
| **Net (decrease)/increase in cash and cash equivalents** | | **(112,343)** | 83,780 |
| Cash and cash equivalents at beginning of the year | | **308,739** | 223,645 |
| Exchange gains on cash and cash equivalents | | **2,120** | 1,314 |
| **Cash and cash equivalents at end of the year** | 16 | **198,516** | 308,739 |

The notes on pages 46 to 94 are an integral part of these consolidated financial statements.

# Notes to the consolidated financial statements

(All amounts in Renminbi thousands unless otherwise stated)

## 1. General Information

(a) Jolimark Holdings Limited (the "Company") was incorporated in the Cayman Islands on 22 July 2004 as an exempted company with limited liability under the Companies Law (2003 Revision) of the Cayman Islands. The address of its registered offices is Clifton House, 75 Fort Street, PO Box 1350 GT, George Town, Grand Cayman, Cayman Islands.

(b) The Company is an investment holding company. The principal activities of the Company and its subsidiaries (the "Group") are manufacture and sale of printers and other electronic products in the People's Republic of China (the "PRC").

(c) The Company has been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 29 June 2005.

(d) These consolidated financial statements have been approved for issue by the Board of Directors of the Company on 24 March 2017.

## 2. Summary of Significant Accounting Policies

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (the "HKFRS") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). They have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss and available-for-sale financial assets.

The preparation of financial statements in conformity with the HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4.

(All amounts in Renminbi thousands unless otherwise stated)

## 2. Summary of Significant Accounting Policies (continued)

### 2.1 Basis of preparation (continued)

#### 2.1.1 Changes in accounting policy and disclosures

(a) Effect of adopting new standards and amendments to standards

The following standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2016. The adoption of these new and amended standards and interpretations does not have significant impact to the results or financial position of the Group.

| | |
|---|---|
| Annual improvements Project | Annual Improvements 2012-2014 Cycle |
| HKFRS 14 | Regulatory Deferral Accounts |
| HKFRS 10 and HKAS 28 Amendment | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture |
| HKFRS 10, HKFRS 12 and HKAS 28 Amendment | Investment Entities: Applying the Consolidation Exception |
| HKAS 11 Amendment | Accounting for Acquisitions of Interests in Joint Venture |
| HKAS 1 Amendment | Disclosure Initiative |
| HKAS 16 and HKAS 38 Amendment | Clarification of Acceptable Methods of Depreciation and Amortization |
| HKAS 27 Amendment | Equity Method in Separate Financial Statements |
| HKAS 19 | Employee Benefits |
| HKAS 34 | Interim financial reporting |

(b) New and amended standards and interpretations issued but are not effective for financial year ended 31 December 2016 and have not been early adopted by the Group

| | | Effective for annual periods beginning on or after |
|---|---|---|
| HKAS 12 Amendment | Income Taxes | 1 January 2017 |
| HKAS 7 | Statement of Cash Flows | 1 January 2017 |
| HKAS 2 Amendment | Classification and Measurement of Share–based Payment Transactions | 1 January 2018 |
| HKFRS 15 | Revenue from Contracts with Customers | 1 January 2018 |
| HKFRS 9 | Financial Instruments | 1 January 2018 |
| HKFRS 16 | Leases | 1 January 2019 |

Management is in the process of making an assessment of their impact and is not yet in a position to state whether any substantial changes to the Group's significant accounting policies and presentation of the financial information will be resulted.

Notes to the consolidated financial statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

# 2. Summary of Significant Accounting Policies (continued)

## 2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 December 2016.

### (a) Subsidiaries

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

#### (i) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognized amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognized in profit or loss.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with HKAS 39 in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognized and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the consolidated income statement.

## 2. Summary of Significant Accounting Policies (continued)

### 2.2 Consolidation (continued)

#### (a) Subsidiaries (continued)

##### (i) Business combinations (continued)

Intra-group transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

#### (b) Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

#### (c) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognized in the consolidated income statement, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount adjacent to 'share of profit/(loss) of an investment accounted for using equity method' in the consolidated income statement.

Notes to the consolidated financial statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

## 2. Summary of Significant Accounting Policies (continued)

### 2.2 Consolidation (continued)

#### (c) Associates (continued)

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognized in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gain or losses on dilution of equity interest in associates are recognised in the statement of profit or loss.

### 2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers (the "CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the senior management of the Company that make strategic decisions.

### 2.4 Foreign currency translation

#### (a) Functional and presentation currency

Items included in the financial statements of each of group entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Renminbi Yuan ("RMB"), which is the Company's functional and presentation currency.

#### (b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated income statement.

Foreign exchange gains and losses that relate to borrowings are presented in the consolidated income statement within "finance expenses-net". All other foreign exchange gains and losses are presented in the consolidated income statement within "other gains – net".

## 2. Summary of Significant Accounting Policies (continued)

### 2.5 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and any impairment loss. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

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

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

| | |
|---|---|
| Buildings | 40 years |
| Plant and machinery | 10 – 20 years |
| Furniture and fixtures | 5 years |
| Leasehold improvements | Lower of lease term or estimated useful life of 2 – 5 years |
| Motor vehicles | 5 years |

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2.8).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the consolidated income statement.

### 2.6 Land use rights

Cost of acquiring rights to use certain land for the Group's operations over a certain period is considered as prepaid operating lease and is recorded as land use rights in the consolidated balance sheet. Land use rights are recognized as an expense on a straight-line basis over the remaining lease term or the operating license period, whichever is shorter.

Notes to the consolidated financial statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

## 2. Summary of Significant Accounting Policies (continued)

### 2.7 Intangible assets

#### (a) Goodwill

Goodwill arised from the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognized immediately as an expense and is not subsequently reversed.

#### (b) Proprietary technology

Proprietary technology is recognized at historical cost. Proprietary technology has a definite useful life and is carried at cost less accumulated amortization and impairment. Amortization is calculated using the straight-line method to allocate the cost of proprietary technology over its estimated useful life (10 years).

### 2.8 Impairment of non-financial assets

Assets that have an indefinite useful life - for example, goodwill - are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows ("CGUs"). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

## 2. Summary of Significant Accounting Policies (continued)

### 2.9 Financial assets

#### 2.9.1 Classification

The Group classifies its financial assets as the following categories: financial assets at fair value through profit and loss, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

(a) Financial assets at fair value through profit and loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if it is acquired principally for the purpose of selling in the short-term. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. Loans and receivables are classified as “trade and other receivables”, “restricted cash” and “cash and cash equivalents” in the consolidated balance sheet.

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of them within 12 months of the balance sheet date.

#### 2.9.2 Recognition and measurement

Regular purchases and sales of financial assets are recognized on trade-date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the statement of profit or loss. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loan and receivables are subsequently carried at amortized cost using the effective interest method. Available-for-sale financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are subsequently carried at cost less impairment provisions.

Gains or losses arising from changes in the fair value of “financial assets at fair value through profit or loss” category are presented in the statement of profit or loss within “other gains - net” in the period in which they arise.

Notes to the consolidated financial statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

## 2. Summary of Significant Accounting Policies (continued)

### 2.10 Impairment of financial assets

#### (a) Assets carried at amortized cost

The Group assesses at the end of each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors 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 reorganization, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognized in the consolidated income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the consolidated income statement.

#### (b) Assets classified as available for sale

The Group assesses at the end of each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. For equity investments classified as available for sale, a significant or prolonged decline in the fair value of the equity investments below its cost is evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss –is removed from equity and recognized in profit of loss. Impairment losses recognized in the consolidated income statement on equity instruments are not reversed through the consolidated income statement.

### 2.11 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labor, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

## 2. Summary of Significant Accounting Policies (continued)

### 2.12 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognized in the consolidated income statement.

### 2.13 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks.

### 2.14 Share capital and premium

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Where any group entities purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's shareholders.

Certain group entities can distribute dividends out of share premium according to the applicable laws and regulations of the relevant jurisdictions. Where dividends are declared out of share premium, the amount is deducted from share premium account.

### 2.15 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognized initially at fair value and subsequently measured at amortised cost using the effective interest method.

### 2.16 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the statement of profit or loss over the period of the borrowings using the effective interest method.

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

Notes to the consolidated financial statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

## 2. Summary of Significant Accounting Policies (continued)

### 2.17 Borrowing cost

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

### 2.18 Current and deferred income tax

The tax expense for the year comprises current and deferred tax. Tax is recognized in the statement of profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized in other comprehensive income or directly in equity, respectively.

**(a) Current income tax**

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

**(b) Deferred income tax**

Inside basis differences

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Outside basis differences

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

**(c) Offsetting**

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

## 2. Summary of Significant Accounting Policies (continued)

### 2.19 Employee benefits

#### (a) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

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

#### (b) Pension obligations

The Group participates in a number of defined contribution plans in the PRC and Hong Kong, the assets of which are generally administrated by the relevant authority of the PRC or held in separate trustee-administered funds in Hong Kong. The pension plans are generally funded by payments from employees and the relevant group entities. The Group pays contributions to the pension plans on a mandatory or contractual basis which are calculated as a percentage of the employees' salaries.

The Group has no legal or constructive obligations to make further payments once the required contributions have been paid, even if the plans do not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior years.

The contributions are recognized as employee benefit expenses when they are due and are not reduced by contributions forfeited by those employees who leave the scheme prior to fully vesting in the contributions.

#### (c) Share-based compensation

The Group operates an equity-settled share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any service and non-market performance vesting conditions (for example, profitability and sales growth targets) and any non-vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the entity reassesses its estimates of the number of options that are expected to vest, and recognizes the impact of the revision of original estimates, if any, in the statement of profit or loss, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital and share premium when the options are exercised.

The grant by the Company of options over its equity instruments to the employees of subsidiaries of the Group is treated as capital contribution to the subsidiaries in the Company's financial statements. The fair value of employee services received, measured by reference to the fair value of the options granted, is recognized over the vesting period as an increase to investment in subsidiary, with a corresponding credit to equity.

#### (d) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

Notes to the consolidated financial statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

## 2. Summary of Significant Accounting Policies (continued)

### 2.20 Provision

Provisions for legal claims are recognized when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

### 2.21 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown, net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The Group based its estimates on historical results, taking into consideration the type of customers, the type of transaction and the specifics of each arrangement.

**(a) Sales of goods**

Sales of goods are recognized on the transfer of risks and rewards of ownership and collectability of the related receivables is reasonably assured, which generally coincides with the time when the goods are delivered to customers.

**(b) Provision of services**

Provision of services is recognized in the accounting period in which the services are rendered.

**(c) Incentive subsidy**

Incentive subsidy is recognized as income of the period in which the Group has complied with the conditions attaching to those (if any) in accordance with the relevant agreements and the subsidy has been received or it is reasonably assured that the subsidy will be received.

### 2.22 Interest income

Interest income is recognized on a time-proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

### 2.23 Dividend income

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

### 2.24 Leases

**Operating lease**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of profit or loss on a straight-line basis over the period of the lease.

## 2. Summary of Significant Accounting Policies (continued)

### 2.25 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the consolidated financial statements in the period in which the dividends are approved by the Company's shareholders.

## 3. Financial Risk Management

### 3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk.

#### (a) Market risk

(i) Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to United States dollars ("US$"), Taiwanese dollars ("TWD"), Euro and Hong Kong dollars ("HK$"). The Group's businesses are principally conducted in RMB, except for import of certain raw materials and machinery from overseas suppliers, sales of goods to overseas customers and borrowing that are denominated in US$, TWD, Euro or HK$.

As at 31 December 2016, the Group had more financial liabilities than financial assets outside the Mainland China. The Group manages and monitors its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures and to mitigate the impact on exchange rate fluctuations by reducing the financial liabilities if needed. The Group has not entered into any forward exchange contracts to hedge its exposure to foreign exchange risk.

As at 31 December 2016, if RMB had strengthened/weakened by 6.8% against the US$ and HK$ with all other variables held constant, post-tax profit for the year would be higher/lower by RMB1,655,000 (2015: if RMB had strengthened/weakened by 6% against the US$ and HK$ with RMB181,000), which is mainly attributable to net result of exchange differences on translation of US$ and HK$ denominated trade receivables, cash and cash equivalents, borrowings and trade payables.

(ii) Interest rate risk

The Group's major interest-bearing assets are cash and cash equivalents and restricted cash. The maturity term of cash and cash equivalents and restricted cash are within 12 months or at fixed rates so there would be no significant interest rate risk for these financial assets.

The Group's major interest-bearing liabilities are borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest risk which is partially offset by cash held at variable rates. As at 31 December 2016, if interest rates on bank borrowings had been 50 basis points higher/lower with all other variables held constant, post-tax profit would have been RMB672,000 lower/higher (2015: RMB124,000), mainly as a result of higher/lower interest expenses on these variable rate borrowings.

The Group has not used any financial instrument to hedge its exposure to interest rate risk.

Notes to the consolidated financial statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

## 3. Financial Risk Management (continued)

### 3.1 Financial risk factors (continued)

#### (a) Market risk (continued)

(iii) Price risk

The Group is exposed to equity securities price risk because of investments held by the Group which are classified on the consolidated balance sheet as available-for-sale financial assets. To manage its price risk arising from investments in equity securities, the Group diversified its portfolio.

The carrying amounts of available-for-sale financial assets represent the Group's maximum exposure to price risk.

#### (b) Credit risk

The carrying amount of cash and cash equivalents, and restricted cash and trade and other receivables represent the Group's maximum exposure to credit risk at the reporting date in relation to financial assets. The Group does not hold any collateral as security.

The cash and cash equivalents, restricted cash of the Group are deposited in those financial institutions without significant credit risk, most of which are state-controlled commercial banks with no history of non-performance. Management does not expect any losses from non-performance by these finance institutions.

Credit risk related to trade and other receivables is the risk that the receivables cannot be collected on the due date. The Group has policies in place to ensure that sales of goods are made to customers with a good credit quality based on assessment of ageing of trade receivables, repayment history, the customers' financial position and other factors. As at 31 December 2016, 34% of trade receivables are due from three major customers of the Group (2015: 58%). For bills receivable, the Group will only accept selected bank acceptance bills issued by large or medium sized commercial banks in the PRC, and with maturity periods normally not more than 6 months. Management considers the default risk from these bank acceptance bills is low as they consider that PRC financial market is highly regulated and bankruptcy or default of PRC financial institutions should be rare.

#### (c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in funding by arranging banking facilities; the Company aims to maintain flexibility by settlement of amounts due from subsidiaries.

The table below analyses the financial liabilities of the Group and the Company into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows of the financial liabilities.

| | Within 1 year | Between 1 and 2 years | Between 2 and 5 years |
|---|---|---|---|
| **At 31 December 2016** | | | |
| Borrowings | **110,925** | **1,407** | **54,765** |
| Trade and other payables | **43,144** | **—** | **—** |
| At 31 December 2015 | | | |
| Borrowings | 30,207 | — | — |
| Trade and other payables | 73,490 | — | — |

# 3. Financial Risk Management (continued)

## 3.2 Capital risk management

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

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

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings divided by total assets as shown on the consolidated balance sheet. As at 31 December 2016, the total borrowing for the Group is RMB 161,010,000 (2015: RMB29,625,000) and the gearing ratio is 27.30% (2015: 4.97%).

## 3.3 Fair value estimation

The different levels of fair value hierarchy are defined as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices);

Level 3 – Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

Available-for-sale financial assets as at 31 December 2016 are equity investment in two private companies, which are measured at fair value in level 3.

The carrying amounts less impairment provision of trade and other receivable and the carrying amounts of trade and other payables approximate their fair values due to their short term nature.

During the year ended 31 December 2016, there were no significant changes in the business or economic circumstances that affect the fair value of the Group's financial assets and financial liabilities.

Notes to the consolidated financial statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

## 4. Critical Accounting Estimates and Judgements

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

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

### (a) Net realizable value of inventories

Net realizable value of inventories is based on the management's best estimations of selling price of the inventories in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are made with reference to the current market conditions and the historical experience of selling goods of similar nature. It could change significantly as a result of changes in market condition. Management reassesses these estimations at each balance sheet date.

### (b) Provision for impairment of trade and other receivables

Management determines the provision for impairment of receivables based on the credit history of the customers and the current market conditions. Although the provision is based on the management's best estimations, it could change significantly as a result of change in financial positions of customers and market conditions. Management reassesses the provision at each balance sheet date.

### (c) Income tax and deferred tax

The Group is subject to corporate income taxes in the PRC. Significant judgement is required in determining the amount of the provision for taxation and timing of payment of the related taxations. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred tax provisions in the period in which such determination is made.

### (d) Estimated impairment of Investments accounted for using the equity method and goodwill

Investments accounted for using the equity method are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill is reviewed for impairment at each balance sheet date or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts of Investments accounted for using the equity method and goodwill have been determined based on value-in use calculations, taking into account latest market information and past experience. These calculation require the use of judgements and estimates.

(All amounts in Renminbi thousands unless otherwise stated)

## 5. Segment Information

The directors and chief executive officer of the Group are the CODM of the Group. The CODM reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The CODM manages the Group's business from the perspective of different product lines of the Group, i.e. printers and other electronic products. During the year, "Kamo" mobile payment and Yingmei.me O2O cloud printing business were in trial run stage, and expenses of approximately RMB15,975,314 were incurred for the year ended 31 December 2016.

The CODM assesses the performances of the operating segments based on a measure of segment revenue and segment results. Segment results exclude other income, administrative expenses, research and development expenses, other gains – net, finance costs-net and income tax expenses, which are centrally managed for the Group.

The segment revenue and results and the reconciliation with profit for the year ended 31 December 2016 are as follows:

| | Printers | Other electronic products | Total |
|---|---|---|---|
| **Revenue (from external customers)** (note (a)) | **469,874** | **56,763** | **526,637** |
| **Segment results** | **136,024** | **15,014** | **151,038** |
| Other income | | | **9,962** |
| Administrative expenses | | | **(48,629)** |
| Research and development expenses | | | **(26,834)** |
| Other gains – net | | | **376** |
| Finance expenses – net | | | **(7,408)** |
| Income tax expenses | | | **(17,440)** |
| Profit for the year | | | **61,065** |
| **Segment results include:** | | | |
| Share of losses of investments accounted for using the equity method | **(606)** | **—** | **(606)** |
| Depreciation and amortization | **(3,768)** | **(762)** | **(4,530)** |

Notes to the consolidated financial statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

## 5. Segment Information (continued)

The segment revenue and results and the reconciliation with profit for the year ended 31 December 2015 are as follows:

| | Printer and tax control equipment | Other electronic products | Total |
|---|---|---|---|
| **Revenue (from external customers)** (note (a)) | 424,690 | 72,285 | 496,975 |
| **Segment results** | 137,559 | 14,837 | 152,396 |
| Other income | | | 12,952 |
| Administrative expenses | | | (48,223) |
| Research and development expenses | | | (25,430) |
| Other gains – net | | | 25,257 |
| Finance expenses – net | | | (3,948) |
| Income tax expenses | | | (24,098) |
| Profit for the year | | | 88,906 |
| **Segment results include:** | | | |
| Share of losses of investments accounted for using the equity method | (3,093) | — | (3,093) |
| Depreciation and amortization | (5,374) | (1,376) | (6,750) |

(a) Revenues from external customers are for sales of goods. There are no inter-segment sales for the years ended 31 December 2016 and 2015.

(b) The Group is domiciled in the PRC. The revenue from external customers are as follows:

| | 2016 | 2015 |
|---|---|---|
| In the PRC | **445,535** | 401,689 |
| In other countries | **81,102** | 95,286 |
| | **526,637** | 496,975 |

(c) In 2016, approximately 14% of total revenue (2015: approximately 14%) are derived from a single external customer, which is attributable to the segment of printers.

(d) As at 31 December 2016, the Group's non-current assets are mainly located in the PRC.

(All amounts in Renminbi thousands unless otherwise stated)

## 6. Property, Plant and Equipment

| | Buildings | Plant and machinery | Furniture and fixtures | Leasehold improvements | Motor vehicles | Total |
|---|---|---|---|---|---|---|
| **At 1 January 2015** | | | | | | |
| Cost | 56,665 | 149,276 | 15,523 | 3,046 | 7,368 | 231,878 |
| Accumulated depreciation | (13,694) | (105,425) | (12,982) | (1,843) | (5,949) | (139,893) |
| Net book amount | 42,971 | 43,851 | 2,541 | 1,203 | 1,419 | 91,985 |
| **Year ended 31 December 2015** | | | | | | |
| Opening net book amount | 42,971 | 43,851 | 2,541 | 1,203 | 1,419 | 91,985 |
| Additions | — | 6,153 | 257 | 97 | 4,034 | 10,541 |
| Disposals | — | (1,201) | — | — | (40) | (1,241) |
| Depreciation | (1,449) | (7,093) | (488) | (162) | (3,451) | (12,643) |
| Closing net book amount | 41,522 | 41,710 | 2,310 | 1,138 | 1,962 | 88,642 |
| **At 31 December 2015** | | | | | | |
| Cost | 56,665 | 154,228 | 15,780 | 3,143 | 11,362 | 241,178 |
| Accumulated depreciation | (15,143) | (112,518) | (13,470) | (2,005) | (9,400) | (152,536) |
| Net book amount | 41,522 | 41,710 | 2,310 | 1,138 | 1,962 | 88,642 |
| **Year ended 31 December 2016** | | | | | | |
| Opening net book amount | **41,522** | **41,710** | **2,310** | **1,138** | **1,962** | **88,642** |
| Acquisition of a subsidiary | **—** | **662** | **42** | **—** | **—** | **704** |
| Additions | **3,025** | **3,697** | **373** | **—** | **1,181** | **8,276** |
| Disposals | **—** | **(1,425)** | **(98)** | **—** | **—** | **(1,523)** |
| Depreciation | **(1,450)** | **(4,045)** | **(463)** | **(162)** | **(491)** | **(6,611)** |
| Closing net book amount | **43,097** | **40,599** | **2,164** | **976** | **2,652** | **89,488** |
| **At 31 December 2016** | | | | | | |
| Cost | **59,690** | **157,162** | **16,097** | **3,143** | **12,543** | **248,635** |
| Accumulated depreciation | **(16,593)** | **(116,563)** | **(13,933)** | **(2,167)** | **(9,891)** | **(159,147)** |
| Net book amount | **43,097** | **40,599** | **2,164** | **976** | **2,652** | **89,488** |

Depreciation was expensed in the following accounts in the statement of profit or loss:

| | 2016 | 2015 |
|---|---|---|
| Cost of goods sold | **4,264** | 11,040 |
| Administrative expenses | **2,172** | 1,446 |
| Selling and marketing expenses | **175** | 157 |
| | **6,611** | 12,643 |

Notes to the consolidated financial statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

## 7. Land Use Rights

| | |
|---|---|
| **At 1 January 2015** | |
| Cost | 11,550 |
| Accumulated amortization | (2,384) |
| Net book amount | 9,166 |
| **Year ended 31 December 2015** | |
| Opening net book amount | 9,166 |
| Amortization | (289) |
| Closing net book amount | 8,877 |
| **At 31 December 2015** | |
| Cost | 11,550 |
| Accumulated amortization | (2,673) |
| Net book amount | 8,877 |
| **Year ended 31 December 2016** | |
| Opening net book amount | **8,877** |
| Amortization | **(289)** |
| Closing net book amount | **8,588** |
| **At 31 December 2016** | |
| Cost | **11,550** |
| Accumulated amortization | **(2,962)** |
| Net book amount | **8,588** |

The land is outside Hong Kong and held on leases of 40 years, with remaining useful life of 30 years (2015: 31 years).

Amortization of RMB289,000 (2015: RMB289,000) is included in the cost of goods sold in the statement of profit or loss.

Notes to the consolidated financial statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

## 8. Intangible Assets

| | Goodwill (Note (a)) | Proprietary technology | Total |
|---|---|---|---|
| **At 1 January 2015** | | | |
| Cost | 5,742 | 4,183 | 9,925 |
| Accumulated amortization | — | (1,195) | (1,195) |
| Net book amount | 5,742 | 2,988 | 8,730 |
| **Year ended 31 December 2015** | | | |
| Opening net book amount | 5,742 | 2,988 | 8,730 |
| Addition | — | 1,160 | 1,160 |
| Amortization | — | (427) | (427) |
| Closing net book amount | 5,742 | 3,721 | 9,463 |
| **At 31 December 2015** | | | |
| Cost | 5,742 | 5,343 | 11,085 |
| Accumulated amortization | — | (1,622) | (1,622) |
| Net book amount | 5,742 | 3,721 | 9,463 |
| **Year ended 31 December 2016** | | | |
| Opening net book amount | **5,742** | **3,721** | **9,463** |
| Acquisition of a subsidiary (note (a)) | **48** | **204** | **252** |
| Addition | **—** | **3,460** | **3,460** |
| Amortization | **—** | **(494)** | **(494)** |
| Closing net book amount | **5,790** | **6,891** | **12,681** |
| **At 31 December 2016** | | | |
| Cost | **5,790** | **9,007** | **14,797** |
| Accumulated amortization | **—** | **(2,116)** | **(2,116)** |
| Net book amount | **5,790** | **6,891** | **12,681** |

Amortization of RMB494,000 (2015: RMB427,000) is included in the cost of goods sold in the statement of profit or loss.

# Notes to the consolidated financial statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

## 8. Intangible Assets (continued)

**(a)** The goodwill of RMB48,000 arose in the acquisition of Gowin Technology International Holdings limited (note 9).

### (b) Impairment tests for goodwill

The goodwill of RMB5,742,000 arose in the acquisition of Shenzhen Coolwi Technology Company Limited ("Coolwi") in 2014. For the purpose of impairment testing, the goodwill was allocated to Coolwi which is a cash generating unit ("CGU"). The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on the revised financial budgets approved by management covering a five-year period. The businesses of Coolwi were at its initial operating stage as of 31 December 2016. Cash flows beyond the five-year period are extrapolated using the estimated growth rate stated below.

The key assumptions have been used for the analysis of value-in-use calculations in 2016 are as follows:

| | "Kamo" mobile payment and Yingmei.me O2O cloud printing |
|---|---|
| Average annual growth rate of revenue (within the first five years) | 33.00%-173.81% |
| Long term growth rate of revenue (after the first five years) | 3.11% |
| Pre-tax discount rate | 15.01% |

Average annual growth rate is based on management's expectations of market development. The long term growth rate used is consistent with the forecasts included in industry reports. The discount rate used is pre-tax and reflect specific risks relating to the relevant operating segment.

Notes to the consolidated financial statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

# 9. Investments in Subsidiaries

The following is a list of the subsidiaries at 31 December 2016:

| Name | Place of incorporation | Principal activities and place of operations | Particulars of issued share capital/ paid-in capital | Attributable equity interest held |
|---|---|---|---|---|
| **Directly held by the Company** | | | | |
| Ying Mei Investment Limited | The British Virgin Islands (the "BVI") | Investment holdings/PRC | US$50,000 | 100% |
| Kong Yue Investment Limited | BVI | Investment holdings/PRC | US$50,000 | 100% |
| **Indirectly held by the Company** | | | | |
| Jolimark Technology Limited | Hong Kong | Investment holdings/PRC | HK$10,000 | 100% |
| Jolimark (S) Pte. Limited* | Singapore | Wholesale of computer hardware and peripheral equipment/Singapore | SG$100,000 | 100% |
| Shanghai Jiangnuo Digital Technology | PRC | Wholesale of business equipment and tax control equipment/PRC | RMB20,000,000 | 95.25% |
| Jiangmen Kong Yue Jolimark Information Technology Limited | PRC | Manufacturing and sales of business equipment and tax control equipment/PRC | HK$36,050,000 | 100% |
| Kong Yue Electronics & Information Industry (Xinhui) Limited ("Kongyue Information") | PRC | Manufacturing and sales of business equipment and tax control equipment/PRC | US$25,660,000 | 100% |
| Xin Yue Logistics Limited | Hong Kong | Logistics agent/Hong Kong | HK$2 | 100% |
| Jiangmen Kong Yue Jolimark Tax Control Services Limited | PRC | Marketing of tax control equipment/PRC | RMB500,000 | 95% |
| Jolimark Printing Solutions (Hong Kong) Limited | Hong Kong | Wholesale of business equipment and tax control equipment/Hong Kong | HK$10,000 | 100% |
| Advanced Inkjet Systems Limited ("Advance Inkjet") | Taiwan | Research and development of the inkjet print heads | TWD3,700,000 | 100% |
| Coolwi | PRC | Research and development of the internet of Things | RMB1,000,000 | 100% |
| Shenzhen Yingmei Kamo Internet Lmited | PRC | Research and development of the internet of Things | RMB1,000,000 | 100% |
| Gowin Technology International Holdings limited ("Gowin")** | Hong Kong | Research and development of the internet technology and electronic products | HK$20,002 | 65% |

Notes to the consolidated financial statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

## 9. Investments in Subsidiaries (continued)

All the subsidiaries are limited liability companies.

* Pursuant to the resolution of the Board of Directors of Jolimark(S) Pte. Limited, it had declared to enter into liquidation. As at the date of these consolidated financial statements, its liquidation process has not been completed.

** On 27 July 2016, the Group entered into the share subscription agreement with Gowin, to further acquire 15% equity interest and obtained control of Gowin with the consideration of HK$1.

## 10. Investments accounted for using the equity method

The amounts recognized in the consolidated balance sheet for associates are as follows:

| | 2016 | 2015 |
|---|---|---|
| Balance at 1 January | 10,176 | 89 |
| Addition (note (a)) | 9,000 | 10,700 |
| Share of losses | (606) | (613) |
| Balance at 31 December | 18,570 | 10,176 |

(a) The addition investment represents 20% equity interests in a private company--Wuhan Shuyuan Network Technology Limited Company in the PRC with the consideration of RMB9,000,000 in 2016. The company engages in sales of software products, development, manufacturing and selling of software and hardware products and provision of software-related services.

## 11. Available-for-sale Financial Assets

| | As at 31 December | |
|---|---|---|
| | 2016 | 2015 |
| Balance at 1 January | 3,349 | 4,480 |
| Impairment charge | — | (1,131) |
| Balance at 31 December | 3,349 | 3,349 |

(a) The amounts mainly represents an investment in a private company in Taiwan – International United Technology Company Limited ("IUT", with book value RMB3,980,000, provision RMB1,131,000), its principal activities are research, development and manufacturing of inkjet print heads. As at 31 December 2016, the Group holds 9.22% equity interests of this company.

The fair value of IUT is based on net assets per share. The fair value is within level 3 of fair value hierarchy.

(All amounts in Renminbi thousands unless otherwise stated)

## 12. Financial Instruments by Categories

| | Financial assets at fair value through profit or loss | Loans and receivables | Available-for-sale | Total |
|---|---|---|---|---|
| **Assets as per consolidated balance sheet** | | | | |
| At 31 December 2016 | | | | |
| Available-for-sale financial assets | **—** | **—** | **3,349** | **3,349** |
| Trade and other receivables, excluding prepayments (note 14) | **—** | **35,408** | **—** | **35,408** |
| Restricted cash (note 17) | **—** | **127,781** | **—** | **127,781** |
| Cash and cash equivalents (note 16) | **—** | **198,516** | **—** | **198,516** |
| | **—** | **361,705** | **3,349** | **365,054** |
| At 31 December 2015 | | | | |
| Available-for-sale financial assets | — | — | 3,349 | 3,349 |
| Trade and other receivables, excluding prepayments (note 14) | — | 25,614 | — | 25,614 |
| Financial assets at fair value through profit or loss (note 15) | 5,426 | — | — | 5,426 |
| Restricted cash (note 17) | — | 30,449 | — | 30,449 |
| Cash and cash equivalents (note 16) | — | 308,739 | — | 308,739 |
| | 5,426 | 364,802 | 3,349 | 373,577 |

| | Other financial liabilities |
|---|---|
| **Liabilities as per consolidated balance sheet** | |
| At 31 December 2016 | |
| Borrowing (note 20) | **161,010** |
| Trade and other payables | **43,144** |
| At 31 December 2015 | |
| Borrowings (note 20) | 29,625 |
| Trade and other payables | 73,490 |

Notes to the consolidated financial statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

## 13. Inventories

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Raw materials | **64,510** | 72,818 |
| Work in progress | **4,504** | 4,237 |
| Finished goods | **20,099** | 25,312 |
| | **89,113** | 102,367 |

The cost of inventories recognized in the consolidated income statement amounted to RMB333,849,000 (2015: RMB309,795,000).

During the year, the write-down of inventories amounted to RMB2,381,000 (2015: RMB1,949,000) and has been recognized as cost of goods sold in the consolidated income statement.

## 14. Trade and Other Receivables

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Trade receivables | | |
| – Third parties | **19,108** | 13,862 |
| – Related parties (note 33) | **—** | 366 |
| Less: provision for impairment of trade receivables | **—** | — |
| Trade receivables – net | **19,108** | 14,228 |
| Bills receivable (note (a)) | **5,647** | 2,739 |
| Prepayments | **3,626** | 3,052 |
| Other receivables | | |
| – Third parties | **8,603** | 6,657 |
| – Related parties (note 33) | **2,870** | 7,669 |
| Less: provision for impairment of other receivables | **(820)** | (5,679) |
| Other receivables – net | **10,653** | 8,647 |
| | **39,034** | 28,666 |

(a) As at 31 December 2016 and 2015, bills receivable represent bank acceptance bills.

(All amounts in Renminbi thousands unless otherwise stated)

## 14. Trade and Other Receivables (continued)

(b) The Group's sales to corporate customers are generally granted with credit terms ranging from 30 to 180 days or extended as considered appropriate by the directors of the Company. At 31 December 2016, the ageing analysis of the trade receivables based on invoice date, including amounts due from related parties of trading in nature, is as follows:

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Less than 30 days | **15,045** | 10,819 |
| 31-90 days | **1,595** | 1,254 |
| 91-180 days | **1,190** | 676 |
| 181-365 days | **435** | 238 |
| Over 365 days | **843** | 1,241 |
| | **19,108** | 14,228 |

(c) The Group assesses impairment of trade and other receivables mainly based on their ageing.

The credit quality of trade receivables within credit limit are assessed by reference to historical information about counterparty default rates. As at 31 December 2016, these trade receivables were related to major customers of the Group and without indication of default in settlement.

As at 31 December 2016, trade receivables of RMB1,278,000 were past due but not impaired (31 December 2015: RMB1,479,000). The ageing analysis of these trade receivables is as follows:

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| **Past due but not impaired:** | | |
| 181-365 days | **435** | 238 |
| Over 365 days | **843** | 1,241 |
| | **1,278** | 1,479 |

Trade receivables past due but not impaired relate to a number of customers with no recent history of default.

(d) The carrying amounts of trade and other receivables, excluding prepayments, are denominated in the following currencies:

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| RMB | **29,656** | 19,821 |
| US$ | **4,592** | 5,141 |
| HK$ | **1,160** | 652 |
| | **35,408** | 25,614 |

(e) The maximum exposure to credit risk is the carrying amounts of trade and other receivables. The Group does not hold any collateral as security.

Notes to the consolidated financial statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

## 15. Financial Assets at Fair Value Through Profit or Loss

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Listed equity securities in the PRC – stated at market value | **—** | 5,426 |

Changes of financial assets at fair value through profit or loss are presented within "operating activities" as part of changes in working capital in the consolidated statement of cash flows (note 31).

Changes in fair values of financial assets at fair value through profit or loss are recorded in "other gains – net" in the consolidated income statement (note 26).

The fair value of all equity securities is based on their current trade prices in an active market.

## 16. Cash and Cash Equivalents

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Cash at bank and in hand | **198,516** | 308,739 |

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Denominated in: | | |
| RMB | **166,913** | 276,306 |
| US$ | **8,054** | 5,699 |
| HK$ | **22,145** | 25,841 |
| TWD | **1,319** | 774 |
| Other currencies | **85** | 119 |
| | **198,516** | 308,739 |

The maximum exposure to credit risk is the carrying amounts of cash and cash equivalents.

The conversion of RMB denominated balances into foreign currencies and the remittance of such foreign currencies denominated bank balances and cash out of the PRC are subject to relevant rules and regulation of foreign exchange control promulgated by the PRC government.

Notes to the consolidated financial statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

## 17. Restricted Cash

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| **Non-current** | | |
| Guarantee deposits for loans (note (a)) | **57,960** | — |
| Guarantee deposits for bidding | **170** | 160 |
| | **58,130** | 160 |
| **Current** | | |
| Guarantee deposits for loans (note (b)) | **69,550** | 30,000 |
| Guarantee deposits for bidding | **101** | 289 |
| | **69,651** | 30,289 |
| | **127,781** | 30,449 |

(a) Amounts represent cash deposited in a PRC bank as security for the Group's bank borrowing of HK$60,000,000 (equivalent to RMB53,670,000) (note 20 (a)).

(b) Amounts represent cash deposited in a PRC bank as security for the Group's bank borrowings of HK$120,000,000 (equivalent to RMB107,340,000) (2015: HK$35,360,000 (equivalent to RMB29,625,000)) (note 20 (b)).

## 18. Share Capital and Premium

| | Number of ordinary shares of HK$0.01 each | Nominal value of ordinary shares HK$'000 | Equivalent nominal value of ordinary shares RMB'000 | Share premium RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **Issued and fully paid** | | | | | |
| Balance at 1 January 2015 | 563,551,987 | 5,636 | 5,992 | 96,814 | 102,806 |
| Exercise of share options (note 19 (iii)) | 2,615,013 | 26 | 21 | 2,938 | 2,959 |
| Placing of new shares | 58,000,000 | 580 | 465 | 75,172 | 75,637 |
| Dividends | — | — | — | (33,953) | (33,953) |
| Balance at 31 December 2015 | 624,167,000 | 6,242 | 6,478 | 140,971 | 147,449 |
| Balance at 1 January 2016 | **624,167,000** | **6,242** | **6,478** | **140,971** | **147,449** |
| Exercise of share options (note 19 (iii)) | **2,037,000** | **20** | **17** | **2,647** | **2,664** |
| Placing of new shares (note (a)) | **12,000,000** | **120** | **107** | **16,441** | **16,548** |
| Dividends | **—** | **—** | **—** | **(142,083)** | **(142,083)** |
| Balance at 31 December 2016 | **638,204,000** | **6,382** | **6,602** | **17,976** | **24,578** |

(a) On 21 December 2016, the Company has completed a placement of 12,000,000 new shares at the placing price of HK$1.60 per share and received net proceeds of approximately HK$18,624,000 (equivalent to RMB16,548,000).

# Notes to the consolidated financial statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

## 19. Other Reserves

| | Merger reserve (note (i)) | Statutory reserve fund and enterprise expansion fund (note (ii)) | Share option reserve (note (iii)) | Capital reserve | Total |
|---|---|---|---|---|---|
| **Balance at 1 January 2015** | 136,904 | 79,729 | 1,315 | (520) | 217,428 |
| Share options granted to employees | — | — | 5,354 | — | 5,354 |
| Share options forfeited during the year | — | — | (38) | — | (38) |
| Exercise of share options | — | — | (691) | — | (691) |
| Transfer from retained earnings | — | 10,716 | — | — | 10,716 |
| **Balance at 31 December 2015** | 136,904 | 90,445 | 5,940 | (520) | 232,769 |
| **Balance at 1 January 2016** | **136,904** | **90,445** | **5,940** | **(520)** | **232,769** |
| Share options granted to employees | **—** | **—** | **5,102** | **—** | **5,102** |
| Share options forfeited during the year | **—** | **—** | **(9)** | **—** | **(9)** |
| Exercise of share options | **—** | **—** | **(553)** | **—** | **(553)** |
| Transfer from retained earnings | **—** | **8,604** | **—** | **—** | **8,604** |
| **Balance at 31 December 2016** | **136,904** | **99,049** | **10,480** | **(520)** | **245,913** |

(i) Merger reserve of the Group represents the difference between the share capital of subsidiaries acquired over the nominal value of the share capital of the Company issued in exchange pursuant to the reorganization undertaken by the Group in preparation of the listing of the shares of the Company on the Stock Exchange which has been set out in the Prospectus of the Company dated 20 June 2005.

(ii) The main business of the Group is conducted by Kongyue Information, which is a foreign investment company based in Xinhui City of the PRC. In accordance with relevant rules and regulations applicable to foreign investment company in the PRC, Kongyue Information is required to make appropriations from net profit, after offsetting accumulated losses from prior years, to Statutory Reserve Fund and Enterprise Expansion Fund before it distributes profit to its shareholders. The appropriation to Statutory Reserve Fund should be 10% of its profit after taxation calculated under PRC accounting rules and regulations, until the accumulated total of the fund reaches 50% of the registered share capital of the company and appropriation to Enterprise Expansion Fund is solely determined by the board of directors of the company. The Statutory Reserve Fund can be used to offset accumulated losses brought forward from prior years or, upon approval by the relevant authority to increase the share capital of the company, the Enterprise Expansion Fund can only be used to increase share capital of the company upon approval by the relevant authority.

Notes to the consolidated financial statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

## 19. Other Reserves (continued)

### (iii) Share options reserve

The following tables disclose details of the Company's share options held by the employees and movements in such holding during the year.

**For the year ended 31 December 2016:**

| | | | | Number of share options | | | | |
|---|---|---|---|---|---|---|---|---|
| Date of grant | Exercise price per share (HK$) | Vesting period | Exercisable period | Outstanding at 1 January 2016 | Granted during the year | Exercised during the year | Forfeited during the year (note(b)) | Outstanding at 31 December 2016 |
| 22 July 2011 (note (a)) | 1.00 | 22 July 2011 to 22 July 2015 | 22 July 2011 to 22 July 2017 | 557,500 | – | (492,500) | – | 65,000 |
| 10 December 2013 (note (a)) | 1.18 | 10 December 2013 to 10 December 2017 | 10 December 2013 to 10 December 2019 | 4,017,500 | – | (1,237,000) | – | 2,780,500 |
| 17 December 2014 (note (a)) | 1.70 | 17 December 2014 to 17 December 2018 | 17 December 2014 to 17 December 2020 | 18,800,000 | – | (307,500) | (300,000) | 18,192,500 |
| 15 May 2015 (note (a)) | 2.17 | 15 May 2015 to 15 May 2019 | 15 May 2015 to 15 May 2021 | 12,720,000 | – | – | (100,000) | 12,620,000 |
| | | | | 36,095,000 | – | (2,037,000) | (400,000) | 33,658,000 |
| | | Exercisable at the end of the year | | – | – | – | – | 10,123,000 |
| | | Weighted average exercise price | | HK$1.80 | – | HK$1.21 | HK$1.82 | HK$1.83 |

(a) The first 25% of the option can be exercised at any time on and after the first anniversary of the grant of the option. The next 25% of the option can be exercised at any time commencing from the second anniversary of the grant of the option. The third 25% of the option can be exercised at any time commencing from the third anniversary of the grant of the option. The forth 25% of the option can be exercised at any time commencing from the fourth anniversary of the grant of the option.

(b) During the year, 400,000 share options were forfeited and RMB9,000 was reversed in the consolidated income statement and the other reserve account.

## Notes to the consolidated financial statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

# 19. Other Reserves (continued)

## (iii) Share options reserve (continued)

For the year ended 31 December 2015:

| | | | | Number of share options | | | | |
|---|---|---|---|---|---|---|---|---|
| Date of grant | Exercise price per share (HK$) | Vesting period | Exercisable period | Outstanding at 1 January 2015 | Granted during the year | Exercised during the year | Forfeited during the year | Outstanding at 31 December 2015 |
| 22 July 2011 | 1.00 | 22 July 2011 to 22 July 2015 | 22 July 2011 to 22 July 2017 | 2,080,013 | — | (1,522,513) | — | 557,500 |
| 10 December 2013 | 1.18 | 10 December 2013 to 10 December 2017 | 10 December 2013 to 10 December 2019 | 5,500,000 | — | (1,092,500) | (390,000) | 4,017,500 |
| 17 December 2014 | 1.70 | 17 December 2014 to 17 December 2018 | 17 December 2014 to 17 December 2020 | 19,800,000 | — | — | (1,000,000) | 18,800,000 |
| 15 May 2015 | 2.17 | 15 May 2015 to 15 May 2019 | 15 May 2015 to 15 May 2021 | — | 17,980,000 | — | (5,260,000) | 12,720,000 |
| | | | | 27,380,013 | 17,980,000 | (2,615,013) | (6,650,000) | 36,095,000 |
| | | Exercisable at the end of the year | | — | — | — | — | 6,861,250 |
| | | Weighted average exercise price | | HK$1.54 | HK$2.17 | HK$1.08 | HK$2.04 | HK$1.80 |

Share options were granted to certain employees. The exercise price of the granted options approximates to the average of the closing prices for the five business days immediately before the grant date.

Out of the 33,658,000 outstanding options (2015: 36,095,000), 10,123,000 options (2015: 6,861,250) were exercisable as at 31 December 2016. During the year, 2,037,000 shares (2015: 2,615,013) were issued at a weighted average price of HK$1.21 each (2015: HK$1.08).

The respective weighted average share price at the time of exercise was HK$1.60 (2015: HK$1.86) per share.

(All amounts in Renminbi thousands unless otherwise stated)

## 20. Borrowings

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| **Non-current** | | |
| Secured bank borrowing (note (a)) | **53,670** | — |
| **Current** | | |
| Secured bank borrowings (note (b)) | **107,340** | 29,625 |
| **Balance at 31 December 2016** | **161,010** | 29,625 |

(a) Amount represents the bank borrowing of HK$60,000,000 (equivalent to RMB53,670,000), which bears an interest of 1.90% per annum over one-month HIBOR, repayable within three years and is secured by the Group's bank deposit of RMB57,960,000 (note 17 (a)).

(b) The amounts comprised of:

(i) the bank borrowing of HK$60,000,000 (equivalent to RMB53,670,000), which bears an interest of 1.65% per annum over one-month HIBOR, originally repayable within two years and is secured by the Group's bank deposit of RMB57,960,000 (note 17 (b)) and will be repaid in 2017.

(ii) the bank borrowing of HK$60,000,000 (equivalent to RMB53,670,000), which bears an interest of 1.45% per annum over one-month HIBOR, repayable within one year and is secured by the Group's bank deposit of RMB11,590,000 (note 17 (b)).

The fair value of the borrowing equals its carrying amount, as the impact of discounting is not significant.

The Group has the following undrawn borrowing facilities:

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| – expiring within one year | **121,624** | 40,000 |

## 21. Deferred Income Tax

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Deferred income tax asset to be recovered within 12 months | **(2,682)** | (698) |
| Deferred income tax asset to be recovered after more than 12 months | **—** | (67) |
| Deferred income liabilities to be payable within 12 months | **1,073** | 1,564 |
| Deferred tax (assets)/liabilities – net | **(1,609)** | 799 |

Notes to the consolidated financial statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

## 21. Deferred Income Tax (continued)

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

| | 2016 | 2015 |
|---|---|---|
| Balance at 1 January | **799** | (560) |
| (Credited)/charged to the statement of profit or loss | **(2,408)** | 1,359 |
| Balance at 31 December | **(1,609)** | 799 |

The movement in deferred income tax liabilities and assets during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

| **Deferred income tax liabilities** | Temporary difference between carrying amounts and tax base of inventories | Difference of fair value of financial assets at fair value through profit or loss over the tax bases | Total |
|---|---|---|---|
| At 1 January 2015 | 1,795 | 125 | 1,920 |
| Credited to the consolidated income statement | (249) | (107) | (356) |
| At 31 December 2015 | 1,546 | 18 | 1,564 |
| At 1 January 2016 | **1,546** | **18** | **1,564** |
| Credited to the consolidated income statement | **(473)** | **(18)** | **(491)** |
| At 31 December 2016 | **1,073** | **—** | **1,073** |

| **Deferred income tax assets** | Difference of carrying amount of equipment over the tax bases | Tax losses | Total |
|---|---|---|---|
| At 1 January 2015 | (84) | (2,396) | (2,480) |
| Charged to the consolidated income statement | 17 | 1,698 | 1,715 |
| At 31 December 2015 | (67) | (698) | (765) |
| At 1 January 2016 | **(67)** | **(698)** | **(765)** |
| Charged/(credited) to the consolidated income statement | **67** | **(1,984)** | **(1,917)** |
| At 31 December 2016 | **—** | **(2,682)** | **(2,682)** |

Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. As at 31 December 2016, the tax losses of certain group companies amounting to RMB1,204,000 and RMB16,630,000 which will be expired within 2 years and from 2 to 5 years, respectively.

Notes to the consolidated financial statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

## 22. Trade and Other Payables

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Trade payables | | |
| – Third parties | **30,443** | 32,200 |
| – An associate | **1,159** | 1,113 |
| – Related parties (note 33) | **3,287** | 2,283 |
| | **34,889** | 35,596 |
| Other payables to third parties | **60,154** | 56,310 |
| Dividends payable | **975** | 975 |
| Advances from customers | **2,750** | 19,933 |
| | **98,768** | 112,814 |

At 31 December 2016, the ageing analysis of the trade payables based on invoice date, including amounts due to related parties of trading nature, is as follows:

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Less than 30 days | **23,469** | 20,966 |
| 31-90 days | **7,381** | 11,813 |
| 91-180 days | **756** | 249 |
| 181-365 days | **1,356** | 355 |
| Over 365 days | **1,927** | 2,213 |
| | **34,889** | 35,596 |

The carrying amounts of trade and other payables and amounts due to subsidiaries are denominated in the following currencies:

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| RMB | **89,679** | 78,531 |
| US$ | **7,093** | 8,627 |
| HK$ | **697** | 3,928 |
| Other currencies | **1,299** | 1,795 |
| | **98,768** | 92,881 |

Notes to the consolidated financial statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

## 23. Other Income

| | 2016 | 2015 |
|---|---|---|
| Interest income of bank deposits | **7,507** | 10,596 |
| Incentive subsidy | **2,012** | 166 |
| Repair and maintenance service income – net | **443** | 2,190 |
| | **9,962** | 12,952 |

## 24. Expenses by Nature

Expenses included in cost of goods sold, selling and marketing expenses and administrative expenses are analyzed as follows:

| | 2016 | 2015 |
|---|---|---|
| Depreciation of property, plant and equipment and amortization of land use rights and intangible assets (notes 6, 7 and 8) | **7,394** | 13,359 |
| Raw materials and consumables recognized in cost of goods sold and expenses | **309,252** | 275,773 |
| Provision for impairment of receivables | **322** | 2,571 |
| Employee benefit expenses (note 25) | **75,833** | 70,512 |
| Operating leases | **3,488** | 2,634 |
| Transportation expenses | **8,515** | 8,709 |
| Auditor's remuneration | **1,586** | 1,702 |
| – Audit services | **1,494** | 1,572 |
| – Non-audit services | **92** | 130 |
| Advertising and promotion fees | **7,115** | 5,403 |
| Others | **36,951** | 36,956 |
| | **450,456** | 417,619 |

Notes to the consolidated financial statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

## 25. Employee Benefit Expenses

| | 2016 | 2015 |
|---|---|---|
| Wages and salaries | **57,936** | 57,181 |
| Share options granted to employees (note 19) | **5,102** | 5,354 |
| Staff welfare and insurance | **7,271** | 5,437 |
| Pension costs – defined contribution plans (note (a)) | **5,524** | 2,540 |
| | **75,833** | 70,512 |

### (a) Pensions – defined contribution plans

There are no contributions payable to the fund as at 31 December 2016 and 2015.

### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2015: two) directors whose emoluments are reflected in the analysis in benefits and interests of directors (note 36). The emoluments payable to the remaining three (2015: three) out of the five highest paid individuals during the year are as follows:

| | 2016 | 2015 |
|---|---|---|
| Salaries and other benefits | **2,170** | 2,675 |
| Share options | **—** | 42 |
| Retirement scheme contributions | **90** | 141 |
| Compensation for loss of office | **620** | — |
| | **2,880** | 2,858 |

The emoluments fell within the following bands:

| | Number of individuals | |
|---|---|---|
| | 2016 | 2015 |
| Emolument bands (in HK dollar) | | |
| HK$0 – HK$1,000,000 | **1** | 1 |
| HK$1,000,001 – HK$1,500,000 | **2** | 1 |
| HK$1,500,001 – HK$2,000,000 | **—** | 1 |

Notes to the consolidated financial statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

## 26. Other Gains – Net

| | 2016 | 2015 |
|---|---|---|
| Foreign exchange (losses)/gains – net | **(1,546)** | 1,328 |
| Penalty charged to a supplier (note (a)) | **3,290** | 26,038 |
| Donation | **(850)** | — |
| Losses on financial assets at fair value through profit or loss – net | **(263)** | (782) |
| Losses from disposal of machinery and equipment | **(255)** | (330) |
| Impairment of available for sale financial assets | **—** | (1,131) |
| Dividend income of financial assets at fair value through profit or loss | **—** | 134 |
| | **376** | 25,257 |

(a) The Group was awarded a compensation of RMB26,038,000 in 2015 for an alleged breach by a former supplier in an exclusive distribution agreement with the Group. In 2016, the Group entered into an agreement with this supplier to terminate the mutual cooperation and all the related contracts, with a compensation of RMB3,290,000.

## 27. Finance Expenses – Net

| | 2016 | 2015 |
|---|---|---|
| Interest expenses on bank borrowings | **(2,116)** | (2,219) |
| Exchange losses on bank borrowings | **(5,292)** | (1,729) |
| | **(7,408)** | (3,948) |

## 28. Income Tax Expenses

| | 2016 | 2015 |
|---|---|---|
| Current income tax expenses | | |
| – Hong Kong profits tax (note (a)) | **(684)** | (478) |
| – PRC corporate income tax (note (b)) | **(14,339)** | (21,099) |
| – PRC dividend withholding tax (note (c)) | **(4,825)** | (3,880) |
| | **(19,848)** | (25,457) |
| Deferred income tax | **2,408** | 1,359 |
| | **(17,440)** | (24,098) |

(All amounts in Renminbi thousands unless otherwise stated)

## 28. Income Tax Expenses (continued)

The income tax on the Group's profit before taxation differs from the theoretical amount that would arise using the enacted tax rate of the home countries of the group entities as follows:

| | 2016 | 2015 |
|---|---|---|
| Profit before tax | **78,505** | 113,004 |
| Tax calculated at tax rates applicable to profits in the respective entities of the Group | **(13,715)** | (20,549) |
| Additional deductible allowance for research and development expenses | **1,087** | 831 |
| Recognition of previously unrecognized tax losses | **433** | — |
| Expenses not deductible for tax purposes | **(225)** | (408) |
| Tax effect of share of profit or loss of associates | **(195)** | (92) |
| PRC withholding income tax | **(4,825)** | (3,880) |
| | **(17,440)** | (24,098) |

### (a) Hong Kong profits tax

The applicable Hong Kong profits tax rate is 16.5% for the year ended 31 December 2016 (2015: 16.5%).

### (b) PRC corporate income tax

The main business of the Group is conducted by Kongyue Information, which is a foreign investment company based in Xinhui City, the PRC. The corporate income tax (the "CIT") of Kongyue Information is provided for on the basis of its profit reported in the PRC statutory financial statements, adjusted for income and expenses items, which are not assessable or deductible for income tax purpose. Pursuant to the PRC Corporate Income Tax Law (the "CIT Law"), the CIT rate is 25%. As Kongyue Information has been qualified as High and New Technology Enterprises ("HNTE") for three years from 2014 to 2016, it enjoys a preferential CIT rate at 15% for the year ended 31 December 2016 (2015: 15%). The effective CIT rate of other Group entities in the PRC is 25% (2015: 25%).

### (c) PRC dividend withholding tax

Pursuant to the Detailed Implementation Regulations for implementation of the Corporate Income Tax Law issued on 6 December 2007, dividends distributed out from the profits generated by the PRC companies after 1 January 2008 to their foreign investors shall be subject to this withholding income tax of 10%, a lower 5% withholding tax rate may be applied when the immediate holding companies of the PRC subsidiaries are established in Hong Kong and fulfil the requirements to the tax treaty arrangements between the PRC and Hong Kong.

During the year, the Group has made a provision for withholding income tax of RMB4,825,000 (2015: RMB3,880,000). The Group has not made provision for deferred income tax of RMB2,615,000 (31 December 2015: RMB3,619,300) for the unremitted earnings of the PRC subsidiaries of RMB52,304,000 (31 December 2015: RMB72,386,000) as the Group does not have a plan to distribute these earnings out of the PRC.

### (d) Overseas income tax

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (2013 Revision) of Cayman Islands and accordingly, is exempted from Cayman Islands income tax. Subsidiaries of the Company in the BVI are incorporated under the International Business Companies Act of the BVI and, accordingly, are exempted from income tax in the BVI.

Notes to the consolidated financial statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

## 29. Earnings Per Share

– Basic

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the year.

| | 2016 | 2015 |
|---|---|---|
| Profit attributable to the shareholders of the Company (RMB'000) | **61,176** | 88,921 |
| Weighted average number of ordinary shares in issue (shares in thousands) | **626,089** | 603,161 |
| Basic earnings per share (RMB per share) | **0.098** | 0.147 |

– Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding on an assumption of conversion of all dilutive potential ordinary shares. The dilutive potential ordinary shares of the Company are share options. For the share options, a calculation is performed to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company for the year) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

| | 2016 | 2015 |
|---|---|---|
| Profit attributable to the shareholders of the Company (RMB'000) | **61,176** | 88,921 |
| Weighted average number of ordinary shares in issue (shares in thousands) | **626,089** | 603,161 |
| Adjustments for share options (shares in thousands) | **729** | 2,813 |
| Weighted average number of ordinary shares for diluted earnings per share (shares in thousands) | **626,818** | 605,974 |
| Diluted earnings per share (RMB per share) | **0.098** | 0.147 |

## 30. Dividends

| | 2016 | 2015 |
|---|---|---|
| Interim dividend (note (a)) | **28,000** | 46,915 |
| Interim special dividend (note (b)) | **150,026** | – |
| Proposed final dividend (note (c)) | **22,000** | 33,000 |
| | **200,026** | 79,915 |

(a) Interim dividends in respect of six months ended 30 June 2016 of RMB0.0448 per ordinary share (six months ended 30 June 2015: RMB0.078 per ordinary share) totaling a RMB28,000,000 (six months ended 30 June 2015: RMB46,915,000), which were distributed out of the retained earnings (six months ended 30 June 2015: RMB27,911,000 and RMB19,004,000 were distributed out of the retained earnings and share premium of the Company respectively).

Notes to the consolidated financial statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

## 30. Dividends (continued)

(b) At the board of directors meeting held on 24 August 2016, the directors of the Company also declared a special dividend of RMB0.240 per ordinary share, totaling approximately RMB150,026,000, among which RMB7,943,000 and RMB142,083,000 were distributed out of the retained earnings and share premium of the Company respectively.

(c) At the board of directors meeting held on 24 March 2017, the directors of the Company proposed a final dividend for the year ended 31 December 2016 of RMB 0.033 per ordinary share approximately RMB22,000,000 out of retained earnings of the Company. These proposed dividends have not been reflected as dividends payable in these consolidated financial statements for the year ended 31 December 2016 but will be reflected as dividends distribution for the year ending 31 December 2017.

A final dividend in respect of 2015 of RMB0.053 per ordinary share totaling approximately RMB33,000,000 out of retained earnings (based on the number of ordinary shares in issue as at 30 March 2016) was declared in the Company's Annual General Meeting on 27 May 2016, which have been paid in 2016.

## 31. Cash Generated from Operating Activities

| | 2016 | 2015 |
|---|---|---|
| Profit for the year | **61,065** | 88,906 |
| Adjustments for: | | |
| – Income tax expenses | **17,440** | 24,098 |
| – Depreciation of property, plant and equipment | **6,611** | 18,883 |
| – Amortization of land use rights | **289** | 289 |
| – Amortization of intangible assets | **494** | 427 |
| – Losses from disposal of property, plant and Equipment | **255** | 330 |
| – Impairment loss of other receivables | **—** | 2,571 |
| – Interest income | **(7,507)** | (10,596) |
| – Share options granted to employees | **5,102** | 5,354 |
| – Share options forfeited during the year | **(9)** | (38) |
| – Gains on profit from financial assets at fair value through profit or losses | **—** | 121 |
| – Finance expenses – net | **7,408** | 3,948 |
| – Exchange gains on cash and cash equivalents | **(2,120)** | (1,314) |
| – Impairment of available for sale financial assets | **—** | 1,131 |
| – Share of losses of investments accounted for using the equity method | **606** | 613 |
| | **89,634** | 134,723 |
| Changes in working capital: | | |
| – Inventories | **13,254** | (7,279) |
| – Trade and other receivables | **(10,385)** | 3,671 |
| – Restricted cash | **178** | 41 |
| – Financial assets at fair value through profit or loss | **5,426** | 3,232 |
| – Trade and other payables | **(17,920)** | 12,382 |
| Cash generated from operations | **80,187** | 146,770 |

Notes to the consolidated financial statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

## 32. Commitments

### (a) Capital commitments

The future aggregate minimum payments of office building renovation are as follows:

| | **2016** | 2015 |
|---|---|---|
| No later than 1 year | **2,824** | 4,858 |
| Later than 1 year and not later than 5 years | **326** | 290 |
| | **3,150** | 5,148 |

### (b) Operating lease commitments

The future aggregate minimum lease payments under non-cancelable operating leases are as follows:

| | **2016** | 2015 |
|---|---|---|
| No later than 1 year | **1,278** | 2,059 |
| Later than 1 year and not later than 5 years | **387** | 693 |
| | **1,665** | 2,752 |

## 33. Related-party Transactions

On 18 July 2016, the reorganization of the Company was completed. After the reorganization, Mr. Au controls 100% of Au Pak Yin, Tai Noi Kit Family Holdings Limited and in turn control 100% of Kytronics Growth Limited and Kytronics. Mr. Au controls the 65.45% shareholdings of Kytronics in the Company.

In addition to those disclosed elsewhere in the financial statements, the following transactions were carried out with related parties.

### (a) Name and relationship with related parties

| Name | Relationship |
|---|---|
| Au Family | Beneficial owner of the Company including Mr. Au Pak Yin, Ms. Tai Noi Kit, Mr. Au Kwok Lun. Mr. Ou Guo Liang and Ms. Ou Ri Ai |
| Close Au Family Members | Close family members of Au Family |
| Guangdong Kong Yue Precision Industry Limited ("Guangdong Precision") | Company controlled by Close Au Family Members |
| Jiangmen Kong Yue Information Products Import Export Limited ("KY Import/Export") | Company controlled by Close Au Family Members |
| Palace International Hotel ("Palace") | Company controlled by Close Au Family Members |
| Kong Yue Industrial Park (Xinhui) Limited ("Industrial Park") | Company beneficially owned by Mr. Au Pak Yin and Close Au Family Members |
| Guang Dong Jotech Kong Yue Yida Precision Industries Limited ("Jiangmen Yida")* | Company under significant influence of Au Family |
| Guangdong Kong Yue Zhongding Rubber Component Limited ("Guangdong Zhongding") | Company under significant influence of Au Family |

Due to the Au Family transferred all the shares of Jiangmen Yida to a third party in June 2016, Jiangmen Yida ceased to be the related party.

# Notes to the consolidated financial statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

## 33. Related-party Transactions (continued)

(b) The following significant transactions were carried out with related parties:

| | 2016 | 2015 |
|---|---|---|
| **(i) Purchase of goods and services** (note (b-1)) | | |
| – Guangdong Precision | **20,457** | 17,250 |
| – Guangdong Zhongding | **3,916** | 3,657 |
| – Jiangmen Yida | **13** | 6,914 |
| – Palace | **251** | 671 |
| | **24,637** | 28,492 |
| **(ii) Handling fees** (note (b-2)) | | |
| – KY Import/Export | **974** | 879 |
| **(iii) The remuneration of executive directors of the Company and other members of key management of the Group during the year was as follows:** | | |
| – Salary and other short-term employee benefits | **5,568** | 4,820 |
| – Share options | **478** | 493 |
| – Retirement scheme contribution | **59** | 58 |
| | **6,105** | 5,371 |
| **(iv) Year-end balances with related parties** (note (b-3)) | | |
| **Trade and other receivables from related parties** (note 14) | | |
| – KY Import/Export | **—** | 366 |
| – Industrial Park | **2,870** | 2,810 |
| | **2,870** | 3,176 |
| **Trade payables to related parties** (note 22) | | |
| – Guangdong Precision | **2,290** | 355 |
| – Guangdong Zhongding | **765** | 662 |
| – KY Import/Export | **232** | — |
| – Jiangmen Yida | **—** | 1,266 |
| | **3,287** | 2,283 |

Notes:

(b-1) The purchase transactions are negotiated with related parties in a normal course of business.

(b-2) The handling fees charged by KY Import/Export in relation to import of materials of the Group are approximately 1% of purchase price of the materials. The handling fees charged by KY Import/Export in relation to export products are equivalent to 1% of the full contract price of the products. During the year ended 31 December 2016, the handling fees charged by KY Import/Export in relation to import and export of materials amounted to RMB819,000 and RMB155,000, respectively (31 December 2015: RMB724,000 and RMB155,000, respectively).

(b-3) All balances are unsecured and interest free; balances due from KY Import/Export and Industrial Park are repayable on demand, balances due to other related parties are repayable within 45 days.

(All amounts in Renminbi thousands unless otherwise stated)

## 34. Events after the reporting period

On 26 January 2017, the Company has completed a placing of an aggregate of 18,000,000 new shares at the placing price of HK$1.65 per share.

## 35. Balance Sheet and Reserve Movement of the Company

### Balance sheet of the Company

| | Note | As at 31 December 2016 | 2015 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Investments in subsidiaries | 9 | **224,415** | 219,398 |
| **Current assets** | | | |
| Amounts due from subsidiaries | | **33,142** | 199,592 |
| Cash and cash equivalents | | **18,871** | 24,738 |
| | | **52,013** | 224,330 |
| **Total assets** | | **276,428** | 443,728 |
| **EQUITY** | | | |
| **Capital and reserves attributable to shareholders of the Company** | | | |
| Share capital and premium | | **24,578** | 147,449 |
| Other reserves | | **222,199** | 217,659 |
| Retained earnings | | **26,042** | 45,773 |
| **Total equity** | | **272,819** | 410,881 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | | **3,609** | 3,222 |
| Borrowings | | **—** | 29,625 |
| | | **3,609** | 32,847 |
| **Total liabilities** | | **3,609** | 32,847 |
| **Total equity and liabilities** | | **276,428** | 443,728 |

Notes to the consolidated financial statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

## 35. Balance Sheet and Reserve Movement of the Company (continued)

### (a) Reserve movement of the Company

| | Retained earnings | Other reserves |
|---|---|---|
| At 1 January 2015 | 50,298 | 213,034 |
| Profit for the year | 73,738 | — |
| Dividends (note 30) | (78,263) | — |
| Share options granted to employees | — | 5,354 |
| Exercise of share options | — | (691) |
| Share options forfeited during the year | — | (38) |
| **At 31 December 2015** | 45,773 | 217,659 |
| At 1 January 2016 | **45,773** | **217,659** |
| Profit for the year | **49,620** | **—** |
| Dividends (note 30) | **(69,351)** | **—** |
| Share options granted to employees | **—** | **5,102** |
| Exercise of share options | **—** | **(553)** |
| Share options forfeited during the year | **—** | **(9)** |
| **At 31 December 2016** | **26,042** | **222,199** |

**Mr. Au Pak Yin**
*Director*

**Mr. Au Kwok Lun**
*Director*

Notes to the consolidated financial statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

# 36. Benefits and Interests of Directors

## (a) Directors' and chief executive's emoluments

The remuneration of every director and the chief executive is set out below:

**For the year ended 31 December 2016:**

| Name | Fees | Salaries | Discretionary bonuses | Housing allowance | Allowances and benefits in kind | Employee's contribution to retirement scheme | Remunerations paid or receivable in respect of accepting office as director | Other emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the company or its subsidiary undertaking | Total |
|---|---|---|---|---|---|---|---|---|---|
| Mr. Au Pak Yin | 221 | 1,547 | – | – | 91 | – | – | – | 1,859 |
| Mr. Au Kwok Lun (Chief Executive Officer) | 221 | 1,077 | – | – | 102 | 15 | – | – | 1,415 |
| Mr. Ou Guo Liang | 221 | 239 | – | – | 102 | 15 | – | – | 577 |
| Mr. Lai Ming, Joseph* | 221 | – | – | – | – | – | – | – | 221 |
| Mr. Meng Yan* | 111 | – | – | – | – | – | – | – | 111 |
| Mr. Xu Guangmao* | 111 | – | – | – | – | – | – | – | 111 |
| Mr. Yeung Kwok Keung* | 221 | – | – | – | – | – | – | – | 221 |
| | 1,327 | 2,863 | – | – | 295 | 30 | – | – | 4,515 |

# Notes to the consolidated financial statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

## 36. Benefits and Interests of Directors (continued)

### (a) Directors' and chief executive's emoluments (continued)

For the year ended 31 December 2015:

| Name | Fees | Salaries | Discretionary bonuses | Housing allowance | Allowances and benefits in kind | Employee's contribution to Retirement scheme | Remunerations paid or receivable in respect of accepting office as director | Other emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the company or its subsidiary undertaking | Total |
|---|---|---|---|---|---|---|---|---|---|
| Mr. Au Pak Yin | 209 | 1,461 | – | – | 79 | – | – | – | 1,749 |
| Mr. Au Kwok Lun (Chief Executive Officer) | 209 | 1,017 | – | – | – | 14 | – | – | 1,240 |
| Mr. Ou Guo Liang | 209 | 225 | – | – | 96 | 14 | – | – | 544 |
| Mr. Lai Ming, Joseph* | 209 | – | – | – | – | – | – | – | 209 |
| Mr. Meng Yan* | 104 | – | – | – | – | – | – | – | 104 |
| Mr. Xu Guangmao* | 104 | – | – | – | – | – | – | – | 104 |
| Mr. Yeung Kwok Keung* | 209 | – | – | – | – | – | – | – | 209 |
| | 1,253 | 2,703 | – | – | 175 | 28 | – | – | 4,159 |

* Mr. Lai Ming, Joseph, Mr. Meng Yan, Mr. Xu Guangmao and Mr. Yeung Kwok Keung are independent non-executive directors of the Company.

During the years ended 2016 and 2015, none of the directors of the Company waived their emoluments nor have agreed to waive their emoluments.

| Aggregate emoluments paid to or receivable by directors in respect of their services as directors, whether of the company or its subsidiary undertaking | | Aggregate emoluments paid to or receivable by directors in respect of their other services in connection with the management of the affairs of the company or its subsidiary undertaking | | Total | Total |
|---|---|---|---|---|---|
| **2016** | 2015 | **2016** | 2015 | **2016** | 2015 |
| **4,220** | 3,984 | **295** | 175 | **4,515** | 4,159 |

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

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the years 2016 and 2015 or at any time during the years ended 2016 and 2015.

# Five-Year Financial Summary

(All amounts in Renminbi thousands unless otherwise stated)

## Consolidated Balance Sheets

| | 31 December 2016 | 31 December 2015 | 31 December 2014 | 31 December 2013 | 31 December 2012 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | **89,488** | 88,642 | 91,985 | 88,725 | 86,760 |
| Land use right | **8,588** | 8,877 | 9,166 | 9,455 | 9,744 |
| Intangible assets | **12,681** | 9,463 | 8,730 | 389 | 517 |
| Investments accounted for using the equity method | **18,570** | 10,176 | 89 | 95 | 92 |
| Available-for-sale financial assets | **3,349** | 3,349 | 4,480 | 4,480 | 3,756 |
| Deferred income tax assets | **2,682** | — | 560 | — | — |
| Restricted cash | **58,130** | 160 | 30,100 | 60,000 | — |
| | **193,488** | 120,667 | 145,110 | 163,144 | 100,869 |
| **Current assets** | | | | | |
| Inventories | **89,113** | 102,367 | 95,917 | 118,191 | 137,116 |
| Trade and other receivables | **39,034** | 28,666 | 43,563 | 39,509 | 38,661 |
| Financial assets at fair value through profit or loss | **—** | 5,426 | 8,779 | 7,641 | 15,313 |
| Structured deposits in a bank | **—** | — | 30,000 | 31,500 | 30,000 |
| Restricted cash | **69,651** | 30,289 | 60,390 | 10,257 | 683 |
| Cash and cash equivalents | **198,516** | 308,739 | 223,645 | 199,634 | 210,632 |
| | **396,314** | 475,487 | 462,294 | 406,732 | 432,405 |
| **Total assets** | **589,802** | 596,154 | 607,404 | 569,876 | 533,274 |
| **EQUITY** | | | | | |
| **Capital and reserves attributable to shareholders of the Company** | | | | | |
| Share capital and premium | **24,578** | 147,449 | 102,806 | 99,088 | 176,649 |
| Other reserves | **245,913** | 232,769 | 217,428 | 208,653 | 201,682 |
| Retained earnings | | | | | |
| – Proposed final dividend | **22,000** | 33,000 | 50,000 | 35,000 | 19,911 |
| – Retained earnings | **29,616** | 35,395 | 18,453 | 23,019 | 16,659 |
| | **322,107** | 448,613 | 388,687 | 365,760 | 414,901 |
| **Non-controlling interests** | **(77)** | 60 | 75 | 44 | 31 |
| **Total equity** | **322,030** | 448,673 | 388,762 | 365,804 | 414,932 |
| **LIABILITIES** | | | | | |
| **Non-current liabilities** | | | | | |
| Borrowings | **53,670** | — | 27,896 | 83,313 | 28,151 |
| Deferred income tax liabilities | **1,073** | 799 | — | 2,325 | 3,582 |
| | **54,743** | 799 | 27,896 | 85,638 | 31,733 |
| **Current liabilities** | | | | | |
| Trade and other payables | **98,768** | 112,814 | 100,432 | 103,221 | 82,926 |
| Current income tax liabilities | **6,921** | 4,243 | 6,715 | 5,469 | 3,683 |
| Borrowings | **107,340** | 29,625 | 83,599 | 9,744 | — |
| | **213,029** | 146,682 | 190,746 | 118,434 | 86,609 |
| **Total liabilities** | **267,772** | 147,481 | 218,642 | 204,072 | 118,342 |
| **Total equity and liabilities** | **589,802** | 596,154 | 607,404 | 569,876 | 533,274 |
| **Net current assets** | **183,285** | 328,805 | 271,548 | 288,298 | 345,796 |
| **Total assets less current liabilities** | **376,773** | 449,472 | 416,658 | 451,442 | 446,665 |

## Five-Year Financial Summary (continued)

(All amounts in Renminbi thousands unless otherwise stated)

### Consolidated Income Statement

| | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|
| **Revenue** | **526,637** | 496,975 | 548,762 | 581,313 | 456,875 |
| Cost of goods sold | **(331,730)** | (306,373) | (357,684) | (419,807) | (342,159) |
| **Gross profit** | **194,907** | 190,602 | 191,078 | 161,506 | 114,716 |
| Other income | **9,962** | 12,952 | 9,858 | 11,215 | 8,973 |
| Selling and marketing expenses | **(43,263)** | (37,593) | (30,466) | (30,140) | (30,370) |
| Administrative expenses | **(48,629)** | (48,223) | (45,053) | (43,048) | (35,288) |
| Research and development expenses | **(26,834)** | (25,430) | (24,005) | (20,927) | (15,412) |
| Other gains/(losses) – net | **376** | 25,257 | (677) | 3,313 | 8,719 |
| **Operating profit** | **86,519** | 117,565 | 100,735 | 81,919 | 51,338 |
| Finance expenses – net | **(7,408)** | (3,948) | (2,791) | (226) | (498) |
| Share of losses of investments accounted for using the equity method | **(606)** | (613) | (11) | (2) | (5) |
| **Profit before income tax** | **78,505** | 113,004 | 97,933 | 81,691 | 50,835 |
| Income tax expenses | **(17,440)** | (24,098) | (15,297) | (13,972) | (10,568) |
| **Profit for the year** | **61,065** | 88,906 | 82,636 | 67,719 | 40,267 |
| **Attributable to:** | | | | | |
| Shareholders of the Company | **61,176** | 88,921 | 82,605 | 67,706 | 40,260 |
| Non-controlling interests | **(111)** | (15) | 31 | 13 | 7 |
| | **61,065** | 88,906 | 82,636 | 67,719 | 40,267 |
| **Earnings per share for profit attributable to the shareholders of the Company during the year** (expressed in RMB per share) | | | | | |
| – Basic | **0.098** | 0.147 | 0.147 | 0.121 | 0.072 |
| – Diluted | **0.098** | 0.147 | 0.146 | 0.121 | 0.072 |