

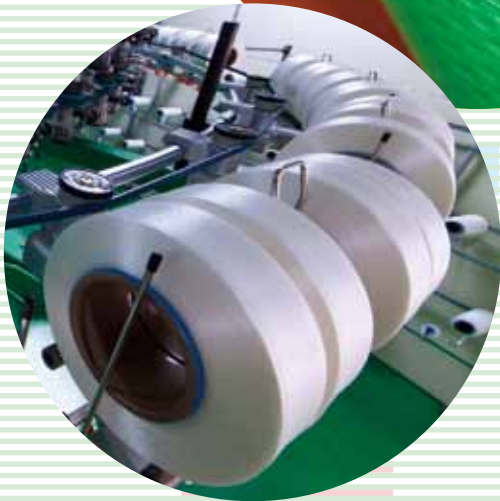


KAM HING INTERNATIONAL HOLDINGS LIMITED

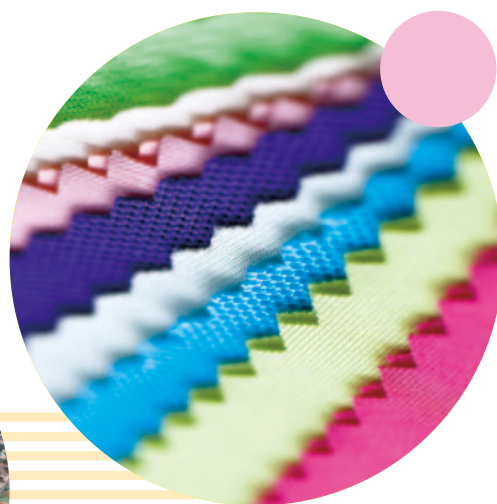
錦興國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 02307

2015
Annual Report



CONTENTS



CORPORATE INFORMATION	2
FINANCIAL HIGHLIGHTS AND SUMMARY	3
CHAIRMAN'S STATEMENT	5
MANAGEMENT DISCUSSION AND ANALYSIS	7
CORPORATE GOVERNANCE REPORT	13
PROFILE OF DIRECTORS AND SENIOR MANAGEMENT	20
REPORT OF THE DIRECTORS	24
INDEPENDENT AUDITORS' REPORT	31
AUDITED FINANCIAL STATEMENTS	
Consolidated statement of profit or loss	33
Consolidated statement of comprehensive income	34
Consolidated statement of financial position	35
Consolidated statement of changes in equity	37
Consolidated statement of cash flows	39
Notes to financial statements	41
FIVE-YEAR FINANCIAL SUMMARY	108

CORPORATE INFORMATION

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

Mr. Tai Chin Chun (*Chairman*)
Mr. Tai Chin Wen (*Chief Executive Officer*)
Ms. Cheung So Wan
Ms. Wong Siu Yuk
Mr. Chong Chau Lam
Mr. Wong Wai Kong, Elmen

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Yuk Tong, Jimmy
Ms. Chu Hak Ha, Mimi
Mr. Ho Gilbert Chi Hang

COMPANY SECRETARY

Mr. Lei Heong Man, Ben

AUDITORS

Ernst & Young
Certified Public Accountants

REGISTERED OFFICE

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

COMPANY WEBSITE

www.kamhingintl.com

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Workshop A on 23rd Floor
TML Tower
No. 3 Hoi Shing Road
Tsuen Wan, New Territories
Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited
Australia and New Zealand Banking Group Limited
China CITIC Bank International Limited
Standard Chartered Bank (Hong Kong) Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN CAYMAN ISLANDS

Codan Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

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

STOCK CODE

The Stock Exchange of Hong Kong Limited: 02307

FINANCIAL HIGHLIGHTS AND SUMMARY

KEY FINANCIAL DATA

	For the year ended/As at 31 December				
	2011 HK\$'000	2012 HK\$'000	2013 HK\$'000	2014 HK\$'000	2015 HK\$'000
Revenue	4,065,355	4,100,160	3,922,625	3,985,699	4,152,733
EBITDA (note 1)	405,104	397,667	444,638	465,664	465,346
Shareholders funds	1,833,054	1,907,759	1,966,731	2,026,038	1,991,490
Net profit attributable to ordinary equity holders of the Company (notes 2, 3, 4)	101,790	100,884	91,699	70,749	57,714
Dividends per share (HK cents)	3.3	2.7	2.5	1.3	1.5

KEY FINANCIAL RATIOS

	For the year ended/As at 31 December				
	2011	2012	2013	2014	2015
Gross profit margin (%)	14.5	16.3	16.6	14.4	15.4
Net profit margin (%)	3.1	2.7	2.6	2.1	1.5
Gearing ratio (net debt/capital and net debt) (%)	49.9	46.2	48.4	50.6	51.8

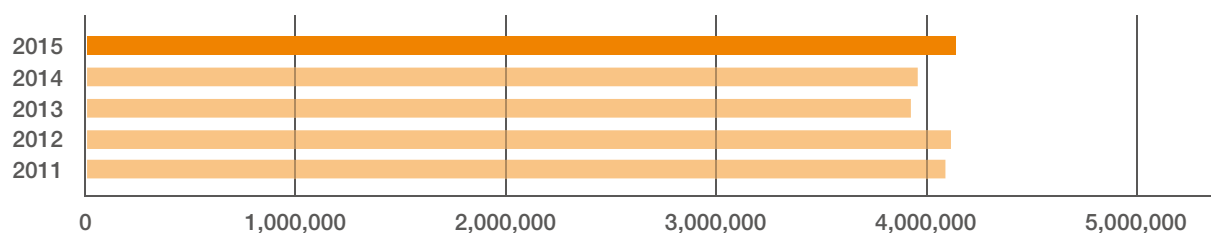
Notes:

- (1) EBITDA refers to profit before interest, tax, depreciation and amortisation
- (2) Excluding the one-off gain of HK\$12.8 million in relation to the disposal of part of interest in the Madagascar mining project in 2011
- (3) Excluding the one-off gain of HK\$10.3 million in relation to the disposal of a joint venture in 2014
- (4) Excluding the one-off gain of HK\$0.5 million in relation to the disposal of subsidiaries in 2015

FINANCIAL HIGHLIGHTS AND SUMMARY

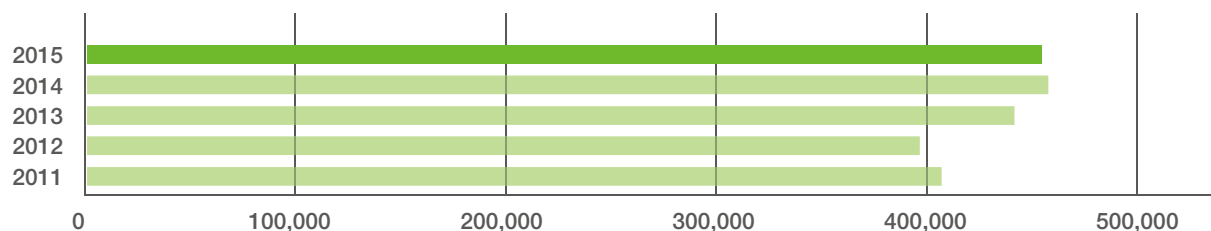
REVENUE

HK\$'000



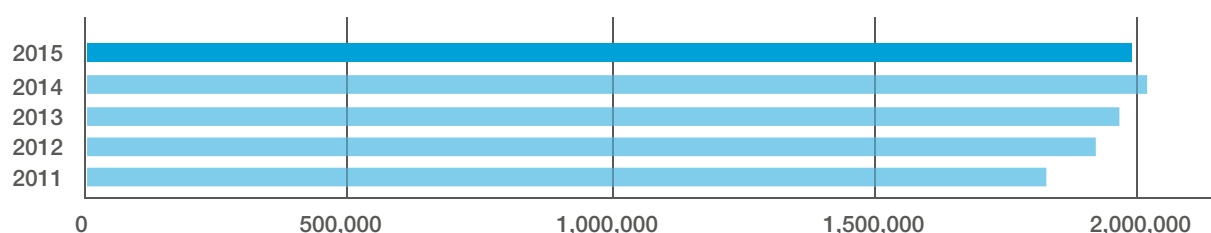
PROFIT BEFORE INTEREST, TAX, DEPRECIATION AND AMORTISATION ("EBITDA")

HK\$'000



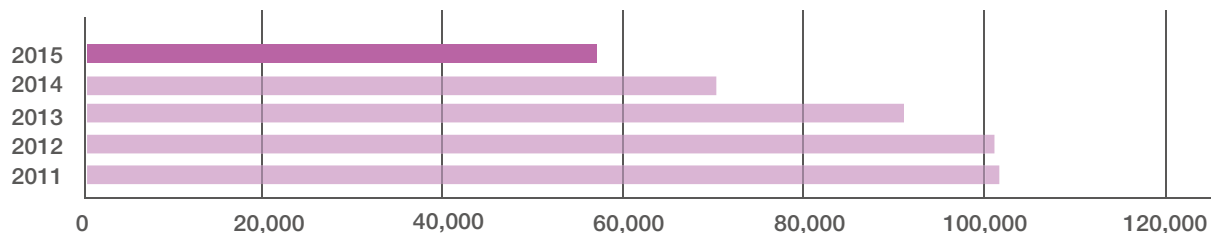
SHAREHOLDERS' FUNDS

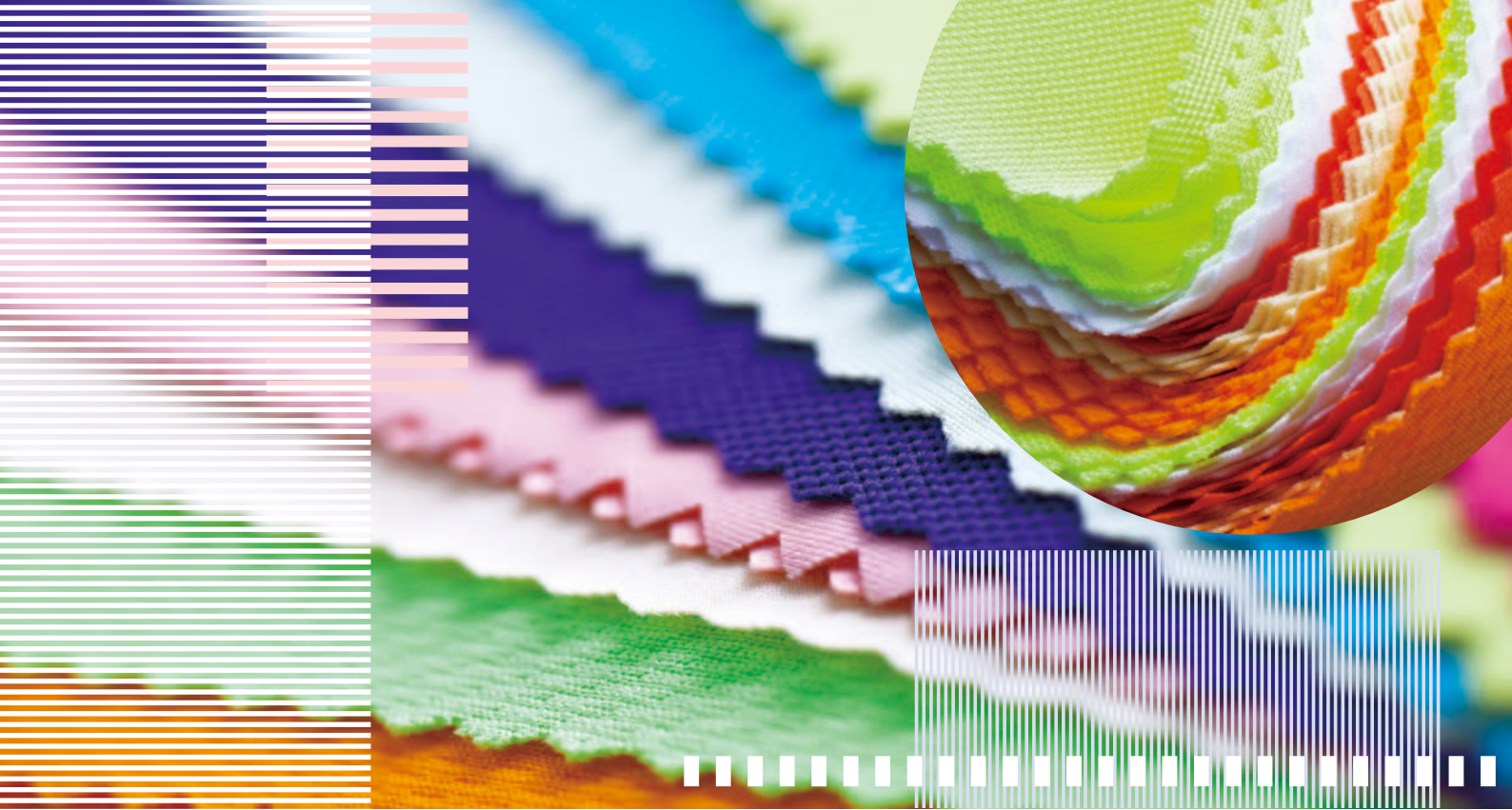
HK\$'000



NET PROFIT ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

HK\$'000





CHAIRMAN'S STATEMENT

On behalf of the board (the "Board") of Directors ("the Directors") of Kam Hing International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group"), it is my pleasure to present to shareholders the consolidated audited results of the Group for the year ended 31 December 2015 (the "Year").

During the Year, the operating environment of Chinese textile and garment industry remained full of uncertainties and challenges. According to the Boston Consulting Group, manufacturing wages adjusted for productivity had almost tripled in China over the last decade, to an estimated US\$12.47 an hour in 2014 from US\$4.35 an hour in 2004. Besides the domestic surging labour costs, the economy in our end-market, the United States (the "U.S.") had been fragile and its consumers' sentiment remained fluctuated.

Throughout years of market consolidation in the industry, we have been keeping in pace with the market changes and successfully transformed into one of the leading fabrics solutions providers from a leading knitted textile manufacturer. In 2015, our extended business scope from knitted fabric to functional fabric allowed the Group to explore new businesses and acquire bulk purchase orders. By proactively penetrating into different markets such as China and Europe, we also successfully expanded the market share of our products geographically and broadened our revenue sources. Internally, with a new fabric knitting plant set up in Enping, China, we streamlined the production through centralising major production procedures in one site to further enhance overall operational efficiency. As a result of the enriched product mix, more diversified end-markets and clientele, and improved internal efficiency, I am pleased to report a satisfactory year-on-year growth of 4.2% in our revenue and 17.2% in net profit attributable to ordinary equity holders, excluding the share of losses of an associate.

The Board has resolved to recommend the payment of final dividend of HK1.5 cents per share subject to approval by the shareholders at the forthcoming annual meeting of the Company.

CHAIRMAN'S STATEMENT

PROSPECTS

Looking ahead, we foresee that more market consolidation will go on and global market dynamics will consistently pose uncertainties to the operating environment. To adapt to such unpredictable environment, we will strive to explore new markets, new clients and new products, in order to grasp every opportunity for growth and consolidate our position in the industry. In view of the increasing popularity of synthetic fiber, we will constantly devote resources in the relevant research and development to provide fabric solutions for branded consumers.

Year by year, we emphasise on delivering quality textile products, which is crucial for the Group to retain customers and stand out among the competitors. We put great efforts in research to cater for the fast-changing consumer preferences and launch new products from time to time. We also place importance on our production, such as stringent internal control on raw material procurement, cost efficiency, wastage management and recycling. Further measures will be implemented to streamline the operations in Enping and Panyu to make sure the resources to be used efficiently and effectively. While we believe a professional operation team is a core asset to the long-term success of our company, we will persistently dedicate efforts to provide employees with more internal trainings about safety, product quality and production efficiency. Currently, we keep on accelerating automation and machinery upgrades in production plants, with an aim to further enhance the productivity, efficiency and quality.

Apart from increasing our own competitiveness, we closely monitor the development of Trans-Pacific Partnership trade agreement ("TPP"). TPP included twelve members such as the U.S., Japan, Vietnam, Singapore, Australia and Canada, which comprised nearly 40% of global GDP, a market of around one third of the world trade. With the U.S. offering more than 17% tariff reduction on imported textiles and apparels to participating countries, establishing a production base in Vietnam would be a golden development opportunity for us to take advantage of the TPP benefits. Recently, we have been looking for an appropriate land in an industrial zone near Hanoi in Vietnam, where we could have better competitiveness to support our garment and fabric export business. In 2016, we will cautiously study the external market conditions so as to grasp every opportunity to gain greater market share and hence fortifying our position as a fabrics solutions provider and maximising shareholders' value in the years coming.

APPRECIATION

I would like to express my sincere gratitude to our management team and employees for their devotion and hard work during the Year. Moreover, I on behalf of the Board would like to thank our customers, business partners and shareholders for their continual support and trust in the Company.

Tai Chin Chun

Chairman

Hong Kong, 24 March 2016

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the Year of 2015, manufacturing and export of textile remained the principal operation of the Group, and United States (“U.S.”) continued to be our major end-market, contributing 65.2% of the total revenue of the Group. Modest recovery in the U.S. has been observed in the past few years and continued in 2015. According to the Bureau of Labor Statistics, the unemployment rate in the U.S. fell to a new low of 5.0% in December 2015 from 5.6% in the previous year, and it has been the lowest since the financial crisis in 2008; while Consumer Confidence Index conducted by the University of Michigan recorded 92.9 in average in 2015, the highest since 2004. Moreover, the Gross Domestic Products of the U.S. grew at a moderate rate of 2.4% in 2015, same as in 2014. Expressing confidence towards the national economy, the Federal Reserve raised interest rates by 0.25% for the first time in nearly a decade in December 2015.

Despite the encouraging figures, the consumer sentiment was still unpredictable due to the global fragile economy in 2015. The Census Bureau in the U.S. released figures recently, showing that real median household income in 2014 was 6.5 percent lower than in 2007, the year before the most recent recession. The labour force participation rate in December 2015 was only 62.6%, according to the U.S. Bureau of Labour Statistics, which may indicate the workforce is shrinking and becomes a problem for restoring a healthy economy. With the purchasing power remained at a relatively low level, the consumption desire is yet to restore and is highly volatile. Under such backdrop, the Group continued to maintain prudent strategies to be financially healthy, and at the same time, diversified its operation risks by enlarging its client mix, and penetrating into markets of Mainland China, Europe, Japan and other Southeast Asia countries to open new revenue sources. With its efforts over the years, the Group successfully sustained its market position and captured business opportunities, thus achieving satisfactory operating results.

For the Year, the Group’s overall revenue increased slightly by approximately 4.2% to approximately HK\$4,152.7 million (2014: approximately HK\$3,985.7 million). Gross profit increased by approximately 11.3% to HK\$637.8 million (2014: HK\$573.3 million) and Gross profit margin increased by 1.0 percentage point to 15.4%. Profit attributable to ordinary equity holders of the Company for the reporting year amounted to approximately HK\$58.3 million, which included share of losses of an associated company with approximately HK\$42.1 million as a result of its delay in its project development in response to the continuing downside trend of mineral price. Hence profit from core operation for the Year ended 31 December 2015, excluding the share of losses of an associated company, was approximately HK\$100.4 million, representing a 17.2% increase as compared with the previous year. The mentioned share of losses has no cash flow impact to the Group and would not affect the Group’s ordinary business operation. The basic earnings per share was HK6.7 cents (2014: HK9.3 cents).

The economy of the U.S., our major end-market, experienced another year of sluggish growth for the Year. Continuing our sales strategy to diversify the Group’s operational risks in the long-term, we further enlarged its client mix and penetrated into other markets in 2015, to gradually mitigate the reliance on the U.S. market. Other than the U.S., the revenue generated from other markets such as Japan, China and Canada continued to expand during the Year when compared with previous year. During the Year, the Group successfully established trusted relationship with a number of new customers with its consistently reliable delivery and good quality products.

Throughout the Year, the average selling price (“ASP”) of textile products of the Group remained stable at a relatively low level, owing to the constantly low market price of cotton. Ongoing consolidation of textile manufacturers also imposed pressure on small players. Yet, as one of the leading fabrics solutions providers, the Group was capable to maintain a healthy order flow and stable ASP during the Year, resulting in higher output volume and improved production efficiency with better gross profit margin of the Group in 2015.

MANAGEMENT DISCUSSION AND ANALYSIS

In order to further enhance its operating efficiency, the Group continued to streamline its production facilities in Enping and Panyu, China (the “Enping Plant” and “Panyu Plant” respectively). The Panyu Plant was mainly responsible for upstream operations, such as yarn dyeing, fabric knitting, fabric dyeing and processing, while the Enping Plant was mainly for fabric knitting, fabric dyeing and printing solutions. In 2014, the Group established a new fabric knitting production facility in the Enping Plant, that completed trial run in late 2015, and commenced operation in 2016. With the knitting facility added, the Enping Plant has become a more comprehensive, vertically-integrated production base of the Group. This helps the Group optimise the operation flow, hence saving the logistics time and costs, by centralising major production procedures in the Enping Plant. On top of this, the Group also dedicated more resources to implement machinery upgrades and automations, in order to optimise manpower and improve efficiency, and produce high-precision products more efficiently. Such measures help the Group to differentiate ourselves from the peers, and support its timely delivery of quality and tailored services to customers worldwide.

MAJOR MOVEMENT

On 25 August 2015, the Group obtained a syndicated loan facility of HK\$1 billion for a term of 3.5 years. The loan was mainly used for refinancing previous syndicated loan of HK\$1 billion and to fund the expansion of facilities in the Group’s Enping Plant in the future. The continuous support from bankers has proven the recognition of the Group’s vision and development plan in the capital market.

PROSPECTS

Looking ahead, the Group expected the operating environment of textile industry would remain tough in 2016. In January 2016, global investors were fleeing stocks and running to safer investments like bonds and gold, causing a sell-off in global stock markets. It was mainly due to the new monetary policies and negative interest rates imposed by the five central banks in the world, namely Denmark, the Eurozone, Sweden, Switzerland and Japan, to stimulate economic growth. Seeing the volatility of global financial market, Federal Reserve policymakers held a meeting in January, expressing their worries that the economies of China and emerging countries would potentially drag the U.S. economy. Despite of the interest rate raises in the U.S. in the end of 2015, falling commodity and stock prices in the beginning of 2016, along with slowing domestic and global economic growth, had undermined market expectations for further Federal Reserve interest rate rises this year.

In view of such a challenging global economy, the Group will closely monitor stringently its inventory level and maintain prudent capital management, to ensure the stability and sufficiency of its financial condition. The Group will also persistently pursue new growth drivers through expanding sales network in different regions, seeking to increase orders from both existing clientele and new clients.

For new product development, the Group is optimistic about the prospects of the synthetic fiber. According to the Office of Textile and Apparel in Washington, U.S. import of man-made fiber during January to November in 2015 has a year-on-year increase by 9.8%. Foreseeing the increasing popularity of functional fabrics in the global market, the Group has been conducting new product development to enrich its product offerings and persistently applying for new patents to recognise its research efforts. In early 2016, the Group successfully obtained several new patents. The patented technologies will provide the Group with advantages on product diversity, quality, and hence differentiate itself from the fierce competition in the market. This also demonstrates its adaptability to the market changes and consumers’ need on functional fabrics, which in turn will increase the Group’s pricing power, as well as profitability in the long run. The continuous recognition of the Group’s new products from the market is also expected to bring in new orders and enhance the utilisation of the Enping Plant in the near future.

In early February 2016, twelve nations including Vietnam, Japan and the U.S. signed Trans-Pacific Partnership trade agreement, which contains measures to lower tariffs and offer beneficial trade terms to participating countries. With the reduced import duties in the U.S. and Japan, apparel exports from Vietnam is expected to have strong advantages. To take advantage of the TPP tariff benefit and the low-wage business environment in Vietnam, the Group is considering to

MANAGEMENT DISCUSSION AND ANALYSIS

develop a manufacturing site in North Vietnam for textile production since last year, and is currently in negotiation with the relevant parties to locate the site in an industrial zone near Hanoi. The Group believes that this strategic move will certainly help maintain the Group's position in the global knitted textile and garment sector in the next decade.

Leveraging on our established strengths, experience and foresight, the Group is confident to further solidify its position as an integrated textile solutions provider and create higher value for shareholders persistently.

FINANCIAL REVIEW

Revenue

Overall sales turnover achieved approximately HK\$4,152.7 million, representing an increase of approximately 4.2% as compared with last year (2014: approximately HK\$3,985.7 million). The increase was mainly attributable to the increased orders from the enlarged client network.

Gross Profit and Gross Profit Margin

Gross profit was approximately HK\$637.8 million, representing an increase of approximately 11.3% from last year (2014: approximately HK\$573.3 million). Gross profit margin increased slightly to approximately 15.4% (2014: approximately 14.4%), which was mainly attributable to the manufacturing efficiency brought forth by the increased production output.

Other Income and Expenses

Other income of approximately HK\$28.8 million (2014: approximately HK\$24.2 million) mainly comprised approximately HK\$14.1 million (2014: approximately HK\$13.0 million) from sales of excess steam generated by the power plant to nearby facilities in the district, approximately HK\$7.8 million (2014: approximately HK\$8.3 million) from fee on air and ocean freight, and approximately HK\$2.5 million (2014: approximately HK\$1.1 million) from subsidy income from PRC government. The remaining balance was primarily the result of rental income, and bank interest income.

Selling and distribution expenses of approximately HK\$129.1 million (2014: approximately HK\$109.5 million) consisted of approximately HK\$100.5 million (2014: approximately HK\$85.1 million) in shipping and delivery costs, which represented an increase of 18.1% relative to last year. The increase was mainly due to higher logistics costs incurred from the increase in sales volume. Administrative expenses, which included salaries, depreciation and other related expenses increased to approximately HK\$345.0 million (2014: approximately HK\$314.6 million) due to the expansion of factories in PRC.

Finance costs, which included an acceleration of the amortisation of syndicated loan charges incurred in 2013, interest on long-term loans from banks, bank overdraft and finance lease interests, increased by approximately 8.5% to approximately HK\$61.6 million (2014: approximately HK\$56.7 million) as compared with last year. The increase was primarily due to the non-cash amortisation effect of loan charges on the previous syndicated loan upon the repayment of the previous syndicated loan financed by the new syndicated loan in August 2015.

Net Profit and Net Profit Margin

Net profit attributable to ordinary equity holders of the Company for the Year was approximately HK\$58.3 million, representing a decrease of approximately 28.1% from last year (2014: approximately HK\$81.1 million). The decrease in net profit was mainly due to share of losses of an associate engaged in investment in mining project of approximately HK\$42.1 million as a result of its delay in project development. Net profit margin decreased to approximately 1.5% (2014: approximately 2.1%). Excluding the share of losses of an associate, the underlying net profit attributable to ordinary equity holders of the Company for the year increased by approximately 17.2% to approximately HK\$100.4 million (2014: HK\$85.7 million).

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and Financial Resources

As at 31 December 2015, the Group's net current assets were approximately HK\$908.3 million (2014: approximately HK\$602.0 million). The increase in net current assets was mainly due to the availability of the new syndicated loan in August 2015, which was used to replace the previous syndicated loan in 2013. As such, the interest-bearing bank and other borrowings which were classified as current liabilities are refinanced by the long term loan. The Group will constantly review its financial position and maintain a healthy financial position by financing its operations from internally generated resources and long-term bank loans. As at 31 December 2015, the Group had cash and cash equivalents of approximately HK\$517.6 million (2014: approximately HK\$487.3 million). Current ratio was approximately 1.6 times (2014: approximately 1.3 times).

As at 31 December 2015, total bank and other borrowings of the Group was approximately HK\$1,853.8 million (2014: approximately HK\$1,779.9 million). The Group's net debt gearing ratio (i.e. net debt divided by the sum of equity and net debt) was at a healthy level of approximately 51.8% (2014: approximately 50.6%). Net debt comprises all interest-bearing bank and other borrowings, an amount due to an associate, accounts and bills payable, and accrued liabilities and other payables less cash and cash equivalents. Total equity comprises owners' equity as stated in the consolidated statement of financial position.

Debtors' turnover period, inventory turnover period and creditors' turnover period for the Year was approximately 71.8 days (2014: approximately 75.2 days), 106.8 days (2014: approximately 102.8 days) and approximately 61.8 days (2014: approximately 65.5 days) respectively. The respective decreases in debtors' turnover period and creditors' turnover period were mainly due to better control on accounts receivable and improvement in procurement control.

Financing

As at 31 December 2015, the total banking and loan facilities of the Group amounted to approximately HK\$5,551.5 million (2014: approximately HK\$6,707.3 million), of which approximately HK\$2,108.5 million (2014: approximately HK\$2,061.4 million) was utilised.

As at 31 December 2015, the Group's long-term loans were approximately HK\$1,148.7 million (2014: approximately HK\$827.8 million), comprising syndicated loan and term loans from banks of approximately HK\$1,137.6 million (2014: approximately HK\$827.7 million) and long-term finance lease payable of approximately HK\$11.1 million (2014: approximately HK\$0.1 million).

Dividend

The Board has resolved to recommend the payment of a final dividend of HK1.5 cents (2014: HK1.3 cents) per share for the year ended 31 December 2015 and will be payable to shareholders whose names appear on the register of members of the Company on 14 June 2016. Subject to the approval of shareholders regarding the payment of the final dividend at the forthcoming annual general meeting of the Company, the proposed final dividend will be paid on or about 27 June 2016.

Capital Structure

The capital structure of the Company is composed of equity and debt.

As at 31 December 2015, there has been no change in the capital structure of the Company. The share capital of the Company comprises only ordinary shares.

MANAGEMENT DISCUSSION AND ANALYSIS

Foreign Exchange Risk and Interest Rate Risk

Approximately 66.5% (2014: approximately 66.7%) of the Group's sales was denominated in U.S. dollars. The remaining sales were denominated in Hong Kong dollars and Renminbi. The majority of the Group's costs of sales were denominated in U.S. dollars, Hong Kong dollars and Renminbi. The Group is therefore exposed to foreign exchange risk arising from currency exposures, primarily in respect to the Renminbi. The exchange rates of other currencies were relatively stable throughout the Year and immaterial on our cost structure. The management closely monitors the foreign exchange movements and determines the appropriate hedging activities when necessary.

The Group's borrowings were mainly maintained at a floating rate basis. The management will pay attention to the interest rate movement and employed necessary hedging instruments in a prudent and professional manner.

Charge of Group's Assets

As at 31 December 2015, certain items of property, plant and equipment of the Group with an aggregate net book value of approximately HK\$36.6 million (2014: approximately HK\$55.3 million) were under finance leases.

Capital Expenditure

As at 31 December 2015, the Group invested approximately HK\$401.9 million (2014: approximately HK\$403.1 million) in capital expenditure of which approximately 84.1% (2014: approximately 75.0%) was used for the purchase of plant and machinery, approximately 11.6% (2014: approximately 22.1%) was used for the construction of new factory premises, and the remaining was used for the purchase of other property, plant and equipment and prepaid land lease payments.

As at 31 December 2015, the Group had capital commitments of approximately HK\$57.8 million (2014: approximately HK\$58.8 million) in property, plant and equipment. All are funded or will be funded by internal resources.

Staff Policy

The Group had 6,385 (2014: 6,020) employees in the PRC and 165 (2014: 171) employees in Hong Kong, Macau, Singapore, Korea and others as at 31 December 2015. The increase in staff number was mainly due to the production expansion in Enping. Remuneration packages are generally structured by reference to market terms and individual qualification. Salaries and wages are normally reviewed on an annual basis based on performance appraisals and other relevant factors. Discretionary bonuses are offered to the Group's staff depending on their performance and the results of the Group. The Group also participates in various defined contribution plans and insurance schemes in compliance with its statutory obligations under the laws and regulations of various locations worldwide.

The Group operates a defined contribution retirement benefit scheme under the Mandatory Provident Fund Schemes Ordinance as well as medical insurance for all its employees in Hong Kong. The Group also participates in various defined contribution plans and insurance schemes in compliance with its statutory obligations under the laws and regulations of various locations worldwide. Also, the Group is obliged to provide its employees in the PRC with welfare schemes covering various insurance and social benefits. Staff benefits are also provided to the staff working in other countries according to the respective countries' statutory requirements.

The Company maintains a share option scheme, pursuant to which share options may be granted to selected eligible participants, with a view to providing an appropriate incentive package for the growth of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

Major Customers and Suppliers

For the year ended 31 December 2015, sales to the Group's five largest customers accounted for approximately 21.4% (2014: approximately 28.3%) of total sales and sales to the largest customer included therein accounted for approximately 6.4% (2014: approximately 8.4%).

Purchases from the Group's five largest suppliers accounted for approximately 37.6% (2014: approximately 39.9%) of total purchases and purchases from the largest supplier therein accounted for approximately 12.9% (2014: approximately 11.5%).

None of the Directors, their respective close associates (as defined in the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange")) or shareholders of the Company (which to the knowledge of the Directors) who own more than five percent, of the issued capital of the Company, had any interest in the Group's five largest customers and/or suppliers during the Year.

Segment Information

For the year ended 31 December 2015, the major end-market is remained as U.S.. By analysis of location of customers, which are garment factories, by regions, sales to the five largest regions (Singapore, Taiwan, Hong Kong, the PRC (other than Hong Kong and Macau) and Korea) accounted for approximately 79.4% (2014: (Singapore, Taiwan, Hong Kong, the PRC (other than Hong Kong and Macau) and Korea) approximately 84.2%) of total sales of the Group and sales to the largest region (Korea) (2014: Singapore) included therein accounted for approximately 19.6% (2014: approximately 19.9%) of the Group.

As at 31 December 2015, the Group's assets located in the fabric operation accounted for approximately 99.8% (2014: approximately 98.9%) of the total assets of the Group. Capital expenditure in the fabric operation during the Year accounted for 100% (2014: 100%) of the total capital expenditure of the Group.

Material Acquisition and Disposal

In November 2015, the Group acquired a further 9% of equity interest in its non-wholly owned subsidiary, Kam Wing International Textile Company Limited, at a cash consideration of HK\$16 million. Such acquisition did not constitute a connected or discloseable transaction of the Company within the meaning of the Listing Rules.

In March 2016, the Group acquired the entire equity interests of Guangzhou City Panyu Dongchong Industrial Sewage Treatment Services Company Limited. The details of the transaction are disclosed in the announcement on 1 March 2016.

Save as disclosed above, there was no material acquisition and disposal by the Group during the Year.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining good corporate governance practices. The Company believes that good corporate governance provides a framework that is essential for effective management, a healthy corporate culture, successful business growth and enhancing shareholders' value. The Company has applied the principles and complied with the Corporate Governance Code (the "Code") as set out in Appendix 14 of the Listing Rules throughout the Year.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as the code for securities transactions by Directors of the Company. Having made specific enquiry of all Directors, the Directors have confirmed that they have complied with the required standard set out in the Model Code for the year ended 31 December 2015.

BOARD OF DIRECTORS

As at 31 December 2015, the Board comprised nine Directors, including six executive Directors and three independent non-executive Directors. Biographical details of the Directors are set out in the section headed "Profile of Directors and Senior Management" on pages 20 to 23 of the annual report.

The composition of the Board, by category, is set out below:

Title	Name	Position	Gender	Age	Length of service
Executive Directors:	Mr. Tai Chin Chun	Chairman	Male	54	22 years
	Mr. Tai Chin Wen	Chief Executive Officer	Male	60	22 years
	Ms. Cheung So Wan		Female	52	19 years
	Ms. Wong Siu Yuk		Female	54	19 years
	Mr. Chong Chau Lam		Male	66	11 years
	Mr. Wong Wai Kong, Elmen		Male	50	13 years
Independent Non-executive Directors:	Mr. Chan Yuk Tong, Jimmy	Chairman of Audit Committee	Male	53	11 years
	Ms. Chu Hak Ha, Mimi	Chairman of Remuneration Committee	Female	52	11 years
	Mr. Ho Gilbert Chi Hang	Chairman of Nomination Committee	Male	39	5 years

There is no relationship among members of the Board except for the family relationship among Mr. Tai Chin Chun, Mr. Tai Chin Wen, Ms. Cheung So Wan and Ms. Wong Siu Yuk. Mr. Tai Chin Chun is the younger brother of Mr. Tai Chin Wen and their spouses are Ms. Cheung So Wan and Ms. Wong Siu Yuk, respectively.

The Board has a balance of skills and various expertise to direct and supervise the business affairs of the Group. The Board undertakes to monitor the performance of the Group's business operation and act in the best interests of the Group as a whole. The management of the Company implements the strategic development and deals with certain operational matters of the Group under the delegation and authority of the Board.

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2015, the Board convened four board meetings and one general meeting. The individual attendance of each Director at these meetings is set out below:

Name of Director	Attendance at board meetings (%)	Attendance at general meeting (%)
Executive Directors:		
Mr. Tai Chin Chun (<i>Chairman</i>)	4/4 (100%)	1/1 (100%)
Mr. Tai Chin Wen	4/4 (100%)	1/1 (100%)
Ms. Cheung So Wan	4/4 (100%)	1/1 (100%)
Ms. Wong Siu Yuk	4/4 (100%)	1/1 (100%)
Mr. Chong Chau Lam	4/4 (100%)	1/1 (100%)
Mr. Wong Wai Kong, Elmen	4/4 (100%)	1/1 (100%)
Independent Non-executive Directors:		
Mr. Chan Yuk Tong, Jimmy	4/4 (100%)	1/1 (100%)
Ms. Chu Hak Ha, Mimi	4/4 (100%)	1/1 (100%)
Mr. Ho Gilbert Chi Hang	4/4 (100%)	1/1 (100%)

In order to enhance an active contribution to the Board's affairs by all Directors, the Chairman has arranged to convene a regular full board meeting at quarterly intervals to review the financial and operating performance of the Group. In addition to the board meetings, the Chairman also had one meeting with Independent Non-executive Directors without the presence of executive director. To ensure that good corporate governance practices and procedures are established, the Chairman has delegated the company secretary to draw up and approve the agenda for each board meeting. Notice of at least 14 days has been given to all Directors for a regular board meeting and the Directors can give ideas for discussion in advance in the agenda, if necessary. Draft and final minutes of all regular board meetings have been sent to the Directors for comment and records respectively within a reasonable time after the board meeting is held.

During the Year, Directors were provided with monthly updates on the Company's performance, position and prospects to enable the Board as a whole and each Director to discharge their duties. In addition, all Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company updates Directors on the latest development regarding the Listing Rules and other applicable regulatory requirements from time to time, to ensure compliance and enhance their awareness of good corporate governance practices. During the Year, all Directors have attended/participated in seminars and/or in-house workshops which covered topics as follow.

Name of Director	Topic covered
Mr. Tai Chin Chun	Regulatory updates
Mr. Tai Chin Wen	Regulatory updates
Ms. Cheung So Wan	Regulatory updates
Ms. Wong Siu Yuk	Regulatory updates
Mr. Chong Chau Lam	Directors' duties
Mr. Wong Wai Kong, Elmen	Regulatory updates
Mr. Chan Yuk Tong, Jimmy	Directors' duties and regulatory updates
Ms. Chu Hak Ha, Mimi	Directors' duties and regulatory updates
Mr. Ho Gilbert Chi Hang	Directors' duties and regulatory updates

CORPORATE GOVERNANCE REPORT

All Directors are requested to provide the Company with their respective training records pursuant to the Code. The Directors confirmed that they have complied with the code provision A.6.5 of the Code.

The Company has complied with Rules 3.10(1) and (2) and 3.10A of the Listing Rules in that the three independent non-executive Directors represent one third of the Board and one of them possesses the requisite appropriate professional accounting qualifications.

The Company has received from each independent non-executive Director an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all independent non-executive Directors to be independent.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The executive Directors, Mr. Tai Chin Chun and Mr. Tai Chin Wen, serve as the Chairman and the Chief Executive Officer of the Company, respectively.

The roles of the Chairman and the Chief Executive Officer are segregated and not performed by the same individual. The Chairman is primarily responsible for the leadership of the Board and the formulation of overall strategic development of the Group, while the Chief Executive Officer is primarily responsible for the day-to-day management of the Group's business.

NON-EXECUTIVE DIRECTOR

The term of independent non-executive Directors is specified for two years subject to retirement by rotation and re-election at annual general meeting under the Company's articles of association.

COMPANY SECRETARY

The company secretary of the Company is Mr. Lei Heong Man, Ben. He has fulfilled the requirement under Rules 3.28 and 3.29 of the Listing Rules. As an employee of the Company, the company secretary ensures good information flow within the Board and Board policy and procedures are followed; advises the Board on governance matters, facilitates induction and, monitors the training and continuous professional development of Directors. He has attained not less than 15 hours of relevant professional training during the year ended 31 December 2015. His biography is set out in the "Profile of Directors and Senior Management" section of this annual report.

REMUNERATION COMMITTEE

The remuneration committee was established in September 2005. Terms of reference adopted by the remuneration committee are of no less exacting terms than those duties set out in the Code and a copy of which is available on the websites of the Stock Exchange and the Company. The remuneration committee comprises three independent non-executive Directors, namely Ms. Chu Hak Ha, Mimi (Chairman), Mr. Chan Yuk Tong, Jimmy and Mr. Ho Gilbert Chi Hang, and two executive Directors, namely Mr. Tai Chin Chun and Mr. Tai Chin Wen. The remuneration committee is primarily responsible for, among other matters, reviewing and making recommendations to the Board on the remuneration packages of individual executive Directors and senior management of the Company.

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2015, the remuneration committee convened one meeting and the individual attendance of each committee member is set out below:

Name of Director	Attendance	(%)
Independent Non-executive Directors:		
Ms. Chu Hak Ha, Mimi (<i>Chairman</i>)	1/1	(100%)
Mr. Chan Yuk Tong, Jimmy	1/1	(100%)
Mr. Ho Gilbert Chi Hang	1/1	(100%)
Executive Directors:		
Mr. Tai Chin Chun	1/1	(100%)
Mr. Tai Chin Wen	1/1	(100%)

The remuneration committee meeting was held to review and recommend the salary revision for executive Directors. As no Director or any of his/her associate should be involved in deciding his/her own remuneration in compliance with the principle of the Code, the relevant Directors had abstained from voting on their respective resolutions in which they were materially interested in. Remuneration payable to senior management (excluding Directors) for the year ended 31 December 2015 within the band of below HK\$2,000,000 comprises 6 individuals and within the band of HK\$2,000,001 and HK\$2,500,000 comprises 1 individual. Details of the remuneration of the Directors for the year ended 31 December 2015 are shown in note 8 to the financial statements.

NOMINATION COMMITTEE

The nomination committee was established in September 2005. Terms of reference adopted by the nomination committee are of no less exacting terms than those duties set out in the Code and a copy of which is available on the websites of the Stock Exchange and the Company. The nomination committee comprises three independent non-executive Directors, namely Mr. Ho Gilbert Chi Hang (*Chairman*), Mr. Chan Yuk Tong, Jimmy and Ms. Chu Hak Ha, Mimi, and two executive Directors, namely Mr. Tai Chin Chun and Mr. Tai Chin Wen. The nomination committee is primarily responsible for, among other matters, reviewing and making recommendations to the Board on the selection of Board members to ensure that the Board has an appropriate balance of independent Directors, with a mix of business experience in relevant disciplines.

During the year ended 31 December 2015, the nomination committee convened one meeting and the individual attendance of each committee member is set out below:

Name of Director	Attendance	(%)
Independent Non-executive Directors:		
Mr. Ho Gilbert Chi Hang (<i>Chairman</i>)	1/1	(100%)
Mr. Chan Yuk Tong, Jimmy	1/1	(100%)
Ms. Chu Hak Ha, Mimi	1/1	(100%)
Executive Directors:		
Mr. Tai Chin Chun	1/1	(100%)
Mr. Tai Chin Wen	1/1	(100%)

CORPORATE GOVERNANCE REPORT

The nomination committee meeting was held to review the structure, size, diversity and composition of the Board. According to the board diversity policy adopted by the nomination committee, Board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service etc. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service etc. The final decision will be based on merit and contribution that the selected candidates will bring to the Board. During the year under review, the nomination committee concluded that the current Board comprises a sufficient number of directors and is well balanced with each Director having sound knowledge, experience and/or expertise relevant to the business operations and development of the Group.

RESPONSIBILITIES IN RESPECT OF FINANCIAL STATEMENTS

The Directors are responsible for overseeing the preparation of consolidated financial statements for each financial period to ensure such consolidated financial statements give a true and fair view of the financial position of the Group and of the financial performance and cash flows for that period. The Group's consolidated financial statements are prepared in accordance with all relevant statutory requirements and applicable accounting standards. The Directors are responsible for ensuring that appropriate accounting policies are selected and applied consistently; and that judgment and estimates made are prudent and reasonable.

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

AUDITORS' REMUNERATION

For the year ended 31 December 2015, Ernst & Young, as the external auditors of the Company, have provided audit and non-audit services to the Group at the fees of approximately HK\$3.3 million and HK\$0.3 million, respectively.

The responsibilities of the external auditors of the Company are set out in the "Independent Auditors' Report" on pages 31 to 32 of this report.

AUDIT COMMITTEE

The audit committee was established in August 2004. Terms of reference adopted by the audit committee are of no less exacting terms than those duties set out in the Code and a copy of which is available on the websites of the Stock Exchange and the Company. The audit committee of the Company comprises all the three independent non-executive Directors, namely Mr. Chan Yuk Tong, Jimmy (Chairman), Mr. Ho Gilbert Chi Hang and Ms. Chu Hak Ha, Mimi. The main responsibilities of the audit committee include the following:

- assists the Board in discharging its statutory responsibilities on financial and accounting matters;
- reviews and monitors the effectiveness of the audit process in accordance with applicable standard;
- develops and implements policy on the engagement of external auditor;
- reviews the Company's financial controls, internal control and risk management system; and
- develops and reviews the Company's policies and practices on corporate governance and make recommendations to the Board.

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2015, the audit committee convened three meetings and the individual attendance of each committee member is set out below:

Name of Director	Attendance	(%)
Independent Non-executive Directors:		
Mr. Chan Yuk Tong, Jimmy (<i>Chairman</i>)	3/3	(100%)
Ms. Chu Hak Ha, Mimi	3/3	(100%)
Mr. Ho Gilbert Chi Hang	3/3	(100%)

The audit committee meetings were held to discuss with the management for the accounting policies and internal controls adopted by the Group, as well as to review the interim and annual financial statements of the Group before recommending them to the Board for adoption and approval. In additions, the audit committee had meeting with the external auditors twice. It has also reviewed the Company's compliance with the Code.

The audit committee also made recommendation to the Board on the re-appointment of the external auditor. The Board has not taken a different view from that of the audit committee regarding the selection, appointment, resignation or dismissal of the external auditors.

INTERNAL CONTROLS

The Board is responsible for maintaining an adequate internal control system to safeguard shareholder investments and Company assets, and reviewing the effectiveness of the same on an annual basis.

The Group has an independent internal audit department. The independent internal audit department is primarily responsible for carrying out review of the internal control system and risk management process. This is part of the on-going process to ensure that the effectiveness of material controls is monitored.

During the year of 2015, the Board has conducted a review of the effectiveness of the internal control system of the Group covering all material controls, including financial, operational and compliance controls as well as risk management functions as required by the Code. The audit committee has also reviewed the internal control system of the Group and the findings of major investigations of internal control matters. The Group implements budget management with an aim to have better monitor on both business and financial performance. There was no significant incidence of failure in connection with financial, operational and compliance control during the Year under review. The Board considered that the internal control system is effective and adequate and that there are adequate staff with appropriate qualifications and experience, resources and budget of its accounting and financial reporting function, and adequate training programmes have been provided.

The Company has implemented a system of internal controls to provide reasonable assurance that assets are safeguarded, proper accounting records are maintained, appropriate legislation and regulations are complied with, reliable financial information are provided for management and publication purposes, investment and business risks are identified and managed, the Board will continue to review procedures implemented for assessing their effectiveness of the internal control system.

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

The Company establishes different communication channels with shareholders and investors, including (i) dispatching printed copies of corporate communication documents to shareholders; (ii) using the annual general meeting as a forum for shareholders to raise comments and exchange views with the Board; (iii) setting up regular press conferences and meetings with investors and analysts from time to time to introduce and release information of the Group, (iv) engaging the Company's share registrars to serve the shareholders on all share registration matters, and (v) maintaining a corporate website at www.kamhingintl.com, at which, comprehensive information, updates on the Company's business development and operations are provided.

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS

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

Shareholders may by ordinary resolution elect any person to be a Director of the Company. If a shareholder wishes to nominate a person to be elected as a Director, the following documents must be validly served to the Company at the Company's principal place of business in Hong Kong at Workshop A on 23rd Floor, TML Tower, No. 3 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong: (i) his/her notice of intention to propose a resolution at the general meeting; and (ii) a notice executed by the nominated candidate of his/her willingness to be appointed together with his/her information as required to be disclosed under Rule 13.51(2) of the Listing Rules, within the period commencing on the day after the dispatch of the notice of the general meeting appointed for such election and ending on the date falling seven days after the dispatch of the said notice of the general meeting.

A shareholders' communication policy (the "Policy") was adopted by the Company to maintain an on-going dialogue with shareholders and encourage them to communicate actively with the Company and the Board will review the Policy on a regular basis to ensure its effectiveness.

Shareholders should direct their questions about their shareholdings to the Company's Hong Kong branch share registrar: Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

Other enquiries or comments raised by any shareholder can be mailed to the Board at the Company's principal place of business in Hong Kong at Workshop A on 23rd Floor, TML Tower, No. 3 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong, through the Company's official website (www.kamhingintl.com), or sent through fax number at (852) 2408 1891, or by using the Company's telephone hotline at (852) 2406 0080.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

Mr. Tai Chin Chun (戴錦春), aged 54, is the Chairman of the Board, an executive Director, a director of most subsidiaries of the Company and co-founder of the Group. He is also a member of the remuneration committee and nomination committee of the Company. Mr. Tai is in charge of the Group's corporate strategy, planning and overall development. He has more than 25 years of experience in the textile industry, in which he served more than 15 years for the Group. Mr. Tai conferred an Honorary Consulate of The Republic of Mauritius in Hong Kong Special Administration Region ("HKSAR") in January 2010. Mr. Tai obtained the "World Outstanding Chinese Award 2008" from United World Chinese Association and conferred an Honorary Doctor Degree by The University of West Alabama (Regional University), USA. Mr. Tai is an executive director of Guangdong Chamber of Foreign Investors (廣東外商公會常務理事), a member of Guangdong Provisional Committee of CPPCC and standing member of Nansha Municipal Committee of CPPCC (中國人民政治協商會議廣東省委員會委員、廣州市南沙區委員會常務委員). He has also been awarded honorary citizenship of Guangzhou Municipal (廣州市榮譽市民), life honorary president of Fujian Tai's Clan Hong Kong Association (福建旅港戴氏宗親會永遠榮譽會長). Mr. Tai is the younger brother of Mr. Tai Chin Wen and the spouse of Ms. Cheung So Wan.

Mr. Tai Chin Wen (戴錦文), aged 60, is an executive Director, the Chief Executive Officer, a director of most subsidiaries of the Company and co-founder of the Group. He is also a member of the remuneration committee and nomination committee of the Company. Mr. Tai is in charge of the Group's day-to-day management. He has over 25 years of management experience in the manufacturing industry, in which he served more than 15 years for the Group. Mr. Tai is a standing member of Hubei Committee of CPPCC, Guangdong Enping Committee of CPPCC and Jiangmen Committee of CPPCC (中國人民政治協商會議湖北省委員會常務委員、廣東省恩平市委員會常務委員及江門市委員會委員). He is a vice chairman of Hubei Chinese Overseas Friendship Association (湖北省海外聯誼會副會長), vice chairman of Guangdong Jiangmen City Association of Foreign Investment (廣東省江門市外商投資協會副會長), chairman of World of Dai Clan Governing Council (世界戴氏宗親總會理事長) and president of Fujian Tai's Clan Hong Kong Association (福建旅港戴氏宗親會會長). He has also been awarded honorary citizenship of Guangzhou Municipal and Jiangmen (廣州市榮譽市民及江門市榮譽市民), life honorary chairman of Hong Kong Federation of Fujian Association (香港福建社團聯會永遠榮譽主席) and managing vice president of Hong Kong Hubei Fraternity (香港湖北聯誼會常務副會長). Mr. Tai is the elder brother of Mr. Tai Chin Chun and the spouse of Ms. Wong Siu Yuk.

Ms. Cheung So Wan (張素雲), aged 52, is an executive Director. She is also a director of some subsidiaries of the Group. She is responsible for sales and marketing, yarn sourcing, quality control and stock control in the Group, and assists in the overall management of the Group. Ms. Cheung joined the Group in November 1996 and has more than 15 years of experience in the textile industry. Ms. Cheung is the spouse of Mr. Tai Chin Chun.

Ms. Wong Siu Yuk (黃少玉), aged 54, is an executive Director. She is also a director of some subsidiaries of the Group. She is responsible for dyeing material sourcing, quality control and stock control in the Group, and assists in the overall management of the Group. Ms. Wong joined the Group in December 1996 and has more than 15 years of experience in the textile industry. Ms. Wong is the spouse of Mr. Tai Chin Wen.

Mr. Chong Chau Lam (莊秋霖), aged 66, is an executive Director. He is responsible for overall management of the textile business of the Group. Mr. Chong obtained a High Diploma in Dyeing, Printing and Finishing Technology from the Hong Kong Technical College and a Master Degree of Business Administration from the University of East Asia in Macau. He is an associate member of both the Society of Dyers and Colourists and the Textile Institute in United Kingdom, and was awarded the Silver Medal and a bar to Silver Medal by the Society of Dyers and Colourists in 1982 and 2013 respectively. Prior to joining the Group on 30 March 2004, he worked as a senior lecturer at the Institute of Textiles and Clothing of the Hong Kong Polytechnic University and an engineer in a local textile company. Mr. Chong is also a member of the Dyeing and Finishing Special Committee and become Vice Director since 2013, a member of the China Textile Engineering Society, and an active technical consultant in the dyeing and finishing sector.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Wong Wai Kong, Elmen (黃偉桃), aged 50, is an executive Director. Mr. Wong is responsible for the strategic planning and corporate development of the Group. Mr. Wong obtained a Bachelor Degree of Business Administration from the Hong Kong Baptist University in Hong Kong, a Master Degree of Business Administration from the University of Sheffield in the United Kingdom, a Master Degree of Science in Business Information Technology from the Middlesex University in the United Kingdom and a Doctor of Philosophy in Business Administration from the Bulacan State University in the Republic of the Philippines in July 2015. Prior to joining the Group in December 2002, Mr. Wong has over 15 years of experience in corporate finance, financial advisory and management, professional accounting and auditing. Mr. Wong is a Certified Public Accountant (practicing) in Hong Kong and a fellow member of the Association of Chartered Certified Accountants and a fellow member of the Hong Kong Institute of Certified Public Accountants.

Mr. Wong is also an independent non-executive director of Koradior Holdings Limited (stock code : 3709) on 6 June 2014 and Odella Leather Holdings Limited (stock code : 8093) on 28 January 2015, all of which are listed companies in Hong Kong.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Yuk Tong, Jimmy (陳育棠), aged 53, is a member and the chairman of the audit committee, and a member of the remuneration committee and nomination committee of the Company. Mr. Chan obtained a Bachelor Degree in Commerce from the University of Newcastle in Australia and a Master Degree of Business Administration from the Chinese University of Hong Kong. He is a practising fellow member of the Hong Kong Institute of Certified Public Accountants and a member of CPA Australia. Mr. Chan has over 30 years of experience in corporate finance, financial advisory and management, professional accounting and auditing. Mr. Chan joined the Group on 30 March 2004.

He is also an independent non-executive director of Five Dragons Electric Vehicles Limited (formerly known as Sinopoly Battery Company Limited), Ground Properties Company Limited and Xinhua Winshare Publishing and Media Company Limited, which are listed companies in Hong Kong. Mr. Chan was a non-executive director of Golden Shield Holdings (Industrial) Limited during the period from 16 June 2014 to 5 December 2014. Mr. Chan retired/resigned as an independent non-executive director of BYD Electronic (International) Company Limited on 7 June 2013, Xinhua Winshare Publishing and Media Co., Ltd. on 10 July 2013 and was subsequently reappointed on 18 February 2016, Daisho Microline Holdings Limited on 26 August 2013, Ausnutria Dairy Corporation Limited on 2 January 2015 and Global Sweeteners Holdings Limited on 24 December 2015, all of which are listed companies in Hong Kong. He has also retired as an independent non-executive director of Anhui Conch Cement Company Limited, which is a listed company in Hong Kong and Shanghai, with effect from 31 May 2012. On 7 August 2013, Mr. Chan also resigned as an independent non-executive director of Trauson Holdings Company Limited, which has withdrawn its listing from the Stock Exchange with effect from 15 July 2013.

Ms. Chu Hak Ha, Mimi (朱克遐), aged 52, is a solicitor practising in Hong Kong and a partner of David Lo & Partners, a law firm in Hong Kong. Ms. Chu was also admitted as solicitor in England and Wales and solicitor and barrister in the Australian Capital Territory. Ms. Chu joined the Group on 30 March 2004. She is a member and the chairman of the remuneration committee, and a member of the audit committee and nomination committee of the Company.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Ho Gilbert Chi Hang (何智恒), aged 39, is a member and the chairman of the nomination committee, and a member of the remuneration committee and audit committee of the Company. He is the managing partner of AID Partners Capital Limited and is the executive director and chief executive officer of AID Partners Capital Holdings Limited, a company listed on the Stock Exchange. Prior to joining AID Partners Capital Limited, he was the vice president of ITC Corporation Limited, a company listed on the Stock Exchange, the senior investment director of New World Development Company Limited, a company listed on the Stock Exchange, an executive director of New World Strategic Investment Limited and a partner of an international law firm Fried, Frank, Harris, Shriver and Jacobson LLP. He is a committee member of the Chinese People's Political Consultative Conference of Shenyang, Liaoning Province (中國人民政治協商會議遼寧省瀋陽市委員會), a Standing Committee Member of the Youth Federation of Inner Mongolia (內蒙古自治區青年聯合會) and the Vice Chairman of Inner Mongolia & Hong Kong Youth Exchange Association (蒙港青年交流促進會). Mr. Ho holds a Bachelor of Commerce Degree and a Bachelor of Laws Degree from the University of Sydney, Australia and is a solicitor admitted in New South Wales, Australia and England and Wales and a solicitor and barrister admitted in the High Court of Australia.

Mr. Ho had been a non-executive director of Renhe Commercial Holdings Company Limited during December 2007 to 27 February 2012, a non-executive director of Capital Environment Holdings Limited during 6 January 2010 to 23 September 2010 and an independent non-executive director of Infinity Development Holdings Limited during March 2010 to 21 November 2013, and is an independent non-executive director of Hailiang International Holdings Limited (formerly known as "Sunlink International Holdings Limited") since 12 May 2014, all of the above-mentioned companies are listed on the Stock Exchange. Mr. Ho joined the Group on 4 May 2010.

SENIOR MANAGEMENT

Mr. Lei Heong Man, Ben (李向民), aged 55, is the chief financial officer and company secretary of the Group and is responsible for the supervision and management of the Group's financial matters. Mr. Lei has over 18 years of experience in regional financial and operational management in multinational corporations and listed companies, and he is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Lei holds a Bachelor Degree in Accountancy, Finance and Economics from the University of Essex, and a Master of Business Administration Degree from The University of Wales, the United Kingdom. Mr. Lei joined the Group in June 2009.

Mr. Chan Kin Wang (陳建宏), aged 52, is the general manager of the operations centre in Enping. Mr. Chan has over 30 years of experience in the textile industry. Mr. Chan joined the Group in December 2008.

Mr. Tai Tang Tat (戴騰達), aged 35, is the general manager of operations centre in Guangzhou, deputy general manager of information and technology centre and marketing and sales department and a director of some subsidiaries of the Group. Mr. Tai obtained a Diploma in Computer Science from the Sydney Institute of Business and Technology, Australia. Mr. Tai is the son of Mr. Tai Chin Wen. Mr. Tai joined the Group in March 2002.

Mr. Wong Yi Ming (黃一鳴), aged 51, is the deputy managing director of Guangzhou Kamhing Textile Dyeing Co., Ltd. (the "Guangzhou KH"), a wholly-owned subsidiary of the Group, and is responsible for the overall management and administration of Guangzhou KH. Mr. Wong obtained a Master Degree of Business Administration from the Zhongshan University. He has over 20 years of management experience in the textile industry. Prior to joining the Group in September 1997, Mr. Wong has worked for PRC companies for over 16 years, where he was responsible for financial and business management. Mr. Wong is the younger brother of Ms. Wong Siu Yuk.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Ho Yi Piu, Bill (何宜標), aged 47, is the director of Kam Hing Piece Works (S) Pte Limited, a wholly-owned subsidiary of the Group. Mr. Ho is the deputy general manager the Group's sales and marketing department. Mr. Ho obtained a Diploma in Business Administration from the Society of Business Practitioners, Cheshire, the United Kingdom. Prior to joining the Group in June 1999, Mr. Ho has worked for fabric trading companies and he has over 10 years of experience in the textile industry. Mr. Ho is the son-in-law of the brother of Mr. Tai Chin Chun and Mr. Tai Chin Wen.

Mr. Chin Tai Wing (錢棟榮), aged 65, is the director and chief executive officer of Kam Wing International Textile Company Limited ("Kam Wing"), a subsidiary of the Group which is the holding company of the Group's fabric factory in Enping, the PRC. Mr. Chin is in charge of the corporate development and management of Kam Wing and its subsidiary. Mr. Chin has more than 30 years of experience in the textile industry and has been actively engaged in the textile business of dyeing, finishing, printing, knitting and sales of fabric. Mr. Chin joined the Group in January 2007 and retired as director and chief executive officer of Kam Wing on 31 December 2015. Mr. Chin is the father-in-law of a son of Mr. Tai Chin Wen.

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Group for the year ended 31 December 2015.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 42 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

A review of the business of the Group during the Year and a discussion on the Group's future business development are provided in the Chairman's Statement on pages 5 to 6 and the Management Discussion and Analysis on pages 7 to 12 of this report. Description of possible risks and uncertainties that the Group may be facing can be found in the Management Discussion and Analysis on pages 7 to 12. Also, the financial risk management objectives and policies of the Group and particulars of important events affecting the Group that have occurred since the end of the Year are provided in the Management Discussion and Analysis on pages 7 to 12. An analysis of the Group's performance during the year using financial key performance indicators is provided in the Financial Highlights and Summary and Five-year Financial Summary on pages 3 to 4 and 108 respectively of this report. These discussions form part of this directors' report.

ENVIRONMENTAL POLICIES AND PERFORMANCE

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

During the year ended 31 December 2015 and up to the date of this report, the Group does not have any violation of relevant environmental regulations and rules which gives rise of significant impact to the Group's development, performance and businesses.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the Year under review and as at the date of this annual report, the management is of the view that the Company was not aware of any material breach of or non-compliance with any relevant laws and regulations that had a significant impact on the business and operations of our Group.

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

In order to sustain a stable development of the Group, we understand that a good and close relationship with employees, customers and suppliers is one of the key factor to achieve it.

The Group provides a competitive remuneration package and career development opportunities to our employees. We also maintain a safe and healthy working environment.

The Group provides quality products and handle customer needs carefully. In order to reach customer expectations, we ensure there is adequate communication and offer customers with different solutions. We have pay our full effort to maintain a long term relationships with customers.

The Group has developed a good and long relationship with our suppliers to maintain a steady supplies with good qualities. We proactively communicate with our suppliers and perform regular quality control to ensure the quality supplied.

REPORT OF THE DIRECTORS

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2015 and the financial position of the Group at that date are set out in the financial statements on pages 33 to 107.

The directors recommend the payment of a final dividend of HK1.5 cents (2014: HK1.3 cents) per ordinary share in respect of the year, to be payable to the shareholders whose names appear on the register of members of the Company on 14 June 2016. Subject to the approval of shareholders at the forthcoming annual general meeting, the proposed final dividend will be paid on or about 27 June 2016.

SUMMARY FINANCIAL INFORMATION

A summary of the results and assets, liabilities and non-controlling interests of the Group for the last five financial years, is set out on page 108. This summary does not form part of the audited financial statements.

SHARE CAPITAL AND SHARE OPTIONS

There were no movements in the Company's share capital during the year. Details of movements in the Company's share options during the year, together with the reasons therefor, are set out in note 27 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles 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 of the Company.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

DISTRIBUTABLE RESERVES

As at 31 December 2015, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounting to HK\$958,268,000, of which approximately HK\$13,049,000 have been proposed as final dividend for the year after the reporting period. The amount of HK\$958,268,000 includes the Company's share premium account and capital reserve of HK\$848,112,000 in aggregate as at 31 December 2015, which may be distributed provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be able to pay off its debts as and when they fall due in the ordinary course of business.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK\$1,365,000.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 21.4% (2014: 28.3%) of the total sales and sales to the largest customer included therein accounted for 6.4% (2014: 8.4%). Purchases from the Group's five largest suppliers accounted for 37.6% (2014: 39.9%) of the total purchases for the year and purchases from the largest supplier included therein accounted for 12.9% (2014: 11.5%).

None of the directors of the Company or any of their respective close associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and/or five largest suppliers during the year.

REPORT OF THE DIRECTORS

DIRECTORS

The directors of the Company during the year and as at the date of this report were:

Executive directors:

Mr. Tai Chin Chun (*Chairman*)
Mr. Tai Chin Wen (*Chief Executive Officer*)
Ms. Cheung So Wan
Ms. Wong Siu Yuk
Mr. Chong Chau Lam
Mr. Wong Wai Kong, Elmen

Independent non-executive directors:

Ms. Chu Hak Ha, Mimi
Mr. Chan Yuk Tong, Jimmy
Mr. Ho Gilbert Chi Hang

In accordance with article 87(1) of the Company's articles of association, Mr. Tai Chin Wen, Ms. Wong Siu Yuk and Ms. Chu Hak Ha, Mimi, will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company. The independent non-executive directors are appointed for a term of two years.

The Company has received annual confirmations of independence from Ms. Chu Hak Ha, Mimi, Mr. Chan Yuk Tong, Jimmy and Mr. Ho Gilbert Chi Hang, and considers them to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 20 to 23 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors and the independent non-executive directors has a service contract with the Company for a term of three years and two years, respectively and is subject to termination by either party by giving not less than three months' and one month's written notice, respectively.

Under the service contracts, after each complete year of service, the remuneration payable to each of the executive directors may, subject to the discretion of the Board, be entitled to discretionary bonuses, with reference to their duties and responsibilities with the Company, their performance against corporate goals and objectives, the remuneration standard in the market and salaries paid by the comparable companies.

None of the directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

REPORT OF THE DIRECTORS

EMOLUMENT POLICY AND DIRECTORS' REMUNERATION

The directors' remuneration is subject to shareholders' approval at general meetings with reference to the recommendation of the Company's remuneration committee. The Group's emolument policies are formulated based on the performance of individual employees and are reviewed regularly. Subject to the Group's profitability, the Group may also provide a discretionary bonus to its employees as an incentive for their contribution to the Group. The primary goal of the remuneration policy with regard to the remuneration packages of the Group's executive directors is to enable the Group to retain and motivate executive directors by linking their compensation with performance as measured against corporate objectives achieved.

The principal elements of the Group's remuneration packages include basic salaries, discretionary bonuses, housing benefits and share option benefits.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in the related party transactions disclosures in note 34 to the financial statements, no director nor a connected entity of a director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2015, the interests and short positions of the directors or the chief executive of the Company in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

Long positions in ordinary shares and underlying shares of the Company:

Name of director	Notes	Capacity and nature of interest			Total interests (shares)	Approximate percentage of the Company's issued share capital (%)
		Beneficial owner (shares)	Interest of spouse (shares)	Interest in controlled corporation (shares)		
Mr. Tai Chin Chun	1	3,000,000	1,000,000	332,600,000	336,600,000	38.69
Mr. Tai Chin Wen	2	2,000,000	1,000,000	96,000,000	99,000,000	11.38
Ms. Cheung So Wan	3	1,000,000	335,600,000	–	336,600,000	38.69
Ms. Wong Siu Yuk	4	1,000,000	98,000,000	–	99,000,000	11.38
Mr. Chong Chau Lam		300,000	–	–	300,000	0.03

REPORT OF THE DIRECTORS

Notes:

1. 332,600,000 shares are held by Exceed Standard Limited (“Exceed Standard”), a company incorporated in the British Virgin Islands (the “BVI”) and beneficially owned by Mr. Tai Chin Chun, the chairman and an executive director of the Company. As Ms. Cheung So Wan is his spouse, Mr. Tai Chin Chun is deemed to be interested in the 1,000,000 shares held by Ms. Cheung So Wan under the SFO.
2. 96,000,000 shares are held by Power Strategy Limited (“Power Strategy”), a company incorporated in the BVI and beneficially owned by Mr. Tai Chin Wen. As Ms. Wong Siu Yuk is his spouse, Mr. Tai Chin Wen is deemed to be interested in the 1,000,000 shares held by Ms. Wong Siu Yuk under the SFO.
3. Ms. Cheung So Wan is deemed to be interested in the shares held by her spouse, Mr. Tai Chin Chun, under the SFO.
4. Ms. Wong Siu Yuk is deemed to be interested in the shares held by her spouse, Mr. Tai Chin Wen, under the SFO.

Save as disclosed above, as at 31 December 2015, none of the directors nor the chief executive of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

PERMITTED INDEMNITY PROVISION

Pursuant to the Articles of Association, every Director or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him as a Director or other officer of the Company in defending any proceedings, whether civil or criminal, in which judgement is given in his favor, or in which he is acquitted.

The Company has maintained Directors’ liability insurance during the year ended 31 December 2015 and up to the date of this annual report which provides appropriate cover for the Directors.

DIRECTORS’ RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section “Directors’ interests and short positions in shares and underlying shares” above and in the section “Share option scheme” below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any of the directors or their respective spouses or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

MANAGEMENT CONTRACT

No contract concerning the management and administration of the whole or any substantial part of the business of the Group was entered into or existed during the year.

SHARE OPTION SCHEME

During the year ended 31 December 2015, no share options had been granted under the share option scheme and there was no outstanding share option as at 31 December 2015. Details of movements in the Company’s share options during the year, together with the reasons therefor, are set out in note 27 to the financial statements.

REPORT OF THE DIRECTORS

CONTRACT OF SIGNIFICANCE

No contracts of significance in relation to the Group's business in which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted during or at the end of the year.

PERSONS WHO HAVE AN INTEREST OR SHORT POSITION WHICH IS DISCLOSEABLE UNDER DIVISIONS 2 AND 3 OF PART XV OF THE SFO

So far as is known to the directors and the chief executive of the Company, as at 31 December 2015, the following persons (not being directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Long positions:

Name	Capacity and nature of interest (Note)	Number of ordinary shares held	Percentage of the Company's issued share capital
Exceed Standard	Beneficial owner	332,600,000	38.23
Power Strategy	Beneficial owner	96,000,000	11.04

Note: The relationship between Exceed Standard and Mr. Tai Chin Chun, as well as that between Power Strategy and Mr. Tai Chin Wen are disclosed in the notes under the section headed "Directors' interests and short positions in shares and underlying shares" above.

Save as disclosed above, as at 31 December 2015, no person, other than the directors or the chief executive of the Company whose interests are set out under the sections headed "Directors' interests and short positions in shares and underlying shares" and "Share option scheme" above, had an interest or short position in the shares or underlying shares of the Company that was required to be recorded in the register pursuant to section 336 of the SFO.

DISCLOSURES PURSUANT TO RULE 13.21 OF THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE (THE "LISTING RULES")

In accordance with the requirements of Rule 13.21 of the Listing Rules, disclosure is required in respect of the loan agreements of the Company and of a subsidiary of the Company, which contain covenants requiring performance obligations of the controlling shareholders of the Company.

Pursuant to the facility agreement dated 25 August 2015 and entered into among the Company and two other subsidiaries of the Company as guarantors, a wholly-owned subsidiary of the Company as the borrower and a syndicate of banks as lenders, a term loan facility in an aggregate sum of HK\$1,000.0 million for a term of three and a half years is made available to the subsidiary of the Company repayable in four equal instalments on the dates falling 24, 30, 36 and 42 months after the date of the facility agreement. An event of default would arise if, either of or taken together, Mr. Tai Chin Chun and Mr. Tai Chin Wen either: (i) do not or cease to own, directly or indirectly, at least 40% of the beneficial interest in the Company, carrying at least 40% of the voting right, free from any security interest; (ii) are not or cease to be the single largest shareholder of the Company, (iii) do not or cease to have management control of the Group or (iv) do not or cease to appoint or nominate the majority of the Board or is not the chairman of the Company, the commitments under the loan facility may be cancelled and all amounts outstanding under the loan facility may become immediately due and payable.

REPORT OF THE DIRECTORS

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

EVENT AFTER THE REPORTING PERIOD

Details of the significant event of the Group after the reporting period are set out in note 40 to the financial statements.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting of the Company.

ON BEHALF OF THE BOARD

Tai Chin Chun

Chairman

Hong Kong
24 March 2016

INDEPENDENT AUDITORS' REPORT



To the shareholders of Kam Hing International Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Kam Hing International Holdings Limited (the “Company”) and its subsidiaries set out on pages 33 to 107, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants 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.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the shareholders of Kam Hing International Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries as at 31 December 2015, and of their financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young

Certified Public Accountants

22/F CITIC Tower

1 Tim Mei Avenue, Central

Hong Kong

24 March 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2015

	Notes	2015 HK\$'000	2014 HK\$'000
REVENUE	5	4,152,733	3,985,699
Cost of sales		(3,514,895)	(3,412,403)
Gross profit		637,838	573,296
Other income and gains, net	5	28,831	24,203
Selling and distribution expenses		(129,054)	(109,456)
Administrative expenses		(344,986)	(314,570)
Other operating expenses, net		(3,267)	(13,930)
Gain on disposal of a joint venture		–	10,306
Finance costs	6	(61,585)	(56,745)
Share of profits less losses of a joint venture		–	(1,697)
Share of profits less losses of an associate		(42,152)	(4,635)
PROFIT BEFORE TAX	7	85,625	106,772
Income tax expense	10	(24,510)	(24,255)
PROFIT FOR THE YEAR		61,115	82,517
Attributable to:			
Ordinary equity holders of the Company		58,256	81,055
Non-controlling interests		2,859	1,462
		61,115	82,517
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	12		
Basic		HK6.7 cents	HK9.3 cents
Diluted		N/A	N/A

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2015

	2015 HK\$'000	2014 HK\$'000
PROFIT FOR THE YEAR	61,115	82,517
OTHER COMPREHENSIVE EXPENSES		
Other comprehensive expenses to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	(79,312)	—
Realisation of exchange fluctuation reserve upon disposal of subsidiaries	(557)	—
TOTAL COMPREHENSIVE INCOME/(EXPENSES) FOR THE YEAR	(18,754)	82,517
Attributable to:		
Ordinary equity holders of the Company	(20,331)	81,055
Non-controlling interests	1,577	1,462
	(18,754)	82,517

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2015

	Notes	2015 HK\$'000	2014 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	2,116,300	2,106,533
Prepaid land lease payments	14	63,406	65,615
Interest in an associate	15	–	42,152
Prepayments		8,142	14,271
Long term receivables		30,074	29,324
Deposits paid	16	45,080	32,863
Deferred tax assets	25	2,637	8,931
Total non-current assets		2,265,639	2,299,689
CURRENT ASSETS			
Inventories	17	1,028,065	960,942
Accounts and bills receivable	18	816,609	821,046
Prepayments, deposits and other receivables		62,524	80,902
Equity investment at fair value through profit or loss	19	268	301
Tax recoverable		118	5,772
Pledged deposits	20	13,586	11,319
Cash and cash equivalents	20	517,573	487,283
Total current assets		2,438,743	2,367,565
CURRENT LIABILITIES			
Accounts and bills payable	21	595,309	612,358
Accrued liabilities and other payables		203,573	165,034
Derivative financial instruments	22	1,218	3,569
Due to an associate	15	3,092	3,102
Tax payable		22,184	29,409
Interest-bearing bank and other borrowings	23	705,100	952,069
Total current liabilities		1,530,476	1,765,541
NET CURRENT ASSETS		908,267	602,024
TOTAL ASSETS LESS CURRENT LIABILITIES		3,173,906	2,901,713

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

31 December 2015

	Notes	2015 HK\$'000	2014 HK\$'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	23	1,148,710	827,842
Deferred tax liabilities	25	492	175
Total non-current liabilities		1,149,202	828,017
Net assets		2,024,704	2,073,696
EQUITY			
Equity attributable to ordinary equity holders of the Company			
Issued capital	26	86,992	86,992
Reserves	28	1,904,498	1,939,046
		1,991,490	2,026,038
Non-controlling interests		33,214	47,658
Total equity		2,024,704	2,073,696

Tai Chin Chun
Director

Tai Chin Wen
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2015

Notes	Attributable to ordinary equity holders of the Company								Non-controlling interests	Total equity
	Issued capital	Share premium account	Capital reserve	Statutory surplus reserve	Other reserve	Exchange fluctuation reserve	Retained profits	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2015	86,992	446,105	104,804	45,137	(9,360)	327,657	1,024,703	2,026,038	47,658	2,073,696
Profit for the year	-	-	-	-	-	-	58,256	58,256	2,859	61,115
Other comprehensive expenses for the year										
Exchange differences on translation of foreign operations	-	-	-	-	-	(78,030)	-	(78,030)	(1,282)	(79,312)
Realisation of exchange fluctuation reserve upon disposal of subsidiaries	42(c)	-	-	-	-	(557)	-	(557)	-	(557)
Total comprehensive income/(expenses) for the year	-	-	-	-	-	(78,587)	58,256	(20,331)	1,577	(18,754)
Final 2014 dividend declared and paid	-	-	-	-	-	-	(11,309)	(11,309)	-	(11,309)
Dividend paid to non-controlling shareholders	-	-	-	-	-	-	-	-	(2,929)	(2,929)
Acquisition of non-controlling interests	42(b)	-	-	-	(2,733)	(175)	-	(2,908)	(13,092)	(16,000)
Transfer to statutory surplus reserve	-	-	-	3,978	-	-	(3,978)	-	-	-
At 31 December 2015	86,992	446,105*	104,804*	49,115*	(12,093)*	248,895*	1,067,672*	1,991,490	33,214	2,024,704

* These reserve accounts comprise the consolidated reserves of HK\$1,904,498,000 (2014: HK\$1,939,046,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

Year ended 31 December 2015

Notes	Attributable to ordinary equity holders of the Company								Non-controlling interests		Total equity
	Issued capital	Share premium account	Share option reserve	Capital reserve	Statutory surplus reserve	Other reserve	Exchange fluctuation reserve	Retained profits	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2014	86,992	446,105	290	104,804	42,500	(9,360)	327,657	967,743	1,966,731	55,207	2,021,938
Profit for the year and total comprehensive income for the year	-	-	-	-	-	-	-	81,055	81,055	1,462	82,517
Final 2013 dividend declared and paid	-	-	-	-	-	-	-	(21,748)	(21,748)	-	(21,748)
Dividend paid to non-controlling shareholders	-	-	-	-	-	-	-	-	-	(9,011)	(9,011)
Transfer of share option reserve upon lapse of share options	-	-	(290)	-	-	-	-	290	-	-	-
Transfer to statutory surplus reserve	-	-	-	-	2,637	-	-	(2,637)	-	-	-
At 31 December 2014	86,992	446,105*	-*	104,804*	45,137*	(9,360)*	327,657*	1,024,703*	2,026,038	47,658	2,073,696

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2015

	Notes	2015 HK\$'000	2014 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		85,625	106,772
Adjustments for:			
Share of profits less losses of a joint venture		–	1,697
Share of profits less losses of an associate		42,152	4,635
Bank interest income	5	(1,505)	(1,833)
Fair value losses/(gains), net:			
Equity investment at fair value through profit or loss	5	33	84
Derivative financial instruments – transactions not qualified as hedges but matured during the year	5	(872)	662
Derivative financial instruments – transactions not qualified as hedges and not yet matured	5	1,218	3,569
Finance costs	6	49,758	51,888
Amortisation of bank charges on syndicated loans	6	11,827	4,857
Depreciation of items of property, plant and equipment	7	316,306	300,324
Amortisation of prepaid land lease payments	7	1,830	1,823
Loss/(gain) on disposal of items of property, plant and equipment	7	(981)	1,062
Impairment of accounts receivable	7	9,936	5,861
Write-back of impairment allowance for accounts receivable	7	(3,082)	(3,517)
Impairment of deposit and other receivables	7	886	4,825
Write-off of other receivables	7	868	–
Write-back of impairment of deposit and other receivables	7	(4,621)	–
Gain on disposal of subsidiaries	7	(542)	–
Gain on disposal of a joint venture	7	–	(10,306)
		508,836	472,403
Increase in inventories		(67,123)	(28,397)
Increase in accounts and bills receivable		(2,417)	(173,225)
Decrease/(increase) in prepayments, deposits and other receivables		27,360	(9,391)
Decrease in an amount due from a joint venture		–	383
Increase/(decrease) in accounts and bills payable		(17,049)	56,055
Increase in accrued liabilities and other payables	30	30,539	40,331
Proceeds from/(purchase of) derivative financial instruments upon maturity – transactions not qualified as hedges		(2,697)	(320)
Exchange realignment		(23,582)	–
		453,867	357,839
Cash generated from operations		453,867	357,839
Interest received		1,505	1,833
Interest paid		(49,269)	(51,006)
Interest element of finance lease rental payments		(489)	(882)
Hong Kong profits tax refunded		4,719	1,251
Hong Kong profits tax paid		(6,142)	(17,817)
Overseas taxes paid		(18,264)	(16,174)
		385,927	275,044
Net cash flows from operating activities		385,927	275,044

CONSOLIDATED STATEMENT OF CASH FLOWS

(CONTINUED)

Year ended 31 December 2015

	Notes	2015 HK\$'000	2014 HK\$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	13, 30	(346,282)	(301,050)
Prepayment of land leases	14	(1,249)	–
Proceeds from disposal of items of property, plant and equipment		1,996	1,567
Proceeds from disposal of a joint venture		–	32,500
Acquisition of a subsidiary	42(k)	–	(71,060)
Proceeds from disposal of subsidiaries	42(c)	15	–
Acquisition of non-controlling interests	30(c), 42(b)	(8,000)	–
Increase/(decrease) in an amount due to an associate		(10)	7
Increase in long term receivables		(750)	(13,476)
Increase in deposits paid	30(b)	(23,592)	(10,838)
Increase in pledged time deposits		(2,267)	(11,319)
Net cash flows used in investing activities		(380,139)	(373,669)
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital element of finance lease rental payments		(14,878)	(18,661)
Drawdown of bank loans		3,676,001	2,669,848
Repayment of bank loans		(3,619,018)	(2,589,399)
Dividend paid		(11,309)	(21,748)
Dividend paid to non-controlling shareholders		(2,929)	(9,011)
Net cash flows from financing activities		27,867	31,029
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
		33,655	(67,596)
Cash and cash equivalents at beginning of year		487,283	554,879
Effect of foreign exchange rate changes, net		(3,365)	–
CASH AND CASH EQUIVALENTS AT END OF YEAR		517,573	487,283
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the consolidated statement of financial position and the consolidated statement of cash flows	20	517,573	487,283

NOTES TO FINANCIAL STATEMENTS

31 December 2015

1. CORPORATE AND GROUP INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 26 November 2003 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

The principal place of business of the Company is located at Workshop A on 23rd Floor, TML Tower, No. 3 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong. The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 42 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for an equity investment at fair value through profit or loss and derivative financial instruments which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK\$") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2015. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2015

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKAS 19 *Defined Benefit Plans: Employee Contributions*

Annual Improvements to HKFRSs 2010-2012 Cycle

Annual Improvements to HKFRSs 2011-2013 Cycle

As explained below, the adoption of the above revised standards has had no significant financial effect on these financial statements.

- (a) The *Annual Improvements to HKFRSs 2010-2012 Cycle* issued in January 2014 sets out amendments to a number of HKFRSs. Details of the amendments that are effective for the current year are as follows:
- *HKFRS 8 Operating Segments*: Clarifies that an entity must disclose the judgements made by management in applying the aggregation criteria in HKFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics used to assess whether the segments are similar. The amendments also clarify that a reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker. The amendments have had no impact on the Group.
 - *HKAS 24 Related Party Disclosures*: Clarifies that a management entity (i.e., an entity that provides key management personnel services) is a related party subject to related party disclosure requirements. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. The amendment has had no impact on the Group as the Group does not receive any management services from other entities.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

- (b) The *Annual Improvements to HKFRSs 2011-2013 Cycle* issued in January 2014 sets out amendments to a number of HKFRSs. Details of the amendments that are effective for the current year are as follows:
- HKFRS 13 *Fair Value Measurement*: Clarifies that the portfolio exception in HKFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of HKFRS 9 or HKAS 39 as applicable. The amendment is applied prospectively from the beginning of the annual period in which HKFRS 13 was initially applied. The amendment has had no impact on the Group as the Group does not apply the portfolio exception in HKFRS 13.
 - HKAS 40 *Investment Property*: Clarifies that HKFRS 3, instead of the description of ancillary services in HKAS 40 which differentiates between investment property and owner-occupied property, is used to determine if the transaction is a purchase of an asset or a business combination. The amendment is applied prospectively for acquisitions of investment properties. The amendment has had no impact on the Group as the Group had no additions of investment properties during the year and so this amendment is not applicable.

In addition, the Company has adopted the amendments to the Rules (the “Listing Rules”) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) issued by the Stock Exchange relating to the disclosure of financial information with reference to the Hong Kong Companies Ordinance (Cap. 622) during the current financial year. The main impact to the financial statements is on the presentation and disclosure of certain information in the financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

HKFRS 9	<i>Financial Instruments</i> ²
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ⁴
Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	<i>Investment Entities: Applying the Consolidation Exception</i> ¹
Amendments to HKFRS 11	<i>Accounting for Acquisitions of Interests in Joint Operations</i> ¹
HKFRS 14	<i>Regulatory Deferral Accounts</i> ³
HKFRS 15	<i>Revenue from Contracts with Customers</i> ²
Amendments to HKAS 1	<i>Disclosure Initiative</i> ¹
Amendments to HKAS 16 and HKAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i> ¹
Amendments to HKAS 16 and HKAS 41	<i>Agriculture: Bearer Plants</i> ¹
Amendments to HKAS 27 (2011)	<i>Equity Method in Separate Financial Statements</i> ¹
<i>Annual Improvements 2012-2014 Cycle</i>	Amendments to a number of HKFRSs ¹

¹ Effective for annual periods beginning on or after 1 January 2016

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

³ Effective for an entity that first adopts HKFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group

⁴ No mandatory effective date yet determined but is available for adoption

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application but is not yet in a position to state whether these new and revised HKFRSs would have any significant impact on its results of operations and financial position.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

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

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

The Group's interest in an associate is stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

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

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

Fair value measurement

The Group measures its derivative financial instruments and equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2015

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

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

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

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5, as further explained in the accounting policy for "Non-current assets and disposal groups held for sale". The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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

Leasehold land under finance leases	Over the lease terms
Buildings	5% or over the lease terms, whichever is shorter
Plant and machinery	10%
Furniture, fixtures and office equipment	20%
Motor vehicles	20%

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

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

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

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable. All assets and liabilities of a subsidiary classified as a disposal group are reclassified as held for sale regardless of whether the Group retains a non-controlling interest in its former subsidiary after the sale.

Non-current assets and disposal groups (other than investment properties and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

Inventories

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

NOTES TO FINANCIAL STATEMENTS

31 December 2015

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leased assets

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

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

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

When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as either financial assets at fair value through profit or loss, or loans and receivables, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

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

Subsequent measurement

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

NOTES TO FINANCIAL STATEMENTS

31 December 2015

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policy set out for “Revenue recognition” below.

Loans and receivables

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

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2015

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)

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

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

Derecognition of financial assets

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2015

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

Initial recognition and measurement

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

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

The Group's financial liabilities include accounts and bills payable, accrued liabilities and other payables, interest-bearing bank and other borrowings, derivative financial instruments and an amount due to an associate.

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

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

Loans and borrowings

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

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

Derecognition of financial liabilities

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2015

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Offsetting of financial instruments

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

Borrowing costs

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

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward currency contracts, to hedge its foreign currency risk. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the statement of profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.
- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.
- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current and non-current portions only if a reliable allocation can be made.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents (continued)

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

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

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

Income tax

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2015

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

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

Government grants

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

Revenue recognition

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

- (i) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (ii) from the rendering of services, when the relevant services have been rendered;
- (iii) rental income, on a time proportion basis over the lease terms;
- (iv) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts over the expected life of the financial instrument to the net carrying amount of the financial asset; and
- (v) dividend income, when the shareholders' right to receive payment has been established.

Employee benefits

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

NOTES TO FINANCIAL STATEMENTS

31 December 2015

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Share-based payments (continued)

The cost of equity-settled transactions with employees for grants is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external professionally qualified valuer using the binomial/Black-Scholes option pricing models, further details of which are given in note 27 to the financial statements.

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2015

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Pension schemes and other retirement benefits

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

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

Staff benefits are also provided to the staff working in other countries according to the respective countries’ statutory requirements.

Termination benefits

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

Foreign currencies

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

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

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in a separate component of equity. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2015

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Research and development costs

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately, the Group accounts for the portions separately. If these portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Otherwise, the property is classified as an owner-occupied property.

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements (continued)

Impairment of assets

In determining whether an asset is impaired or the event previously causing the impairment no longer exists, the Group has to exercise judgement in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

Withholding taxes arising from the distributions of dividends

The Group's determination as to whether to accrue for withholding taxes arising from the distributions of dividends from certain subsidiaries according to the relevant tax jurisdictions is subject to judgement on the timing of the payment of the dividend. The Group considered that if the profits will not be distributed in the foreseeable future, then no withholding taxes should be provided.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, which may cause an adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment allowance for accounts and bills receivable

The Group makes impairment allowance for accounts and bills receivable based on an assessment of the recoverability of accounts and bills receivable. Allowances are applied to accounts and bills receivable where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of accounts and bills receivable and impairment allowance for accounts and bills receivable in the year in which such estimate has been changed.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

4. OPERATING SEGMENT INFORMATION

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

- (a) the fabric products segment engages in the production and sale of knitted fabric and dyed yarn and the provision of related subcontracting services; and
- (b) the “others” segment includes the production and sale of garment products and the provision of related subcontracting services, and the provision of air and ocean freight handling services and mining.

Management monitors the results of the Group’s operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax.

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

During the year, management combined the Garment Segment with the Others Segment as a result of the diminishing importance of the Garment Segment for the operation of the Group. The corresponding information for the year ended 31 December 2014 has been re-presented accordingly.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2015

	Fabric HK\$'000	Others HK\$'000	Total HK\$'000
Segment revenue:			
Revenue from external customers	4,152,733	–	4,152,733
Segment profits/(loss)	188,801	(1,486)	187,315
Bank interest income	1,504	1	1,505
Finance costs	(61,585)	–	(61,585)
Gain on disposal of subsidiaries	–	542	542
Share of profits less losses of an associate	–	(42,152)	(42,152)
Profit/(loss) before tax	128,720	(43,095)	85,625
Income tax expense	(24,501)	(9)	(24,510)
Profit/(loss) for the year	104,219	(43,104)	61,115
Assets and liabilities			
Segment assets	4,693,850	7,895	4,701,745
Deferred tax assets	2,637	–	2,637
Total assets	4,696,487	7,895	4,704,382
Segment liabilities	2,674,546	4,640	2,679,186
Deferred tax liabilities	492	–	492
Total liabilities	2,675,038	4,640	2,679,678
Other segment information:			
Depreciation and amortisation	318,098	38	318,136
Loss/(gain) on disposal of items of property, plant and equipment	(1,027)	46	(981)
Impairment of accounts receivable	9,936	–	9,936
Write-back of impairment allowance for accounts receivable	(3,082)	–	(3,082)
Impairment of other receivables	300	586	886
Write-off of other receivables	868	–	868
Write-back of impairment of deposit and other receivables	(4,524)	(97)	(4,621)
Capital expenditure*	401,928	–	401,928

* Capital expenditure consists of additions and deposits of property, plant and equipment, and additions of prepaid land lease payments paid during the year ended 31 December 2015.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2014

	Fabric HK\$'000	Others HK\$'000	Total HK\$'000
Segment revenue:			
Revenue from external customers	3,985,194	505	3,985,699
Segment profits/(loss)	160,693	(2,983)	157,710
Bank interest income	1,829	4	1,833
Finance costs	(56,745)	–	(56,745)
Gain on disposal of a joint venture	10,306	–	10,306
Share of profits less losses of a joint venture	(1,697)	–	(1,697)
Share of profits less losses of an associate	–	(4,635)	(4,635)
Profit/(loss) before tax	114,386	(7,614)	106,772
Income tax expense	(24,071)	(184)	(24,255)
Profit/(loss) for the year	90,315	(7,798)	82,517
Assets and liabilities			
Segment assets	4,608,756	7,415	4,616,171
Interest in an associate	–	42,152	42,152
Deferred tax assets	8,931	–	8,931
Total assets	4,617,687	49,567	4,667,254
Segment liabilities	2,588,621	4,762	2,593,383
Deferred tax liabilities	175	–	175
Total liabilities	2,588,796	4,762	2,593,558
Other segment information:			
Depreciation and amortisation	302,087	60	302,147
Loss on disposal of items of property, plant and equipment	1,062	–	1,062
Impairment of accounts receivable	5,758	103	5,861
Write-back of impairment allowance for accounts receivable	(3,375)	(142)	(3,517)
Impairment of a deposit and other receivables	4,638	187	4,825
Capital expenditure*	403,139	–	403,139

* Capital expenditure consists of additions and deposits of property, plant and equipment, and non-current prepayments paid during the year ended 31 December 2014.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	2015 HK\$'000	2014 HK\$'000
Korea	813,764	777,135
Mainland China	770,068	634,951
Hong Kong	741,762	726,663
Taiwan	510,383	423,696
Singapore	461,035	793,541
Others	855,721	629,713
	4,152,733	3,985,699

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

(b) Non-current assets

	2015 HK\$'000	2014 HK\$'000
Mainland China	2,133,675	2,122,196
Hong Kong	98,584	138,481
Singapore	62	114
Others	607	643
	2,232,928	2,261,434

The non-current assets information above is based on the location of the assets and excludes long term receivables and deferred tax assets.

Information about a major customer

During the years ended 31 December 2015 and 2014, the revenue from the Group's largest customer amounted to less than 10% of the Group's total revenue.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

5. REVENUE, OTHER INCOME AND GAINS, NET

Revenue, represents the net invoiced value of goods sold, after allowances for returns and trade discounts, and services rendered by the Group.

An analysis of the revenue, other income and gains, net, is as follows:

	Note	2015 HK\$'000	2014 HK\$'000
Revenue			
Production and sale of knitted fabric and dyed yarn and provision of related subcontracting services		4,152,733	3,985,194
Production and sale of garment products and provision of related subcontracting services		–	505
		4,152,733	3,985,699
Other income			
Fee income from freight handling services		7,835	8,254
Bank interest income		1,505	1,833
Gross rental income		430	409
Subsidy income from the People's Republic of China (the "PRC") government	7	2,525	1,075
Others		16,915	16,947
		29,210	28,518
Gains, net			
Fair value gains/(losses), net:			
Equity investment at fair value through profit or loss – held for trading	7	(33)	(84)
Derivative financial instruments – transactions not qualified as hedges but matured during the year	7	872	(662)
Derivative financial instruments – transactions not qualified as hedges and not yet matured	7	(1,218)	(3,569)
		(379)	(4,315)
Other income and gains, net		28,831	24,203

NOTES TO FINANCIAL STATEMENTS

31 December 2015

6. FINANCE COSTS

An analysis of finance costs is as follows:

	2015 HK\$'000	2014 HK\$'000
Interest on bank loans and overdrafts	49,269	51,006
Interest on finance leases	489	882
Amortisation of bank charges on syndicated loans	11,827	4,857
	61,585	56,745

7. PROFIT BEFORE TAX

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

	Notes	2015 HK\$'000	2014 HK\$'000
Cost of inventories sold and services provided		3,514,895	3,412,403
Auditors' remuneration		3,328	3,150
Research and development costs		13,805	12,835
Depreciation of items of property, plant and equipment	13	316,306	300,324
Amortisation of prepaid land lease payments	14	1,830	1,823
Employee benefit expense (excluding directors' remuneration – note 8):			
Wages and salaries		445,175	405,416
Pension scheme contributions		59,649	46,528
		504,824	451,944
Minimum lease payments under operating leases		10,724	10,317
Loss/(gain) on disposal of items of property, plant and equipment*		(981)	1,062
Impairment of accounts receivable*	18	9,936	5,861
Write-back of impairment allowance for accounts receivable*	18	(3,082)	(3,517)
Impairment of deposit and other receivables*/**		886	4,825
Write-off of other receivables*		868	–
Write-back of impairment of deposit and other receivables*		(4,621)	–
Gain on disposal of subsidiaries*	42(c)	(542)	–
Gain on disposal of a joint venture****		–	(10,306)
Fair value losses/(gains), net:			
Equity investment at fair value through profit or loss – held for trading		33	84
Derivative financial instruments – transactions not qualified as hedges but matured during the year		(872)	662
Derivative financial instruments – transactions not qualified as hedges and not yet matured		1,218	3,569
Foreign exchange differences, net*		3,038	4,962
Subsidy income from the PRC government***		(2,525)	(1,075)

NOTES TO FINANCIAL STATEMENTS

31 December 2015

7. PROFIT BEFORE TAX (continued)

- * These amounts are included in "Other operating expenses, net" on the face of the consolidated statement of profit or loss.
- ** Included in above impairment allowance for a deposit and other receivables is an allowance for a deposit and other receivables of HK\$886,000 (2014: HK\$4,825,000) with a carrying amount of HK\$886,000 (2014: HK\$4,825,000) before impairment allowance. The impaired deposit and other receivables were not expected to be recovered.
- *** There are no unfulfilled conditions or contingencies relating to these grants.
- **** During the year ended 31 December 2014, the Group disposed of its 25% ownership interest in Honghu Xing Ye Textile Co Ltd. ("Honghu"), the then joint venture of the Group, to a joint venturer of Honghu for a consideration of RMB26,000,000 (equivalent to HK\$32,500,000). The gain on disposal of Honghu of HK\$10,306,000, represented the difference of (i) the consideration of HK\$32,500,000; and (ii) the Group's share of net assets in Honghu of HK\$19,930,000 and an amount due from a joint venture of HK\$2,264,000 at the date of disposal, was recognised in the consolidated statement of profit or loss for the year ended 31 December 2014.

The cost of inventories sold and services provided includes depreciation and staff costs of HK\$673,041,000 (2014: HK\$617,739,000), which are also included in the respective total amounts disclosed separately above.

The research and development costs include depreciation and staff costs of HK\$12,717,000 for the year ended 31 December 2015 (2014: HK\$11,358,000), which are also included in the respective total amounts disclosed separately above.

At 31 December 2015, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2014: Nil).

8. DIRECTORS' REMUNERATION

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

	2015 HK\$'000	2014 HK\$'000
Fees	720	720
Other emoluments:		
Salaries, allowances and benefits in kind	17,350	17,225
Discretionary bonuses	1,334	1,325
Pension scheme contributions	90	100
	18,774	18,650
	19,494	19,370

NOTES TO FINANCIAL STATEMENTS

31 December 2015

8. DIRECTORS' REMUNERATION (CONTINUED)

	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Discretionary bonuses HK\$'000	Pension scheme contributions HK\$'000	Total HK\$'000
2015					
Executive directors:					
Tai Chin Chun	–	4,971	382	18	5,371
Tai Chin Wen^	–	4,124	317	18	4,459
Cheung So Wan	–	2,340	180	18	2,538
Wong Siu Yuk	–	2,340	180	18	2,538
Chong Chau Lam	–	1,820	140	–	1,960
Wong Wai Kong, Elmen	–	1,755	135	18	1,908
Independent non-executive directors:					
Chu Hak Ha, Mimi	240	–	–	–	240
Chan Yuk Tong, Jimmy	240	–	–	–	240
Ho Gilbert Chi Hang	240	–	–	–	240
Total	720	17,350	1,334	90	19,494
2014					
Executive directors:					
Tai Chin Chun	–	4,940	380	17	5,337
Tai Chin Wen^	–	4,030	310	17	4,357
Cheung So Wan	–	2,340	180	17	2,537
Wong Siu Yuk	–	2,340	180	17	2,537
Chong Chau Lam	–	1,820	140	15	1,975
Wong Wai Kong, Elmen	–	1,755	135	17	1,907
Independent non-executive directors:					
Chu Hak Ha, Mimi	240	–	–	–	240
Chan Yuk Tong, Jimmy	240	–	–	–	240
Ho Gilbert Chi Hang	240	–	–	–	240
Total	720	17,225	1,325	100	19,370

^ Tai Chin Wen is also the chief executive officer of the Group.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2015

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2014: four) directors, details of whose remuneration are set out in note 8 above. Details of the remaining one (2014: one) highest paid employee who is neither a director nor chief executive of the Company are as follows:

	2015 HK\$'000	2014 HK\$'000
Salaries, allowances and benefits in kind	1,692	1,833
Discretionary bonuses	196	235
Termination benefits	105	–
Pension scheme contributions	15	17
	2,008	2,085

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

	Number of employees	
	2015	2014
HK\$2,000,000 to HK\$2,500,000	1	1

During the year, no emoluments were paid by the Group to the directors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office. During the year, HK\$105,000 (2014: Nil) was paid by the Group to a five highest paid individual as compensation for loss of office.

10. INCOME TAX

	2015 HK\$'000	2014 HK\$'000
Current tax – Hong Kong		
Charge for the year	6,257	7,874
Underprovision/(overprovision) in prior years	(237)	831
Current tax – Elsewhere		
Charge for the year	13,061	16,383
Underprovision/(overprovision) in prior years	(965)	2,990
Deferred tax expense/(credit) (note 25)	6,394	(3,823)
Total tax charge for the year	24,510	24,255

Hong Kong profits tax has been provided on the estimated assessable profits arising in Hong Kong at the rate of 16.5% (2014: 16.5%). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

10. INCOME TAX (CONTINUED)

Pursuant to the Corporate Income Tax Law of the PRC being effective on 1 January 2008, the corporate income tax rate is unified to 25% for all enterprises in Mainland China.

A reconciliation of the tax expense/(credit) applicable to profit/(loss) before tax at the statutory rates for the jurisdictions/countries in which the Company and the majority of its subsidiaries, a joint venture and an associate operate to the tax expense/(credit) at the effective tax rates is as follows:

2015

	Hong Kong HK\$'000	Mainland China HK\$'000	Others HK\$'000	Total HK\$'000
Profit/(loss) before tax	(13,168)	100,276	(1,483)	85,625
Tax at the statutory tax rate	(2,173)	25,069	(149)	22,747
Profits less losses attributable to an associate	6,955	–	–	6,955
Adjustments in respect of current tax of prior years	(237)	(965)	–	(1,202)
Income not subject to tax	(473)	(6,055)	–	(6,528)
Expenses not deductible for tax	2,105	2,956	228	5,289
Tax losses utilised from previous periods	(374)	–	–	(374)
Tax losses not recognised	438	–	–	438
Others	96	(2,911)	–	(2,815)
Tax charge at the Group's effective rate	6,337	18,094	79	24,510

2014

	Hong Kong HK\$'000	Mainland China HK\$'000	Others HK\$'000	Total HK\$'000
Profit/(loss) before tax	46,665	61,479	(1,372)	106,772
Tax at the statutory tax rate	7,700	15,370	(166)	22,904
Profits less losses attributable to a joint venture and an associate	1,045	–	–	1,045
Adjustments in respect of current tax of prior years	831	2,993	(3)	3,821
Income not subject to tax	(2,261)	(5,948)	–	(8,209)
Expenses not deductible for tax	1,826	2,999	166	4,991
Tax losses not recognised	425	–	–	425
Others	(1,584)	862	–	(722)
Tax charge/(credit) at the Group's effective rate	7,982	16,276	(3)	24,255

NOTES TO FINANCIAL STATEMENTS

31 December 2015

11. DIVIDEND

The proposed final dividend for the year of HK1.5 cents (2014: HK1.3 cents) per ordinary share, in aggregate of approximately HK\$13,049,000 (2014: HK\$11,309,000), is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. These financial statements do not reflect the final dividend payable.

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company of HK\$58,256,000 (2014: HK\$81,055,000), and the 869,919,000 (2014: 869,919,000) ordinary shares in issue during the year.

The Company had no potentially dilutive ordinary shares during the year ended 31 December 2015.

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

No adjustment had been made to the basic earnings per share amounts presented for the year ended 31 December 2014 in respect of a dilution as the share options outstanding had no dilutive effect on the basic earnings per share amount presented.

13. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
31 December 2015						
Cost:						
At 1 January 2015	551,665	3,215,110	97,588	44,023	115,583	4,023,969
Additions	5,600	102,028	11,745	3,095	254,619	377,087
Disposals	(961)	(2,263)	(10,186)	(1,755)	–	(15,165)
Transfers	12,942	273,534	1,178	–	(287,654)	–
Exchange realignment	(11,870)	(81,835)	(1,925)	(594)	(4,381)	(100,605)
At 31 December 2015	557,376	3,506,574	98,400	44,769	78,167	4,285,286
Accumulated depreciation:						
At 1 January 2015	172,413	1,641,504	73,084	30,435	–	1,917,436
Charge for the year	28,091	275,019	8,413	4,783	–	316,306
Disposals	(961)	(2,180)	(9,275)	(1,734)	–	(14,150)
Exchange realignment	(4,544)	(44,106)	(1,477)	(479)	–	(50,606)
At 31 December 2015	194,999	1,870,237	70,745	33,005	–	2,168,986
Net book value:						
At 31 December 2015	362,377	1,636,337	27,655	11,764	78,167	2,116,300

NOTES TO FINANCIAL STATEMENTS

31 December 2015

13. PROPERTY, PLANT AND EQUIPMENT (continued)

	Land and buildings HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
31 December 2014						
Cost:						
At 1 January 2014	428,273	2,877,401	85,626	40,250	237,516	3,669,066
Additions	–	100,398	6,890	4,418	203,764	315,470
Acquisition of a subsidiary (note 42(k))	71,060	–	–	–	–	71,060
Disposals	–	(30,980)	(2)	(645)	–	(31,627)
Transfers	52,332	268,291	5,074	–	(325,697)	–
At 31 December 2014	551,665	3,215,110	97,588	44,023	115,583	4,023,969
Accumulated depreciation:						
At 1 January 2014	147,843	1,406,033	65,890	26,344	–	1,646,110
Charge for the year	24,570	263,846	7,196	4,712	–	300,324
Disposals	–	(28,375)	(2)	(621)	–	(28,998)
At 31 December 2014	172,413	1,641,504	73,084	30,435	–	1,917,436
Net book value:						
At 31 December 2014	379,252	1,573,606	24,504	13,588	115,583	2,106,533

NOTES TO FINANCIAL STATEMENTS

31 December 2015

13. PROPERTY, PLANT AND EQUIPMENT (continued)

The net carrying amounts of the Group's items of property, plant and equipment held under finance leases included in the total amounts of plant and machinery and motor vehicles were as follows:

	2015 HK\$'000	2014 HK\$'000
Plant and machinery	36,592	54,391
Motor vehicles	–	898
	36,592	55,289

As at 31 December 2015, the Group was in the process of applying for the building ownership certificates in respect of certain self-used properties with net book value of approximately HK\$5.8 million (2014: HK\$6.5 million) and approximately HK\$106.7 million (2014: HK\$102.9 million) situated in Panyu and En Ping, the PRC, respectively. The Company's directors confirmed that, based on the advice from the Company's legal counsel, as the Group has properly obtained the land use right certificates in respect of the land on which the aforementioned self-used properties are erected, and therefore are in the opinion that there is no legal barrier or otherwise for the Group to obtain the building ownership certificates from the relevant Mainland China authority.

At 31 December 2015, certain of the Group's building with a net carrying amount of approximately HK\$7,937,000 (2014: Nil) were pledged to the PRC Court to sequester a parcel of land of the Group in respect of a litigation. Details of the litigation are disclosed in note 38 to the financial statements.

14. PREPAID LAND LEASE PAYMENTS

	2015 HK\$'000	2014 HK\$'000
Carrying amount at 1 January	67,438	69,261
Additions during the year	1,249	–
Amortised during the year	(1,830)	(1,823)
Exchange realignment	(1,642)	–
Carrying amount at 31 December	65,215	67,438
Current portion included in prepayments, deposits and other receivables	(1,809)	(1,823)
Non-current portion	63,406	65,615

NOTES TO FINANCIAL STATEMENTS

31 December 2015

15. INTEREST IN AN ASSOCIATE

	2015 HK\$'000	2014 HK\$'000
Share of net assets	–	42,152

The amount due to an associate included in the Group's current liabilities is unsecured, interest-free and has no fixed terms of repayment.

Particulars of the material associate are as follows:

Name	Particulars of issued shares held	Place of incorporation	Percentage of ownership interest attributable to the Group		Principal activity
			2015	2014	
Kam Hing International Limited* ("Kam Hing International")	Ordinary shares of US\$1 each	BVI	25	25	Investment holding

* Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

As at 31 December 2015, the Group's shareholding in Kam Hing International is held through a wholly-owned subsidiary of the Company.

Kam Hing International, which is considered a material associate of the Group, is a strategic partner of the Group engaged in mining and is accounted for using the equity method.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

15. INTEREST IN AN ASSOCIATE (continued)

The following table illustrates the summarised financial information in respect of Kam Hing International and reconciled to the carrying amount in the consolidated financial statements:

	2015 HK\$'000	2014 HK\$'000
Current assets	3,092	3,103
Non-current assets	–	166,722
Current liabilities	(3,092)	(1,217)
Non-current financial liabilities, excluding trade and other payables and provisions	–	–
Non-current liabilities	–	–
Net assets	–	168,608
Net assets, excluding goodwill	–	168,608
Reconciliation to the Group's interest in the associate:		
Proportion of the Group's ownership	25%	25%
Group's share of net assets of the associate, excluding goodwill	–	42,152
Carrying amount of the investment	–	42,152
Revenues	–	–
Loss for the year	(168,608)	(18,540)
Other comprehensive expenses	–	–
Total comprehensive expenses for the year	(168,608)	(18,540)
Dividend received	–	–

16. DEPOSITS PAID

	2015 HK\$'000	2014 HK\$'000
Deposits paid for acquisition of:		
Property, plant and equipment	23,592	10,838
Land use rights	21,488	22,025
	45,080	32,863

NOTES TO FINANCIAL STATEMENTS

31 December 2015

17. INVENTORIES

	2015 HK\$'000	2014 HK\$'000
Raw materials	610,043	586,537
Work in progress	193,599	159,293
Finished goods	224,423	215,112
	1,028,065	960,942

18. ACCOUNTS AND BILLS RECEIVABLE

	2015 HK\$'000	2014 HK\$'000
Accounts and bills receivable	841,315	841,923
Impairment	(24,706)	(20,877)
	816,609	821,046

The Group's trading terms with its customers are generally on credit with terms of up to three months and are non-interest-bearing (except for certain well-established customers with strong financial strength, good repayment history and creditworthiness, where the credit terms are extended to six months). The Group seeks to maintain strict control over its outstanding receivable and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's accounts and bills receivable relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its accounts and bills receivable balances.

An aged analysis of the Group's accounts and bills receivable as at the end of the reporting period, based on the invoice date and net of impairment allowance, is as follows:

	2015 HK\$'000	2014 HK\$'000
Within 1 month	294,105	341,559
1 to 2 months	217,927	212,465
2 to 3 months	127,086	147,852
Over 3 months	177,491	119,170
	816,609	821,046

NOTES TO FINANCIAL STATEMENTS

31 December 2015

18. ACCOUNTS AND BILLS RECEIVABLE (continued)

The movements in impairment allowance for accounts and bills receivable are as follows:

	2015 HK\$'000	2014 HK\$'000
At 1 January	20,877	21,419
Impairment losses recognised (note 7)	9,936	5,861
Write-back of impairment losses (note 7)	(3,082)	(3,517)
Write-off as uncollectible	(3,025)	(2,886)
At 31 December	24,706	20,877

Included in the above impairment allowance for accounts and bills receivable is an allowance for individually impaired accounts receivable in aggregate of HK\$24,706,000 (2014: HK\$20,877,000) with a carrying amount before impairment allowance in aggregate of HK\$29,170,000 (2014: HK\$35,522,000). The individually impaired accounts receivable relate to customers that were in default or delinquency in payments.

An aged analysis of the accounts and bills receivable that are not considered to be impaired is as follows:

	2015 HK\$'000	2014 HK\$'000
Neither past due nor impaired	594,170	568,743
Less than 1 month past due	147,900	172,280
1 to 6 months past due	67,353	61,278
Over 6 months past due	2,722	4,100
	812,145	806,401

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

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

19. EQUITY INVESTMENT AT FAIR VALUE THROUGH PROFIT OR LOSS

	2015 HK\$'000	2014 HK\$'000
Listed equity investment, at market value	268	301

The above equity investment was classified as held for trading at 31 December 2015 and 2014.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

20. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Note	2015 HK\$'000	2014 HK\$'000
Cash and bank balances		517,573	487,283
Time deposits		13,586	11,319
		531,159	498,602
Less: Pledged deposits for bills payable	21	(13,586)	(11,319)
Cash and cash equivalents		517,573	487,283

As at 31 December 2015, the cash and bank balances of the Group denominated in RMB amounting to approximately HK\$148,942,000 (2014: HK\$137,958,000). RMB is not freely convertible into other currencies, however, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

21. ACCOUNTS AND BILLS PAYABLE

An aged analysis of the Group's accounts and bills payable as at the end of the reporting period, based on the invoice date, is as follows:

	2015 HK\$'000	2014 HK\$'000
Within 3 months	492,826	502,592
3 to 6 months	100,368	105,981
Over 6 months	2,115	3,785
	595,309	612,358

The accounts and bills payable are non-interest-bearing and are normally settled on credit terms of one to four months.

As at 31 December 2015, bills payable of HK\$97,067,000 (2014: HK\$55,573,000) included in the above accounts and bills payable balances were secured by the Group's pledged bank deposits of HK\$13,586,000 (2014: HK\$11,319,000) (note 20).

NOTES TO FINANCIAL STATEMENTS

31 December 2015

22. DERIVATIVE FINANCIAL INSTRUMENTS

	Liabilities	
	2015 HK\$'000	2014 HK\$'000
Forward currency contracts	1,218	3,569

The Group has entered into various forward currency contracts to manage its exchange rate exposures. These forward currency contracts are not designated for hedge purposes and are measured at fair value through profit or loss. Changes in the fair value of non-hedging currency derivatives, net, amounting to HK\$346,000 (2014: HK\$4,231,000) were charged to the statement of profit or loss during the year.

23. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2015			2014		
	Effective interest rate (%)	Maturity	HK\$'000	Effective interest rate (%)	Maturity	HK\$'000
Current (Note)						
Finance lease payables (note 24)	2.5 to 3	2016 or on demand	11,704	2.4 to 3.4	2015 or on demand	17,547
	Weighted average of HIBOR/LIBOR			Weighted average of HIBOR/LIBOR		
Bank loans – unsecured	+ 0.7 to 3.1	2016 or on demand	693,396	+ 1.5 to 3.1	2015 or on demand	934,522
			705,100			952,069
Non-current						
Finance lease payables (note 24)	2.5	2017-2018	11,104	3 to 3.4	2016 – 2017	172
	Weighted average of HIBOR/LIBOR			Weighted average of HIBOR/LIBOR		
Bank loans – unsecured	+ 1.5 to 3.1	2017-2020	1,137,606	+ 1.5 to 3.1	2016 – 2019	827,670
			1,148,710			827,842
			1,853,810			1,779,911

NOTES TO FINANCIAL STATEMENTS

31 December 2015

23. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

	2015 HK\$'000	2014 HK\$'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand (Note)	693,396	934,522
In the second year	303,025	527,176
In the third to fifth years, inclusive	834,581	300,494
	1,831,002	1,762,192
Finance lease payables:		
Within one year or on demand (Note)	11,704	17,547
In the second year	6,714	172
In the third to fifth years, inclusive	4,390	–
	22,808	17,719
	1,853,810	1,779,911

Note: For the purpose of the above analysis, the Group's bank loans in the amount of HK\$33,394,000 (2014: HK\$52,660,000) and finance lease payables in the amount of HK\$1,917,000 (2014: HK\$5,156,000) containing a repayment on demand clause are included within current interest-bearing bank and other borrowings and analysed into bank loans and finance lease payables within one year or on demand, respectively.

Based on the maturity terms of the bank loans, the amounts repayable in respect of the bank loans are: HK\$660,002,000 (2014: HK\$881,862,000) payable within one year; HK\$327,667,000 (2014: HK\$579,836,000) payable in the second year; and HK\$841,008,000 (2014: HK\$300,494,000) payable in the third to fifth years, inclusive; and HK\$2,325,000 (2014: Nil) payable after five years.

Based on the maturity terms of the finance lease payables, the amounts repayable in respect of the finance lease payables are: HK\$9,787,000 (2014: HK\$12,391,000) payable within one year; HK\$8,631,000 (2014: HK\$3,411,000) payable in the second year; and HK\$4,390,000 (2014: HK\$1,917,000) payable in the third to fifth years, inclusive.

As at 31 December 2015, save as disclosed elsewhere in these financial statements, the banking facilities of the Group were also supported by corporate guarantees executed by the Company and certain subsidiaries of the Company.

As at 31 December 2015, the finance lease payables were supported by corporate guarantees executed by the Company and the underlying property, plant and equipment (note 24).

NOTES TO FINANCIAL STATEMENTS

31 December 2015

24. FINANCE LEASE PAYABLES

The Group leases certain of its plant and machinery, and motor vehicles for its business operation (note 13). These leases are classified as finance leases and have remaining lease terms ranging from two to three years.

At 31 December 2015, the total future minimum lease payments under finance leases and their present values were as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2015 HK\$'000	2014 HK\$'000	2015 HK\$'000	2014 HK\$'000
Amounts payable:				
Within one year	12,199	17,996	11,704	17,547
In the second year	6,915	173	6,714	172
In the third to fifth years, inclusive	4,427	–	4,390	–
Total minimum finance lease payments	23,541	18,169	22,808	17,719
Future finance charges	(733)	(450)		
Total net finance lease payables	22,808	17,719		
Portion classified as current liabilities (note 23)	(11,704)	(17,547)		
Non-current portion (note 23)	11,104	172		

NOTES TO FINANCIAL STATEMENTS

31 December 2015

25. DEFERRED TAX

The movements in deferred tax assets and liabilities of the Group during the year were as follows:

Deferred tax assets

	Losses available for offsetting against future taxable profits		Deductible temporary difference		Total	
	2015 HK\$'000	2014 HK\$'000	2015 HK\$'000	2014 HK\$'000	2015 HK\$'000	2014 HK\$'000
At 1 January	–	815	8,931	5,020	8,931	5,835
Deferred tax credited/ (charged) to the statement of profit or loss during the year (note 10)	–	(815)	(6,077)	3,911	(6,077)	3,096
Exchange realignment	–	–	(217)	–	(217)	–
At 31 December	–	–	2,637	8,931	2,637	8,931

Deferred tax liabilities

	Depreciation allowance in excess of related depreciation		Deductible temporary difference		Total	
	2015 HK\$'000	2014 HK\$'000	2015 HK\$'000	2014 HK\$'000	2015 HK\$'000	2014 HK\$'000
At 1 January	770	902	(595)	–	175	902
Deferred tax charged/ (credited) to the statement of profit or loss during the year (note 10)	(71)	(132)	388	(595)	317	(727)
At 31 December	699	770	(207)	(595)	492	175

NOTES TO FINANCIAL STATEMENTS

31 December 2015

25. DEFERRED TAX (continued)

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008. At 31 December 2015, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with interests in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK\$246 million at 31 December 2015 (2014: HK\$198 million).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

The Group has estimated tax losses arising in Hong Kong of HK\$14,686,000 (2014: HK\$14,300,000) that are available indefinitely for offsetting against future taxable profits of the Company and the respective subsidiaries in which the losses arose. No deferred tax assets have been recognised in respect of these losses as the directors consider it is not probable that future taxable profit will be available against which these tax losses can be utilised.

26. SHARE CAPITAL

	2015 HK\$'000	2014 HK\$'000
Authorised:		
2,000,000,000 (2014: 2,000,000,000) ordinary shares of HK\$0.1 each	200,000	200,000
Issued and fully paid:		
869,919,000 (2014: 869,919,000) ordinary shares of HK\$0.1 each	86,992	86,992

Share options

Details of the Company's share option schemes and the share options issued under the schemes are included in note 27 to the financial statements.

27. SHARE OPTION SCHEME

The old share option scheme

The Company operated a share option scheme (the "Old Scheme") for the purpose of providing incentives and rewards to eligible participants who contributed to the success of the Group's operations. Eligible participants of the Old Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, any consultant, advisor, manager or officer who provides research, development, other technological support or services to the Group, the Company's shareholders, and any non-controlling shareholder of the Company's subsidiaries. The Old Scheme became effective on 25 August 2004 and was terminated on 9 June 2014. The remaining share options granted under the Old Scheme expired on 5 October 2014.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

27. SHARE OPTION SCHEME (continued)

The old share option scheme (continued)

The Company has sought the approval of its shareholders in the annual general meeting of the Company held on 26 May 2008 for refreshing its scheme mandate limit such that the maximum number of shares which may be allotted and issued upon the exercise of the share options to be granted under the Old Scheme is 64,458,300 shares, representing 10% of the share capital of the Company as at the date of refreshment of the scheme mandate limit. The maximum number of shares issuable under share options to each eligible participant in the Old Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of offer of the share options or the expiry date of the Old Scheme, if earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the highest of (i) the nominal value of the Company's shares; (ii) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; and (iii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following share options were outstanding under the Old Scheme during the year ended 31 December 2014:

	Weighted average exercise price HK\$ per share	Number of options '000
At 1 January 2014	1.28	1,280
Lapsed during the year	(1.28)	(1,280)
At 31 December 2014		—

At the date of approval of these financial statements, the Company had no share options outstanding under the Old Scheme.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

27. SHARE OPTION SCHEME (continued)

The new share option scheme

During the year ended 31 December 2014, the Company terminated the Old Scheme and adopted a new share option scheme (the "New Scheme") pursuant to a resolution passed in the annual general meeting dated 9 June 2014. The New Scheme, unless otherwise cancelled or amended, will remain in force for 10 years commencing from 9 June 2014, after which no further options will be granted but the provisions of the New Scheme shall remain in full force to the extent necessary to give effect to the exercise of any option granted prior thereto or otherwise as may be required in accordance with the provision of the New Scheme.

The Company operates the New Scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the New Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, any consultant, advisor, manager or officer who provides research, development, other technological support or services to the Group, the Company's shareholders, and any non-controlling shareholder of the Company's subsidiaries.

The maximum number of shares which may be allotted and issued upon the exercise of the share options to be granted under the New Scheme is 86,991,900 shares, representing 10% of the share capital of the Company as at the date of adoption of the scheme mandate limit and as at 31 December 2015. The maximum number of shares issuable under share options to each eligible participant in the New Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of offer of the share options or the expiry date of the New Scheme, if earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the highest of (i) the nominal value of the Company's shares; (ii) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; and (iii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

During the year, no share options were granted by the Company under the New Scheme.

At the date of approval of these financial statements, the Company had no share options outstanding under the New Scheme.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

28. RESERVES

The amounts of the Group's reserves and the movement therein for the current and prior years are presented in the consolidated statement of changes in equity of the financial statements.

The capital reserve of the Group represents (i) the premium of HK\$93,378,000 arising from the issue of shares by Joint Result Holdings Limited ("Joint Result") for settlement of the amounts due to directors on 31 December 2003; and (ii) the excess of the nominal value of the share capital of the subsidiaries acquired pursuant to the group reorganisation which took place on 24 August 2004, for the Company became the holding company of the companies now comprising the Group (the "Group Reorganisation"), over the nominal value of the 1,000,000 shares of HK\$0.1 each of the Company issued in exchange therefor and the then existing 1,000,000 shares of HK\$0.1 each credited as fully paid at par.

In accordance with the relevant PRC regulations, the subsidiaries which are established in the PRC are required to transfer 10% of their profits after tax, as determined under the PRC accounting regulations, to the statutory surplus reserve, until the balance of the reserve reaches 50% of their respective registered capital. Subject to certain restrictions as set out in the relevant PRC regulations, the statutory surplus reserve may be used to offset against accumulated losses of the respective subsidiaries.

29. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

Details of the Group's subsidiaries that have material non-controlling interests are set out below.

The information set out below represents the non-controlling interests in Kam Wing International Textile Company Limited ("Kam Wing") and its subsidiary, En Ping Kam Lap Textile and Dyeing Co. Ltd. ("En Ping KL").

	2015	2014
Percentage of equity interest held by non-controlling interests	23%	32%
	HK\$'000	HK\$'000
Profit for the year allocated to non-controlling interests	838	2,481
Other comprehensive expenses allocated to non-controlling interests	(1,282)	–
Dividends paid to non-controlling shareholders of Kam Wing	2,481	8,960
Accumulated balances of non-controlling interests at the reporting dates	31,129	47,146

NOTES TO FINANCIAL STATEMENTS

31 December 2015

29. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS (continued)

The following tables illustrate the summarised financial information of the above subsidiaries. The amounts disclosed are before any inter-company eliminations:

	2015 HK\$'000	2014 HK\$'000
Kam Wing and En Ping KL		
Revenue	412,756	482,332
Total expenses	(411,419)	(474,580)
Profit for the year	1,337	7,752
Other comprehensive expenses for the year	(4,008)	–
Total comprehensive income/(expenses) for the year	(2,671)	7,752
Current assets	356,441	300,786
Non-current assets	163,577	182,323
Current liabilities	(358,695)	(302,670)
Non-current liabilities	(19,579)	(28,272)
Net cash flows from operating activities	31,347	35,796
Net cash flows used in investing activities	(14,589)	(34,525)
Net cash flows from/(used in) financing activities	(20,791)	825
Effect of foreign exchange rate changes, net	(76)	–
Net increase/(decrease) in cash and cash equivalents	(4,109)	2,096

30. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Major non-cash transactions

- During the year, the Group entered into finance lease arrangements in respect of items of property, plant and equipment with a total capital value at the inception of the leases of HK\$19,967,000 (2014: Nil).
- During the year, deposits paid of HK\$10,838,000 (2014: HK\$14,420,000) were transferred to property, plant and equipment.
- During the year, the Group further acquired a 9% interest each in Kam Wing and En Ping KL from non-controlling interests at a total cash consideration of HK\$16,000,000 (2014: Nil), of which HK\$8,000,000 was not yet settled as at 31 December 2015 and included in “accrued liabilities and other payables” in the consolidated statement of financial position.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

31. CONTINGENT LIABILITIES

During the year ended 31 December 2013, one of the Group's subsidiaries in the PRC entered into an agreement (the "Sewage Agreement") with an independent third party (the "Owner"), pursuant to which the Group has the right to operate a government-owned sewage treatment plant in Panyu (the "Plant"), the PRC, for a period of 20 years from 1 May 2013 to 30 April 2033 under an operating lease arrangement (the "Plant Arrangement") (note 32(b)). According to the agreement, the Group has agreed to enhance the property, plant and equipment of the Plant within the first 10 years of the lease term for an amount of not less than RMB20 million (equivalent to HK\$25 million) (the "Asset Enhancement") (note 32(b)). The Asset Enhancement, being part of the payment by the Group in respect of the Plant Arrangement, is recognised as an expense on a straight-line basis over the lease terms of 20 years. The Group has also undertaken to indemnify the Owner for any shortfall in the net asset value of the Plant by the end of the lease terms (the "Indemnity"). The Group agreed to compensate the Owner for the difference between the net asset value of the Plant at inception of the lease terms and at the end of the lease terms. In the opinion of the directors, considering the uncertainties surrounding the operation performance of the Plant during the lease term, no reliable estimate could be made on the potential outflow of resources required to settle the obligation on the Indemnity. Accordingly, no provision regarding liabilities arising therefrom had been made by the Group in these financial statements as at 31 December 2015. Subsequent to the year end and on 1 March 2016, the Plant Arrangement was early terminated. Please refer to note 40 for details.

32. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its buildings under operating lease arrangements, with leases negotiated for terms ranging from two to ten years.

At 31 December 2015, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2015 HK\$'000	2014 HK\$'000
Within one year	410	434
In the second to fifth years, inclusive	472	523
	882	957

NOTES TO FINANCIAL STATEMENTS

31 December 2015

32. OPERATING LEASE ARRANGEMENTS (continued)

(b) As lessee

The Group leases certain properties and plant and machinery under operating lease arrangements, with leases negotiated for terms ranging from one to fifty years.

At 31 December 2015, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2015 HK\$'000	2014 HK\$'000
Within one year	8,965	8,693
In the second to fifth years, inclusive	26,044	24,839
After five years	56,103	64,109
	91,112	97,641

Included in the operating lease arrangements above is the Plant Arrangement with the Owner for the Plant as disclosed in note 31, of which HK\$2,082,000, HK\$8,393,000 and HK\$17,811,000 falling due within one year, in the second to fifth years, inclusive, and after five years, respectively (2014: HK\$2,134,000, HK\$8,572,000 and HK\$20,423,000 falling due within one year, in the second to fifth years, inclusive, and after five years, respectively).

In addition to the minimum operating lease payments for the Plant above, the Group has agreed to enhance the property, plant and equipment of the Plant within the first 10 years of the lease terms for an amount of not less than RMB20 million (equivalent to HK\$24 million) (2014: RMB20 million (equivalent to HK\$25 million)) (note 31).

33. COMMITMENTS

In addition to the operating lease commitments detailed in note 32(b) above, the Group had the following capital commitments as at the end of the reporting period:

	2015 HK\$'000	2014 HK\$'000
Contracted but not provided for:		
Purchases of machinery	41,043	26,200
Construction in progress	16,783	32,611
	57,826	58,811

NOTES TO FINANCIAL STATEMENTS

31 December 2015

33. COMMITMENTS (continued)

The Group had outstanding commitments amounting to HK\$492,731,000 (2014: HK\$596,475,000) as at the end of the reporting period in respect of the investments in subsidiaries.

At 31 December 2015, the Group had outstanding irrevocable letters of credit amounting to HK\$114,231,000 (2014: HK\$283,180,000).

34. RELATED PARTY TRANSACTIONS

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

	Notes	2015 HK\$'000	2014 HK\$'000
Rental expenses on office premises and staff quarters paid to Tai Chin Chun and Tai Chin Wen	(i)	582	834
Rental expenses on staff quarters and car park spaces paid to Cheung So Wan and Wong Siu Yuk	(ii)	412	225
Rental expenses on an office premise and two car park spaces paid to Chin Tai Wing	(iii)	304	456

Notes:

- (i) The Group entered into tenancy agreements with Mr. Tai Chin Chun and Mr. Tai Chin Wen, directors of the Company, for the rental of office premises and staff quarters at monthly rentals of HK\$45,000 (2014: HK\$45,000) and HK\$24,500 (2014: HK\$24,500), respectively, from 1 January 2014 for terms of two years, based on the terms mutually agreed by both parties. The tenancy agreements for the rental of an office premise at a monthly rental of HK\$18,000 and another office premise at a monthly rental of HK\$27,000 were early terminated effective from 31 July 2015 and 30 June 2015, respectively.
- (ii) The Group entered into tenancy agreements with Ms. Cheung So Wan and Ms. Wong Siu Yuk, directors of the Company, for the rental of (i) staff quarters at monthly rental of approximately HK\$18,636 (2014: HK\$18,750) for terms of three years, and (ii) car park spaces at monthly rentals of HK\$20,000 (2014: Nil) and HK\$8,000 (2014: Nil) from 1 June 2015 and 1 July 2015, respectively, for terms of two years, based on the terms mutually agreed by both parties.
- (iii) The Group entered into tenancy agreements with Mr. Chin Tai Wing, a key management personnel of the Group, for the rental of an office premise and two car park spaces at monthly rentals of HK\$38,000 (2014: HK\$38,000) from 1 January 2013 to 31 December 2015, based on the then prevailing market rentals. The tenancy agreements were early terminated effective from 31 August 2015.
- (b) The Group is still in the process of applying for the land use planning for construction work permit, construction project and planning permit, commencement of construction work permit in respect of a six-storey factory building, with a net book value of approximately HK\$2.1 million (2014: HK\$2.4 million) as at 31 December 2015.

Each of Mr. Tai Chin Chun and Mr. Tai Chin Wen, directors of the Company, together with their respective spouses, who are deemed as the shareholders of the Company under the Securities and Futures Ordinance, have given joint and several indemnities in favour of the Group in respect of the aforementioned buildings/structures.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

34. RELATED PARTY TRANSACTIONS (continued)

- (c) Outstanding balances with a related party:

Details of the Group's balances with its associate as at the end of the reporting period are disclosed in note 15 to the financial statements.

- (d) Compensation of key management personnel of the Group:

	2015 HK\$'000	2014 HK\$'000
Short-term employee benefits	27,623	29,709
Termination benefits	105	–
Post-employment benefits	195	232
	27,923	29,941

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

35. FINANCIAL INSTRUMENTS BY CATEGORY

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

2015

	Financial assets at fair value through profit or loss – held for trading HK\$'000	Loans and receivables HK\$'000	Total HK\$'000
Financial assets			
Accounts and bills receivable	–	816,609	816,609
Financial assets included in prepayments, deposits and other receivables	–	67,470	67,470
Equity investment at fair value through profit or loss	268	–	268
Pledged deposits	–	13,586	13,586
Cash and cash equivalents	–	517,573	517,573
	268	1,415,238	1,415,506

NOTES TO FINANCIAL STATEMENTS

31 December 2015

35. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

2015 (continued)

	Financial liabilities at fair value through profit or loss – held for trading HK\$'000	Financial liabilities at amortised cost HK\$'000	Total HK\$'000
Financial liabilities			
Accounts and bills payable	–	595,309	595,309
Financial liabilities included in accrued liabilities and other payables	–	81,129	81,129
Derivative financial instruments	1,218	–	1,218
Due to an associate	–	3,092	3,092
Interest-bearing bank and other borrowings	–	1,853,810	1,853,810
	1,218	2,533,340	2,534,558

2014

	Financial assets at fair value through profit or loss – held for trading HK\$'000	Loans and receivables HK\$'000	Total HK\$'000
Financial assets			
Accounts and bills receivable	–	821,046	821,046
Financial assets included in prepayments, deposits and other receivables	–	64,557	64,557
Equity investment at fair value through profit or loss	301	–	301
Pledged deposits	–	11,319	11,319
Cash and cash equivalents	–	487,283	487,283
	301	1,384,205	1,384,506

NOTES TO FINANCIAL STATEMENTS

31 December 2015

35. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

2014 (continued)

	Financial liabilities at fair value through profit or loss – held for trading HK\$'000	Financial liabilities at amortised cost HK\$'000	Total HK\$'000
Financial liabilities			
Accounts and bills payable	–	612,358	612,358
Financial liabilities included in accrued liabilities and other payables	–	56,085	56,085
Derivative financial instruments	3,569	–	3,569
Due to an associate	–	3,102	3,102
Interest-bearing bank and other borrowings	–	1,779,911	1,779,911
	3,569	2,451,456	2,455,025

36. TRANSFERS OF FINANCIAL ASSETS

Transferred financial assets that are not derecognised in their entirety

At 31 December 2015, the Group endorsed certain bank bills receivable in the PRC (the “Endorsed Bills”) with a carrying amount of RMB42,330,000 (equivalent to HK\$51,622,000) (2014: RMB23,043,000 (equivalent to HK\$28,804,000)) to certain suppliers in order to settle the accounts payable due to such suppliers (the “Endorsement”). In the opinion of the directors, the Group has retained the substantial risk and rewards, which include default risks relating to such Endorsed Bills, and accordingly, it continued to recognise the full carrying amounts of the Endorsed Bills and the associated accounts payable settled. Subsequent to the Endorsement, the Group did not retain any rights on the use of the Endorsed Bills, including the sale, transfer or pledge of the Endorsed Bills to any other third parties. The aggregate carrying amount of accounts payable settled by the Endorsed Bills during the year to which the suppliers have recourse was RMB42,330,000 (equivalent to HK\$51,622,000) (2014: RMB23,043,000 (equivalent to HK\$28,804,000)) as at 31 December 2015.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

36. TRANSFERS OF FINANCIAL ASSETS (continued)

Transferred financial assets that are derecognised in their entirety

At 31 December 2015, the Group endorsed certain bank bills receivable in the PRC (the “Derecognised Bills”) which were originally endorsed by its customers, to certain of its suppliers for settling the trade payables due to such suppliers with a carrying amount in aggregate of RMB12,663,000 (equivalent to HK\$15,443,000) (2014: RMB18,570,000 (equivalent to HK\$23,213,000)). The Derecognised Bills have a remaining maturity from one to five months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the “Continuing Involvement”). In the opinion of the directors of the Company, the Group has transferred substantially all risks and rewards related to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables. The maximum exposure to loss from the Group’s Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the directors of the Company, the fair values of the Group’s Continuing Involvement in the Derecognised Bills are not significant.

During the years ended 31 December 2015 and 31 December 2014, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively. The Endorsement has been made evenly throughout the years ended 31 December 2015 and 31 December 2014.

37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, accounts and bills receivable, accounts and bills payable, financial assets included in prepayments, deposits and other receivables, financial liabilities included in accrued liabilities and other payables, and an amount due to an associate approximate to their carrying amounts largely due to the short term maturities of these instruments.

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

The fair values of the non-current portion of other receivables and interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

The Group enters into derivative financial instruments with various counterparties, principally creditworthy financial institutions. Derivative financial instruments, including forward currency contracts, are measured using valuation techniques similar to forward pricing and swap models, using present value calculations. The models incorporate various market observable inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves. The carrying amounts of forward currency contracts are the same as their fair values.

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

Assets measured at fair value:

	Fair value measurement using		
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Total HK\$'000
<i>As at 31 December 2015</i>			
Equity investment at fair value through profit or loss	268	–	268
<i>As at 31 December 2014</i>			
Equity investment at fair value through profit or loss	301	–	301

Liabilities measured at fair value:

	Fair value measurement using		
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Total HK\$'000
<i>As at 31 December 2015</i>			
Derivative financial instruments	–	1,218	1,218
<i>As at 31 December 2014</i>			
Derivative financial instruments	–	3,569	3,569

NOTES TO FINANCIAL STATEMENTS

31 December 2015

37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

As at 31 December 2015, the Group had no financial instruments measured at fair value under Level 3.

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2014: Nil).

38. LITIGATION

Litigation with a previous subcontractor and its affiliated company

On 26 June 2013, a previous subcontractor of the Group (the “Subcontractor Plaintiff”) filed a claim to the PRC Court against the Guangzhou Municipal Land Resources and Housing Administrative Bureau (the “Bureau”) claiming that the Bureau performed invalid verification procedures when issuing a land and building certificate in respect of a parcel of land in Panyu (the “Land”) to the Group. The Land was previously owned by the Subcontractor Plaintiff and acquired by the Group pursuant to a sale and purchase agreement (the “Sale and Purchase Agreement”) entered into during the year ended 31 December 2011. The carrying value of the Land acquired from the Subcontractor Plaintiff and the leasehold improvements attached to the Land as at 31 December 2015 was approximately RMB23.5 million (equivalent to HK\$29 million) (2014: RMB24.8 million (equivalent to HK\$31 million)). The Subcontractor Plaintiff demanded the PRC Court to disregard the invalid verification procedures and cancel the land and building certificate. On 17 September 2013, a court hearing was held at the PRC Court and the PRC Court rejected all demands from the Subcontractor Plaintiff.

On 30 September 2013, the Subcontractor Plaintiff filed an appeal to the Intermediate People’s Court, Guangzhou. On 28 August 2015, the Intermediate People’s Court, Guangzhou ruled in favour of the Subcontractor Plaintiff, and ordered to overtake the court ruling by the PRC Court and cancel the land and building certificate issued by the Bureau to the Group. On 23 September 2015, the Group appealed (the “Appeal”) to the High People’s Court of Guangdong Province (the “High Court”). Moreover, on 21 September 2015, the Group filed a separate claim against Subcontractor Plaintiff to the PRC Court (the “Land Case”), demanding the Subcontractor Plaintiff to honour the Sale and Purchase Agreement to retransfer the title of the Properties (as defined in the paragraph below) to the Group.

On 21 September 2015, the Group applied to the PRC Court to sequester the buildings attached to the Land and the Land (the “Properties”) and provided certain of the buildings held by the Group with net carrying amounts of HK\$7.9 million (note 13) to the PRC Court as security. On 19 October 2015, the PRC Court ordered to sequester the Properties from 19 October 2015 to 18 October 2018 (the “Seal”). Based on the legal opinion given by the Group’s PRC legal counsel, the Seal prohibited the Subcontractor Plaintiff from taking further actions which may undermine the legal right of the Group over the Properties, including but not limit to the sale, transfer, lease or pledge of the Properties, or to utilise the Properties to obtain a guarantee from third parties, since the land and building certificate is still registered under the name of the Group. On 4 November 2015, the PRC Court ordered to hold the hearing of the Land Case on the grounds that the ruling of the Land Case is dependent on the result of another Court case between the Subcontractor Plaintiff and its affiliated company regarding the legitimacy of a board meeting held by the Subcontractor Plaintiff which approved the disposal of the Land to the Group (the “Subcontractor Plaintiff Case”).

NOTES TO FINANCIAL STATEMENTS

31 December 2015

38. LITIGATION (continued)

Litigation with a previous subcontractor and its affiliated company (continued)

On 1 December 2015, the High Court turned down the Appeal filed by the Group. However, on 21 December 2015, the Intermediate People's Court, Guangdong, concluded the Subcontractor Plaintiff Case and confirmed that the board approval was a valid approval from the legal perspective. Thereafter, the PRC Court resumed the Land Case and scheduled a hearing to be held on 31 March 2016.

On 28 October 2013, an affiliated company of the Subcontractor Plaintiff (the "Plaintiff") filed another claim against one of the Group's subsidiaries in the PRC (the "Subsidiary"), accusing the Subsidiary and the former directors of the Subcontractor Plaintiff of transferring the land and building certificate previously owned by the Subcontractor Plaintiff to the Subsidiary through unofficial and invalid procedures. Subsequently, the Plaintiff applied to the PRC Court to withdraw the claim against the Subsidiary, which was approved by the PRC Court on 20 January 2016.

Taking into account the latest ruling granted by the Intermediate People's Court, Guangzhou, on 21 December 2015, the facts and the merits of the legal ground substantiated at the Subcontractor Plaintiff Case, and the opinion given by the Group's PRC legal counsel, the directors of the Company consider that the PRC Court will likely order the Subcontractor Plaintiff to honour the Sale and Purchase Agreement and to retransfer the land and building certificate of the Land to the Group. Accordingly, no provision regarding liabilities arising therefrom had been made by the Group and the Group continued to recognise the Properties at their carrying amounts of RMB23.5 million (equivalent to HK\$29 million) (2014: RMB24.8 million (equivalent to HK\$31 million)) in these financial statements as at 31 December 2015.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise interest-bearing bank and other borrowings and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as accounts and bills receivable, other receivables, accounts and bills payable, accrued liabilities and other payables and an amount due to an associate, which arise directly from its operations.

The Group also enters into derivative transactions, including principally forward currency contracts. The purpose is to manage the currency risk arising from the Group's operations and its source of finance.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing bank borrowings with floating interest rates.

The Group regularly reviews and monitors the floating interest rate borrowings in order to manage its interest rate risk. The interest-bearing bank borrowings, cash and short term deposits are stated at amortised cost and not revalued on a periodic basis. Floating rate interest income and expenses are credited/charged to the statement of profit or loss as earned/incurred.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

	Increase in interest rate %	Decrease in the Group's profit before tax HK\$'000
2015	1	18,538
2014	1	17,799

Foreign currency risk

Foreign currency risk is the risk of losses due to adverse movements in foreign exchange rates relating to investments denominated in foreign currencies. The Group has transactional currency exposures. Such exposure arises as a substantial portion of sales and purchase transactions is conducted by the Group's subsidiaries in US\$ and RMB with the counterparties. As Hong Kong dollar is virtually pegged to US\$, the Group does not expect any significant movements in the US\$/Hong Kong dollar exchange rate in the foreseeable future. In order to minimise the impact of foreign exchange exposure on RMB denominated transactions, the Group has entered into forward currency contracts with creditworthy banks to manage its exchange rate exposure.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk (continued)

The Group's assets and liabilities are primarily denominated in Hong Kong dollars, US\$ and RMB.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the RMB exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/ (decrease) in RMB rate %	Increase/ (decrease) in the Group's profit before tax HK\$'000
2015		
If Hong Kong dollar weakens against RMB	3	292
If Hong Kong dollar strengthens against RMB	(3)	(292)
2014		
If Hong Kong dollar weakens against RMB	3	21,981
If Hong Kong dollar strengthens against RMB	(3)	(21,981)

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis.

Since the Group trades only with recognised and creditworthy third parties, there is generally no requirement for collateral.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, an equity investment at fair value through profit or loss, and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

The Group's credit risk exposure is spread over a number of counterparties and customers. Hence, it has no significant concentration of credit risk by a single debtor.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

The Group monitors its risk to a shortage of funds by considering the maturity of both its financial instruments and financial assets (e.g. accounts and bills receivable) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bills payable and interest-bearing bank and other borrowings to meet its working capital and capital expenditure requirements.

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

	2015		
	On demand or less than 12 months HK\$'000	1 to 5 years HK\$'000	Total HK\$'000
Accounts and bills payable	595,309	–	595,309
Financial liabilities included in accrued liabilities and other payables	81,129	–	81,129
Derivative financial instruments	1,218	–	1,218
Due to an associate	3,092	–	3,092
Interest-bearing bank and other borrowings*	710,452	1,159,567	1,870,019
	1,391,200	1,159,567	2,550,767

	2014		
	On demand or less than 12 months HK\$'000	1 to 5 years HK\$'000	Total HK\$'000
Accounts and bills payable	612,358	–	612,358
Financial liabilities included in accrued liabilities and other payables	56,085	–	56,085
Derivative financial instruments	3,569	–	3,569
Due to an associate	3,102	–	3,102
Interest-bearing bank and other borrowings*	957,375	833,288	1,790,663
	1,632,489	833,288	2,465,777

NOTES TO FINANCIAL STATEMENTS

31 December 2015

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

- * Included in interest-bearing bank and other borrowings are bank loans of HK\$33,394,000 (2014: HK\$52,660,000) and finance lease payables of HK\$1,936,000 (2014: HK\$5,285,000) containing a repayment on demand clause giving the lender the unconditional right to call the loan at any time and therefore, for the purpose of the above maturity profile, these amounts are classified as “on demand”.

Notwithstanding the above repayment on demand clause, the directors do not believe that the bank loans and finance lease payables will be called in their entirety within 12 months, and they consider that the bank loans and finance lease payables will be repaid in accordance with the maturity dates as set out in the respective agreements. This evaluation was made considering: the financial position of the Group at the date of approval of the financial statements; the Group's compliance with the loan covenants; the lack of events of default, and the fact that the Group has made all previously scheduled repayments on time. In accordance with the terms of the bank loans and finance lease payables, the maturity terms at 31 December 2015 are HK\$675,122,000 in 2016, HK\$341,375,000 in 2017, HK\$548,330,000 in 2018, HK\$290,346,000 in 2019, HK\$12,520,000 in 2020, and HK\$2,326,000 in 2021 (2014: HK\$899,430,000 in 2015, HK\$588,214,000 in 2016, HK\$271,064,000 in 2017, HK\$11,340,000 in 2018, and HK\$20,615,000 in 2019).

Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2015 and 31 December 2014.

The Group monitors capital using a gearing ratio, which is net debt divided by the total capital plus net debt. Net debt comprises all interest-bearing bank and other borrowings, an amount due to an associate, accounts and bills payable, and accrued liabilities and other payables less cash and cash equivalents. The total equity comprises ordinary equity holders' equity as stated in the consolidated statement of financial position.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management (continued)

The Group's strategy was to maintain the gearing ratio at a healthy capital level in order to support its business. The gearing ratios of the Group as at the end of the reporting periods were as follows:

	2015 HK\$'000	2014 HK\$'000
Interest-bearing bank and other borrowings	1,853,810	1,779,911
Accounts and bills payable	595,309	612,358
Accrued liabilities and other payables	203,573	165,034
Due to an associate	3,092	3,102
Less: Cash and cash equivalents	(517,573)	(487,283)
Net debt	2,138,211	2,073,122
Equity attributable to ordinary equity holders of the Company and total capital	1,991,490	2,026,038
Capital and net debt	4,129,701	4,099,160
Gearing ratio	51.8%	50.6%

40. EVENT AFTER THE REPORTING PERIOD

Subsequent to the year end, on 1 March 2016, the Group entered into an equity transfer agreement with the Owner to acquire a 100% equity interest in 廣州市番禺東涌工業污水處理有限公司, which owns the Plant and is principally engaged in sewage treatment. The purchase consideration of RMB40,801,500 (equivalent to approximately HK\$49,758,000) for the acquisition was to be settled in the form of cash and was paid on 14 March 2016.

On the same day, the Group entered into a supplemental agreement to the Sewage Agreement with the Owner, in which both parties agreed to early terminate the Sewage Agreement effective from 1 March 2016, and release the rights and obligation entitled by the Owner and the Group under the Sewage Agreement. Therefore, the Indemnity as specified in note 31 was released subsequent to year end.

Due to the timing of the transaction, the Group is still assessing the allocation of fair values of the assets acquired and liabilities assumed. The books and records of 廣州市番禺東涌工業污水處理有限公司 are under the assessment stage, and therefore the initial accounting for the business combination is under progress. Accordingly, certain disclosures in relation to the business combination as at the date of the acquisition have not been presented.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

	2015 HK\$'000	2014 HK\$'000
NON-CURRENT ASSETS		
Interests in subsidiaries	402,207	402,207
CURRENT ASSETS		
Prepayments	73	336
Due from a subsidiary	638,267	650,647
Cash and cash equivalents	4,740	4,313
Total current assets	643,080	655,296
CURRENT LIABILITIES		
Accrued liabilities and other payables	27	24
NET CURRENT ASSETS	643,053	655,272
TOTAL ASSETS LESS CURRENT LIABILITIES	1,045,260	1,057,479
Net assets	1,045,260	1,057,479
EQUITY		
Issued capital	86,992	86,992
Reserves (Note)	958,268	970,487
Total equity	1,045,260	1,057,479

NOTES TO FINANCIAL STATEMENTS

31 December 2015

41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

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

	Share premium account HK\$'000	Share option reserve HK\$'000	Capital reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2014	446,105	290	402,007	144,475	992,877
Final 2013 dividend declared and paid	–	–	–	(21,748)	(21,748)
Loss and total comprehensive expenses for the year	–	–	–	(642)	(642)
Transfer of share option reserve upon lapse of share options	–	(290)	–	290	–
At 31 December 2014 and 1 January 2015	446,105	–	402,007	122,375	970,487
Final 2014 dividend declared and paid	–	–	–	(11,309)	(11,309)
Loss and total comprehensive expenses for the year	–	–	–	(910)	(910)
At 31 December 2015	446,105	–	402,007	110,156	958,268

The capital reserve of the Company represents the excess of the then net assets of the subsidiaries acquired by the Company pursuant to the Group Reorganisation as disclosed in the annual report of the Company for the year ended 31 December 2004, over the nominal value of the share capital of the Company issued in exchange therefor and the then existing 1,000,000 shares of HK\$0.1 each credited as fully paid at par. Under the Companies Law of the Cayman Islands, the capital reserve may be distributable to the shareholders of the Company, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES

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

Name	Place of incorporation/ registration and operations	Issued ordinary share/ paid-up capital	Percentage of equity attributable to the Company		Principal activities
			2015	2014	
Directly held:					
Joint Result*	BVI/ Hong Kong	US\$10,000	100	100	Investment holding
Indirectly held:					
Highkeen Enterprises Limited*	BVI/ Hong Kong	US\$1,000	100	100	Investment holding
Kam Hing Textile (International) Limited ("KH Textile")	Hong Kong	Ordinary HK\$2 Non-voting deferred HK\$10,000,000 (Note (a))	100	100	Investment holding
Strong View International Limited ("Strong View")*	BVI/ Hong Kong	US\$400,000	65	65	Investment holding and provision of customer services

NOTES TO FINANCIAL STATEMENTS

31 December 2015

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

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

Name	Place of incorporation/ registration and operations	Issued ordinary share/ paid-up capital	Percentage of equity attributable to the Company		Principal activities
			2015	2014	
Indirectly held: (continued)					
Kam Wing (Note (b))	Hong Kong	HK\$107,500,000	77	68	Investment holding and trading of finished fabrics
Kwok Hing Garment Madagascar ("Kwok Hing Mada")* (Note (c))	Madagascar	Malagasy Ariary 100,000,000	—	100	Manufacture and trading of garment products
Jiangmen Yingxing Garment Limited ("Yingxing")*	PRC/ Mainland China	HK\$25,000,000 (Note (d))	100	100	Manufacture and trading of garment products
En Ping Kam Hing Textile and Dyeing Co. Ltd. ("En Ping KH")*	PRC/ Mainland China	US\$72,859,000 (2014: US\$69,025,000) (Note (e))	100	100	Manufacture and trading of knitted and dyed fabrics
En Ping KL*	PRC/ Mainland China	US\$20,000,000 (Note (b))	77	68	Manufacture and trading of knitted and dyed fabrics
Guangzhou Kam Sing Textile and Dyeing Co. Ltd. ("Kam Sing")* (Note (f))	PRC/ Mainland China	HK\$6,000,000	100	100	Manufacture and trading of knitted and dyed fabrics
Guangzhou Kamhing Textile Dyeing Co., Ltd. ("Guangzhou KH")*	PRC/ Mainland China	US\$163,818,000 (2014: US\$154,560,000) (Note (g))	100	100	Manufacture and trading of knitted and dyed fabrics
Sparkle Logistics Limited ("Sparkle")	Hong Kong	HK\$3,800,000	92	92	Provision of air and ocean freight services

NOTES TO FINANCIAL STATEMENTS

31 December 2015

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

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

Name	Place of incorporation/ registration and operations	Issued ordinary share/ paid-up capital	Percentage of equity attributable to the Company		Principal activities
			2015	2014	
Indirectly held: (continued)					
Guangzhou Kam Yam Garment Design Co. Ltd. ("Kam Yam")* (Note (h))	PRC/ Mainland China	HK\$400,000	100	100	Provision of knitting and dyeing services and trading of finished fabrics
Guangzhou Gong Zhan Plastic Products Limited ("Gong Zhan")* (Note (i))	PRC/ Mainland China	HK\$500,000	100	100	Manufacture and trading of plastic products
Kam Hing Textile Macao Commercial Offshore Company Limited	Macau	Pataca 100,000	100	100	Sourcing agent and trading of yarns and dyeing materials
Kam Hing Piece Works Limited ("KH Piece Works")	Hong Kong	Ordinary HK\$2 Non-voting deferred HK\$1,000,010 (Note (a))	100	100	Trading of finished fabrics
Kam Hing Global Garment Company Limited	Hong Kong	HK\$10,000,000	100	100	Trading of garment products

NOTES TO FINANCIAL STATEMENTS

31 December 2015

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

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

Name	Place of incorporation/ registration and operations	Issued ordinary share/ paid-up capital	Percentage of equity attributable to the Company		Principal activities
			2015	2014	
Indirectly held: (continued)					
錦興(中國)企業管理 有限公司 ("KH China")*	PRC/ Mainland China	US\$2,000,000 (Note (j))	100	100	Provision of corporate management, sales planning and consultancy services
Lunar Dragon Holdings Limited ("Lunar Dragon")*	Hong Kong	HK\$1 (Note (k))	100	100	Property holding

Notes:

- (a) The non-voting deferred shares do not entitle the holders thereof to receive notice of or to attend or vote at any general meeting of KH Textile and KH Piece Works. The holders of the non-voting deferred shares are not entitled to any dividends of KH Textile and KH Piece Works. On a winding-up, the holders of the non-voting deferred shares are entitled, out of the surplus assets of KH Textile and KH Piece Works, to a return of the capital paid up on the non-voting deferred shares held by them to one half of the balance after a total sum of HK\$100,000,000,000,000 has been distributed in such winding-up in respect of the ordinary shares of KH Textile and KH Piece Works.
- (b) En Ping KL is registered as a wholly-foreign-owned enterprise under the PRC law with an operating period of 20 years commencing from 8 June 2007. The registered capital of En Ping KL amounted to US\$34,000,000, of which US\$20,000,000 (2014: US\$20,000,000) was paid up as at 31 December 2015. The remaining unpaid capital contribution of US\$14,000,000 (2014: US\$14,000,000) (equivalent to approximately HK\$108,500,000 (2014: HK\$108,920,000)), was included as commitments at 31 December 2015 as disclosed in note 33 to the financial statements. During the year, the Group further acquired a 9% interest each in Kam Wing and En Ping KL from non-controlling interests at a total cash consideration of HK\$16,000,000 and the excess of the consideration over the share of net assets acquired from non-controlling interests amounting to HK\$2,733,000 was debited to other reserve and included in the equity.
- (c) During the year, the Group disposed of certain investment holding and dormant subsidiaries, including Kwok Hing Mada, to independent third parties at an aggregate consideration of HK\$15,000, and HK\$557,000 of exchange fluctuation reserve was released from the disposal of the subsidiaries and the resulting gain on disposal of subsidiaries of HK\$542,000 was recognised in the consolidated statement of profit or loss during the year.
- (d) Yingxing is registered as a wholly-foreign-owned enterprise under the PRC law with an operating period of 20 years commencing from 7 September 2010. The registered capital of Yingxing amounted to HK\$30,000,000 and the remaining unpaid capital contribution of HK\$5,000,000 (2014: HK\$5,000,000) was included as commitments at 31 December 2015 as disclosed in note 33 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Notes: (continued)

- (e) En Ping KH is registered as a wholly-foreign-owned enterprise under the PRC law with an operating period of 20 years commencing from 27 April 2005. The registered capital of En Ping KH amounted to US\$85,000,000, of which US\$72,859,000 (2014: US\$69,025,000) was paid up as at 31 December 2015. The remaining unpaid capital contribution of US\$12,141,000 (2014: US\$15,975,000) (equivalent to approximately HK\$94,093,000 (2014: HK\$124,286,000)) was included as commitments at 31 December 2015 as disclosed in note 33 to the financial statements.
- (f) Kam Sing is registered as a wholly-foreign-owned enterprise under the PRC law with an operating period of 20 years commencing from 2 January 2004.
- (g) Guangzhou KH is registered as a wholly-foreign-owned enterprise under the PRC law with an operating period of 25 years commencing from 26 March 1992. The registered capital of Guangzhou KH amounted to US\$192,610,000, of which US\$163,818,000 (2014: US\$154,560,000) was paid up as at 31 December 2015. The remaining unpaid capital contribution of US\$28,792,000 (2014: US\$38,050,000) (equivalent to approximately HK\$223,138,000 (2014: HK\$296,029,000)) was included as commitments at 31 December 2015 as disclosed in note 33 to the financial statements.
- (h) Kam Yam is registered as a wholly-foreign-owned enterprise under the PRC law with an operating period of 20 years commencing from 14 November 2007.
- (i) Gong Zhan is registered as a wholly-foreign-owned enterprise under the PRC law with an operating period of 20 years commencing from 28 July 2009.
- (j) KH China is registered as a wholly-foreign-owned enterprise under the PRC law with an operating period of 20 years commencing from 9 October 2013. The registered capital of KH China amounted to US\$10,000,000, of which US\$2,000,000 (2014: US\$2,000,000) was paid up as at 31 December 2015. The remaining unpaid capital contribution of US\$8,000,000 (2014: US\$8,000,000) (equivalent to approximately HK\$62,000,000 (2014: HK\$62,240,000)) was included as commitments at 31 December 2015 as disclosed in note 33 to the financial statements.
- (k) During the year ended 31 December 2014, the Group acquired from an independent third party a 100% equity interest in Lunar Dragon, which holds a property. The purchase consideration of the acquisition was HK\$71,060,000. The Group incurred transaction costs of HK\$535,000 for this acquisition and the transaction costs had been expensed and included in the consolidated statement of profit or loss during the year ended 31 December 2014.
- * The statutory financial statements of these subsidiaries are not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

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

43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 24 March 2016.

FIVE-YEAR FINANCIAL SUMMARY

31 December 2015

A summary of the published results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements, is set out below:

RESULTS

	Year ended 31 December				
	2015 HK\$'000	2014 HK\$'000	2013 HK\$'000	2012 HK\$'000	2011 HK\$'000
REVENUE	4,152,733	3,985,699	3,922,625	4,100,160	4,065,355
Profit before tax	85,625	106,772	123,538	122,322	154,584
Income tax expense	(24,510)	(24,255)	(19,821)	(12,936)	(27,352)
Profit for the year	61,115	82,517	103,717	109,386	127,232
Attributable to:					
Ordinary equity holders of the Company	58,256	81,055	91,699	100,884	114,587
Non-controlling interests	2,859	1,462	12,018	8,502	12,645
	61,115	82,517	103,717	109,386	127,232

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2015 HK\$'000	2014 HK\$'000	2013 HK\$'000	2012 HK\$'000	2011 HK\$'000
TOTAL ASSETS	4,704,382	4,667,254	4,449,956	4,128,565	4,328,869
TOTAL LIABILITIES	(2,679,678)	(2,593,558)	(2,428,018)	(2,164,451)	(2,434,540)
NON-CONTROLLING INTERESTS	(33,214)	(47,658)	(55,207)	(56,355)	(61,275)
	1,991,490	2,026,038	1,966,731	1,907,759	1,833,054