# FOREBASE INTERNATIONAL HOLDINGS LIMITED
# 申基國際控股有限公司

*(Formerly known as Kwang Sung Electronics H.K. Co. Limited 光星電子香港有限公司)*
*(Incorporated in Hong Kong with limited liability)*
**(Stock Code: 2310)**

## 2013 ANNUAL RESULTS ANNOUNCEMENT

The board of directors (the "Board") of Forebase International Holdings Limited (the "Company") announced the consolidated financial results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2013 as follows:

### CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*For the year ended 31 December 2013*

| | *Notes* | **2013** **HK$'000** | 2012 HK$'000 |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue | *3* | **298,722** | 363,553 |
| Cost of sales | | **(292,923)** | (339,539) |
| Gross profit | | **5,799** | 24,014 |
| Other income and gains | *5* | **4,643** | 8,649 |
| Selling and distribution expenses | | **(7,899)** | (9,345) |
| Administrative expenses | | **(25,622)** | (12,373) |
| Research and development expenses | | **(11,057)** | (14,593) |
| Other operating expenses | | **(14,019)** | (20,396) |
| Change in fair value of investment properties | | **(5,157)** | 4,292 |
| Finance costs | *6* | **(2,441)** | (44) |
| Loss before tax | | **(55,753)** | (19,796) |
| Income tax expense | *7* | **4,097** | (3,848) |
| Loss for the year from continuing operations | | **(51,656)** | (23,644) |
| **Discontinued operations** | | | |
| Loss for the year from discontinued operations | *8* | – | (30,461) |
| **Loss for the year** | *9* | **(51,656)** | (54,105) |

| | Notes | **2013** **HK$'000** | 2012 HK$'000 |
|---|---|---|---|
| **Other comprehensive income** | | | |
| *Items that will not be reclassified to profit or loss:* | | | |
| Actuarial gains on long service payment obligations | | **548** | – |
| Release of deferred tax upon disposal of investment properties | | **2,211** | – |
| | | **2,759** | – |
| *Items that may be reclassified subsequently to profit or loss:* | | | |
| Exchange differences arising on translation | | **2,194** | 9,123 |
| Other comprehensive income for the year | | **4,953** | 9,123 |
| Total comprehensive expense for the year | | **(46,703)** | (44,982) |
| Loss for the year attributable to owners of the Company | | | |
| – from continuing operations | | **(51,656)** | (23,644) |
| – from discontinued operations | | **–** | (28,695) |
| Loss for the year attributable to owners of the Company | | **(51,656)** | (52,339) |
| Loss for the year attributable to non-controlling interests | | | |
| – from continuing operations | | **–** | – |
| – from discontinued operations | | **–** | (1,766) |
| Loss for the year attributable to non-controlling interests | | **–** | (1,766) |
| | | **(51,656)** | (54,105) |
| Total comprehensive expense for the year attributable to: | | | |
| Owners of the Company | | **(46,703)** | (43,216) |
| Non-controlling interests | | **–** | (1,766) |
| | | **(46,703)** | (44,982) |
| **Loss per share** | *11* | ***HK cents*** | *HK cents* |
| **From continuing and discontinued operations** | | | |
| Basic and diluted | | **(15.95)** | (16.16) |
| **From continuing operations** | | | |
| Basic and diluted | | **(15.95)** | (7.30) |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 31 December 2013*

| | Notes | 2013<br>HK$'000 | 2012<br>HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | **136,259** | 23,112 |
| Investment properties | | **29,823** | 56,292 |
| Goodwill | | – | – |
| Club memberships | | **600** | 600 |
| Intangible asset | | – | – |
| Available-for-sale investments | | – | – |
| Deposits for purchase of property, plant and equipment | | – | 106 |
| | | **166,682** | 80,110 |
| **Current assets** | | | |
| Inventories | | **26,385** | 26,384 |
| Trade and other receivables | *12* | **77,437** | 65,478 |
| Restricted bank deposits | | **10,007** | 11,009 |
| Bank balances and cash | | **67,859** | 99,241 |
| | | **181,688** | 202,112 |
| **Current liabilities** | | | |
| Trade and other payables | *13* | **65,481** | 74,513 |
| Tax payables | | **5,239** | 10,757 |
| Bank borrowing – due within one year | | – | 19,548 |
| Obligations under finance lease | | **133** | – |
| | | **70,853** | 104,818 |
| **Net current assets** | | **110,835** | 97,294 |
| **Total assets less current liabilities** | | **277,517** | 177,404 |
| **Capital and reserves** | *14* | | |
| Share capital | | **32,390** | 32,390 |
| Reserves | | **87,677** | 134,380 |
| Equity attributable to owners of the Company and total equity | | **120,067** | 166,770 |
| **Non-current liabilities** | | | |
| Financial liabilities at fair value through profit or loss | | – | – |
| Deferred tax liabilities | *15* | **7,647** | 10,183 |
| Obligations under finance lease | | **444** | – |
| Amount due to ultimate holding company | | **16,565** | – |
| Amount due to a director | | **16,478** | – |
| Secured note | *16* | **116,316** | – |
| Long service payment obligations | | – | 451 |
| | | **157,450** | 10,634 |
| | | **277,517** | 177,404 |

*Notes:*

## 1. GENERAL

The Company was incorporated in Hong Kong with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of the registered office and principal place of business of the Company is Room 3805, 38/F, The Lee Gardens, 33 Hysan Avenue, Causeway Bay, Hong Kong.

On 27 September 2012, Mr. Yang Jai Sung ("Mr. Yang"), a then executive director and Kwang Sung Electronics Co., Ltd. ("Kwang Sung Korea") (as vendors) and Ultra Harvest Limited ("Ultra Harvest"), a company incorporated in the British Virgin Islands with limited liability, entered into an agreement (the "Share Sale Agreement") (as amended and supplemented by the supplemental agreement dated 16 October 2012) relating to the sale of an aggregate of 174,082,000 ordinary shares of HK$0.10 in the issued share capital of the Company (the "Shares") to Ultra Harvest, at a price of HK$0.9263 per Share. As conditions precedent to completion of the Share Sale Agreement, the Company was required, among other things, to carry out a group reorganisation (the "Group Reorganisation"), to effect a distribution in specie of shares in Jay Star Holdings Limited, a then wholly-owned subsidiary of the Company ("Jay Star" or the "Privateco") (the "Distribution In Specie"). The transactions contemplated under the Share Sale Agreement were approved by the independent shareholders of the Company at an extraordinary general meeting held on 5 December 2012. Upon satisfaction of other conditions, completion of the Share Sale Agreement took place on 11 December 2012.

Pursuant to the Group Reorganisation, the Company, among other things, reorganised its subsidiaries into two subgroups, the "Remaining Group" and the "Privateco Group".

The Remaining Group is principally engaged in the manufacturing and sale of electronic components to worldwide customers (except for those in the Republic of Korea ("Korea") and Japan) (the "Retained Businesses"). The Privateco Group is engaged in all businesses of the Group prior to the Group Reorganisation, other than the Retained Businesses (the "Distributed Businesses").

Upon completion of the Share Sale Agreement, Ultra Harvest became the controlling shareholder of the Company, holding 174,082,000 Shares, which represented approximately 53.75% of the issued share capital of the Company.

The Privateco Group having 323,896,932 Privateco shares was distributed as a special dividend to the shareholders of the Company on 11 December 2012, whose names appeared on the register of members of the Company on 10 December 2012 (the "Record Date Shareholders"), details of the Distribution In Specie are set out in note 17. As a result of the Group Reorganisation, the Retained Businesses were classified as continuing operations while the Distributed Businesses, being disposed of, were classified as discontinued operations, details of which are set out in note 8.

On 14 December 2012, Haitong International Securities Company Limited ("Haitong International Securities") on behalf of Ultra Harvest made an unconditional mandatory cash offer to acquire all the issued shares in the Company other than those shares already owned or agreed to be acquired by Ultra Harvest and parties acting in concert with any of it at a price of HK$0.9263 per Share (the "Listco Offer").

The Listco Offer was closed on 4 January 2013 with valid acceptances in respect of a total of 69,519,950 Shares, representing 21.46% of the total issued share capital of the Company. Upon completion of the Listco Offer, Ultra Harvest was interested in 243,601,950 shares of the Company, representing approximately 75.21% of the total issued share capital of the Company.

Pursuant to a special resolution at an extraordinary general meeting of the Company held on 25 February 2013, the name of the Company was changed from "Kwang Sung Electronics H.K. Co. Limited 光星電子香港有限公司" to "Forebase International Holdings Limited 申基國際控股有限公司". With effect from 12 March 2013, the Registrar of Companies in Hong Kong approved the change of the Company's name and issued the Certificate of Change of Name.

The Company is an investment holding company and the principal activities of its subsidiaries are the manufacture and sale of electronic components. Following the completion of the Distribution In Specie on 11 December 2012, the Group revisited its businesses activities based on the degree of importance and extended its principal activities to properties investment, i.e. the Group's investment properties portfolios in Hong Kong, Korea and the People's Republic of China (the "PRC"). In addition, upon the completion of the major acquisition of relevant assets pertaining to the operation of a resort on 20 November 2013, the Group further extended its principal activities to hotel operation.

In the opinion of the directors of the Company, Ultra Harvest is the ultimate holding company of the Company and Mr. Shen Yong, the Chairman of the Company, is the ultimate controlling party of the Company.

In prior years, the directors of the Company regarded Korean Won ("KRW") as the functional currency of the Company. Upon the disposal of major operations in Korea, whose functional currency is KRW, in December 2012, the directors of the Company considered that the primary economic environment has been substantially changed. Since then, the directors of the Company determined the change of functional currency of the Company from KRW to Hong Kong dollar ("HK$") starting from 1 January 2013.

The functional currencies for certain subsidiaries are Renminbi ("RMB"), Canadian dollar ("CAD") and KRW. For the purposes of presenting the financial statements, the Group adopted HK$ as its presentation currency as its shares are listed in Hong Kong.

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

The Group has applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") for the first time in the current year.

| | |
|---|---|
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2009 – 2011 Cycle |
| Amendments to HKFRS 7 | Disclosures – Offsetting Financial Assets and Financial Liabilities |
| Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 | Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance |
| HKFRS 10 | Consolidated Financial Statements |
| HKFRS 11 | Joint Arrangements |
| HKFRS 12 | Disclosure of Interests in Other Entities |
| HKFRS 13 | Fair Value Measurement |
| HKAS 19 (as revised in 2011) | Employee Benefits |
| HKAS 27 (as revised in 2011) | Separate Financial Statements |
| HKAS 28 (as revised in 2011) | Investments in Associates and Joint Ventures |
| Amendments to HKAS 1 | Presentation of Items of Other Comprehensive Income |
| HK(IFRIC)* – Interpretation ("Int") 20 | Stripping Costs in the Production Phase of a Surface Mine |

* HK(IFRIC) represents the Hong Kong (International Financial Reporting Interpretations Committee)

Except as described below, the application of the new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and position for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

***Amendments to HKFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities***

The Group has applied the amendments to HKFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities for the first time in the current year. The amendments to HKFRS 7 require entities to disclose information about:

a) recognised financial instruments that are set off in accordance with HKAS 32 Financial Instruments: Presentation; and

b) recognised financial instruments that are subject to an enforceable master netting agreement or similar agreement, irrespective of whether the financial instruments are set off in accordance with HKAS 32.

The amendments to HKFRS 7 have been applied retrospectively. As the Group does not have any offsetting arrangements or any master netting agreements in place, the application of the amendments has had no material impact on the disclosures or amounts reported in the Group's consolidated financial statements.

***New and revised standards on consolidation, joint arrangements, associates and disclosures***

In the current year, the Group has applied for the first time the package of five standards on consolidation, joint arrangements, associates and disclosures comprising HKFRS 10 Consolidated Financial Statements, HKFRS 11 Joint Arrangements, HKFRS 12 Disclosure of Interests in Other Entities, HKAS 27 (as revised in 2011) Separate Financial Statements and HKAS 28 (as revised in 2011) Investments in Associates and Joint Ventures, together with the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 regarding transitional guidance.

HKAS 27 (as revised in 2011) is not applicable to the Group as it deals only with separate financial statements.

The impact of the application of these standards is set out below.

***Impact of the application of HKFRS 10***

HKFRS 10 replaces the parts of HKAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements and HK(SIC) – Int 12 Consolidation – Special Purpose Entities. HKFRS 10 changes the definition of control such that an investor has control over an investee when a) it has power over the investee, b) it is exposed, or has rights, to variable returns from its involvement with the investee and c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in HKFRS 10 to explain when an investor has control over an investee.

As a result of the initial application of HKFRS 10, the directors of the Company made an assessment whether the Group has control over its investees at the date of initial application and concluded that the application of HKFRS 10 does not result in any change in control conclusions.

***Impact of the application of HKFRS 12***

HKFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the application of HKFRS 12 has resulted in more extensive disclosures in the consolidated financial statements.

***HKFRS 13 Fair Value Measurement***

The Group has applied HKFRS 13 for the first time in the current year. HKFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements. The scope of HKFRS 13 is broad: the fair value measurement requirements of HKFRS 13 apply to both financial instrument items and non financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of HKFRS 2 Share-based Payment, leasing transactions that are within the scope of HKAS 17 Leases, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

HKFRS 13 defines the fair value of an asset as the price that would be received to sell an asset (or paid to transfer a liability, in the case of determining the fair value of a liability) in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under HKFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, HKFRS 13 includes extensive disclosure requirements.

HKFRS 13 requires prospective application. In accordance with the transitional provisions of HKFRS 13, the Group has not made any new disclosures required by HKFRS 13 for the 2012 comparative period. Other than the additional disclosures, the application of HKFRS 13 has not had any material impact on the amounts recognised in the consolidated financial statements.

***Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income***

The Group has applied the amendments to HKAS 1 Presentation of Items of Other Comprehensive Income. Upon the adoption of the amendments to HKAS 1, the Group's 'statement of comprehensive income' is renamed as the 'statement of profit or loss and other comprehensive income'. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. Furthermore, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to HKAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

**HKAS 19 *Employee Benefits* (as revised in 2011)**

In the current year, the Group has applied HKAS 19 Employee Benefits (as revised in 2011) and the related consequential amendments for the first time.

HKAS 19 (as revised in 2011) changes the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of HKAS 19 and accelerate the recognition of past service costs. All actuarial gains and losses are recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of HKAS 19 are replaced with a 'net interest' amount under HKAS 19 (as revised in 2011), which is calculated by applying the discount rate to the net defined benefit liability or asset.

Specific transitional provisions are applicable to first-time application of HKAS 19 (as revised in 2011). The application of HKAS 19 (as revised in 2011) has not had any material impact on the amounts recognised in profit or loss and other comprehensive income in prior years. In addition, HKAS 19 (as revised in 2011) introduces certain changes in the presentation of the defined benefit cost including more extensive disclosures.

**New and revised HKFRSs issued but not yet effective**

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

| | |
|---|---|
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2010 – 2012 Cycle[2] |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2011 – 2013 Cycle[2] |
| HKFRS 9 | Financial Instruments[3] |
| HKFRS 14 | Regulatory Deferral Accounts[4] |
| Amendments to HKFRS 9 and HKFRS 7 | Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3] |
| Amendments to HKFRS 10, HKFRS 12 and HKAS 27 | Investment Entities[1] |
| Amendments to HKAS 19 | Defined Benefit Plans: Employee Contributions[2] |
| Amendments to HKAS 32 | Offsetting Financial Assets and Financial Liabilities[1] |
| Amendments to HKAS 36 | Recoverable Amount Disclosures for Non-Financial Assets[1] |
| Amendments to HKAS 39 | Novation of Derivatives and Continuation of Hedge Accounting[1] |
| HK(IFRIC) – Int 21 | Levies[1] |

1 Effective for annual periods beginning on or after 1 January 2014, with earlier application permitted.

2 Effective for annual periods beginning on or after 1 July 2014, except as disclosed below. Early application is permitted.

3 Available for application – the mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalised.

4 Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.

***Annual Improvements to HKFRSs 2010 – 2012 Cycle***

The Annual Improvements to HKFRSs 2010-2012 Cycle include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 2 (i) change the definitions of 'vesting condition' and 'market condition'; and (ii) add definitions for 'performance condition' and 'service condition' which were previously included within the definition of 'vesting condition'. The amendments to HKFRS 2 are effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

The amendments to HKFRS 3 clarify that contingent consideration that is classified as an asset or a liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial instrument within the scope of HKFRS 9 or HKAS 39 or a non-financial asset or liability. Changes in fair value (other than measurement period adjustments) should be recognised in profit and loss. The amendments to HKFRS 3 are effective for business combinations for which the acquisition date is on or after 1 July 2014.

The amendments to HKFRS 8 (i) require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have 'similar economic characteristics'; and (ii) clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segment assets are regularly provided to the chief operating decision-maker.

The amendments to the basis for conclusions of HKFRS 13 clarify that the issue of HKFRS 13 and consequential amendments to HKAS 39 and HKFRS 9 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial.

The amendments to HKAS 16 and HKAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

The amendments to HKAS 24 clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

The directors of the Company do not anticipate that the application of the amendments included in the Annual Improvements to HKFRSs 2010-2012 Cycle will have a material effect on the Group's consolidated financial statements.

***Annual Improvements to HKFRSs 2011 – 2013 Cycle***

The Annual Improvements to HKFRSs 2011-2013 Cycle include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

The amendments to HKFRS 13 clarify that the scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, HKAS 39 or HKFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within HKAS 32.

The amendments to HKAS 40 clarify that HKAS 40 and HKFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether:

(a) the property meets the definition of investment property in terms of HKAS 40; and

(b) the transaction meets the definition of a business combination under HKFRS 3.

The directors of the Company do not anticipate that the application of the amendments included in the Annual Improvements to HKFRSs 2011-2013 Cycle will have a material effect on the Group's consolidated financial statements.

***HKFRS 9 Financial Instruments***

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include the requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for hedge accounting that will allow entities to better reflect their risk management activities in the financial statements.

Key requirements of HKFRS 9 are described as follows:

- All recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The directors of the Company anticipate that the adoption of HKFRS 9 in the future may have a significant impact on the amounts reported in respect of the Group's financial assets and financial liabilities. Regarding the Group's financial assets, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

***Amendments to HKFRS 10, HKFRS 12 and HKAS 27 Investment Entities***

The amendments to HKFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its financial statements.

To qualify as an investment entity, a reporting entity is required to:

- obtain funds from one or more investors for the purpose of providing them with professional investment management services;
- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments have been made to HKFRS 12 and HKAS 27 to introduce new disclosure requirements for investment entities.

The directors of the Company do not anticipate that the investment entities amendments will have any effect on the Group's consolidated financial statements as the Company is not an investment entity.

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

The amendments to HKAS 19 clarify how an entity should account for contributions made by employees or third parties to defined benefit plans, based on whether those contributions are dependent on the number of years of service provided by the employee.

For contributions that are independent of the number of years of service, the entity may either recognise the contributions as a reduction in the service cost in the period in which the related service is rendered, or to attribute them to the employees' periods of service using the projected unit credit method; whereas for contributions that are dependent on the number of years of service, the entity is required to attribute them to the employees' periods of service.

The directors of the Company do not anticipate that the application of these amendments to HKAS 19 will have a significant impact on the Group's consolidated financial statements as the Group does not have any defined benefit plans.

***Amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities***

The amendments to HKAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'.

The directors of the Company do not anticipate that the application of these amendments to HKAS 32 will have a significant impact on the Group's consolidated financial statements as the Group does not have any financial assets and financial liabilities that qualify for offset.

***Amendments to HKAS 36 Recoverable Amount Disclosures for Non-Financial Assets***

The amendments to HKAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit ("CGU") to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements regarding the fair value hierarchy, key assumptions and valuation techniques used when the recoverable amount of an asset or CGU was determined based on its fair value less costs of disposal.

The directors of the Company do not anticipate that the application of these amendments to HKAS 36 will have a significant impact on the Group's consolidated financial statements.

***Amendments to HKAS 39 Novation of Derivatives and Continuation of Hedge Accounting***

The amendments to HKAS 39 provide relief from the requirement to discontinue hedge accounting when a derivative hedging instrument is novated under certain circumstances. The amendments also clarify that any change to the fair value of the derivative hedging instrument arising from the novation should be included in the assessment of hedge effectiveness.

The directors of the Company do not anticipate that the application of these amendments to HKAS 39 will have any effect on the Group's consolidated financial statements as the Group does not have any derivatives that are subject to novation.

***HK (IFRIC) – Int 21 Levies***

HK (IFRIC) – Int 21 Levies addresses the issue of when to recognise a liability to pay a levy. The Interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The Interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period.

The directors of the Company anticipate that the application of HK (IFRIC) – Int 21 will have no effect on the Group's consolidated financial statements as the Group does not have any levy arrangements.

## 3. REVENUE

Revenue represents the sales of goods to customers less goods returned and trade discounts, rental income under operating leases and service income from hotel operation.

## 4. SEGMENT INFORMATION

The Group is principally engaged in the manufacture and sale of electronic components, properties investment and hotel operation. The Group's reportable and operating segments, based on information reported to the chief executive officer, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on good or services provided are as follows:

(1) Composite components segment

Sales and manufacture of electronic components for electronic appliances and communication equipment.

(2) Unit electronic components segment

Sales and manufacture of electronic components for electronic appliances and communication equipment.

(3) Properties investment segment

Leasing office premises to generate rental income.

(4) Hotel operation segment

Operation of a resort in Canada.

No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

During the year ended 31 December 2013, the Group has a new reportable segment, hotel operation upon the completion of major acquisition of certain assets pertaining to the operation of a resort located in Victoria, British Columbia, Canada.

**Segment revenue and results**

The following is an analysis of the Group's revenue and results by reportable and operating segments:

**Year ended 31 December 2013**

| | **Composite components** *HK$'000* | **Unit electronic components** *HK$'000* | **Properties investment** *HK$'000* | **Hotel operation** *HK$'000* | **Total** *HK$'000* |
|---|---|---|---|---|---|
| Revenue | **145,750** | **146,934** | **1,662** | **4,376** | **298,722** |
| Segment loss | **(11,864)** | **(17,985)** | **(6,656)** | **(875)** | **(37,380)** |
| Unallocated operating income | | | | | **4,643** |
| Unallocated operating expenses | | | | | **(20,575)** |
| Finance costs | | | | | **(2,441)** |
| Loss before tax | | | | | **(55,753)** |

Year ended 31 December 2012

| | Continuing operations | | | | Discontinued operations | Eliminations | Total |
|---|---|---|---|---|---|---|---|
| | Composite components *HK$'000* | Unit electronic components *HK$'000* | Properties investment *HK$'000* | Total *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Revenue | 199,257 | 162,218 | 2,078 | 363,553 | 169,240 | (57,619) | 475,174 |
| Segment (loss) profit | (16,941) | (17,302) | 6,221 | (28,022) | (31,676) | – | (59,698) |
| Unallocated operating income | | | | 8,649 | 285 | | 8,934 |
| Unallocated operating expenses | | | | (379) | – | | (379) |
| Finance costs | | | | (44) | – | | (44) |
| Loss before tax | | | | (19,796) | (31,391) | | (51,187) |

The accounting policies of the reportable segments are the same as the Group's accounting policies. Segment (loss) profit represents the (loss from) profit earned by each segment without allocation of other income, certain other operating expenses and finance costs. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

**Segment assets and liabilities**

For the purposes of monitoring segment performances and allocating resources between segments for the years ended 31 December 2013 and 31 December 2012:

- all assets are allocated to reportable segments other than cash and cash equivalents, intangible asset, goodwill and part of other receivables. Assets used jointly by reportable segments are allocated on the basis of the production capacity; and

- all liabilities are allocated to reportable segments other than part of other payables, amount due to ultimate holding company, amount due to a director, secured note, bank borrowing, deferred tax liabilities and obligations under finance lease.

The following is an analysis of the Group's assets and liabilities by reportable segments:

**Year ended 31 December 2013**

| | Composite components | Unit electronic components | Properties investment | Hotel operation | Consolidated |
|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Segment assets | **57,785** | **52,696** | **29,843** | **115,975** | **256,299** |
| Unallocated assets | | | | | |
| – Restricted bank deposits | | | | | **10,007** |
| – Bank balances and cash | | | | | **67,859** |
| Others | | | | | **14,205** |
| **Consolidated assets** | | | | | **348,370** |
| Segment liabilities | **27,064** | **27,284** | **74** | **7,832** | **62,254** |
| Unallocated liabilities | | | | | |
| – Others | | | | | **166,049** |
| **Consolidated liabilities** | | | | | **228,303** |

Year ended 31 December 2012

| | Composite components *HK$'000* | Unit electronic components *HK$'000* | Properties investment *HK$'000* | Consolidated *HK$'000* |
|---|---|---|---|---|
| Segment assets | 65,447 | 39,439 | 56,311 | 161,197 |
| Unallocated assets | | | | |
| – Restricted bank deposits | | | | 11,009 |
| – Bank balances and cash | | | | 99,241 |
| Others | | | | 10,775 |
| **Consolidated assets** | | | | 282,222 |
| Segment liabilities | 21,296 | 25,675 | 70 | 47,041 |
| Unallocated liabilities | | | | |
| – Bank borrowing | | | | 19,548 |
| – Others | | | | 48,863 |
| **Consolidated liabilities** | | | | 115,452 |

**Other segment information**

Amount included in the measure of segment profit or loss or segment assets:

**Year ended 31 December 2013**

| | **Composite components** ***HK$'000*** | **Unit electronic components** ***HK$'000*** | **Properties investment** ***HK$'000*** | **Hotel operation** ***HK$'000*** | **Unallocated** ***HK$'000*** | **Total** ***HK$'000*** |
|---|---|---|---|---|---|---|
| Additions to non-current assets | 3,212 | 3,234 | – | 114,420 | 1,741 | 122,607 |
| Depreciation and amortisation | 4,241 | 4,275 | – | 346 | 459 | 9,321 |
| Gain on disposal of property, plant and equipment | – | – | – | – | (50) | (50) |
| Change in fair value of investment properties | – | – | 5,157 | – | – | 5,157 |
| Loss on disposal of investment properties | – | – | 2,956 | – | – | 2,956 |
| Impairment loss recognised on land and buildings held for own use | – | – | – | 873 | – | 873 |
| Impairment loss recognised on trade and other receivables | 35 | 36 | – | – | – | 71 |
| Reversal of impairment loss recognised on trade and other receivables | (158) | (159) | – | – | – | (317) |
| Reversal of allowance for inventories | (1,063) | (1,071) | – | – | – | (2,134) |

Year ended 31 December 2012

| | Continuing operations | | | | | Discontinued operations | Total |
|---|---|---|---|---|---|---|---|
| | Composite components *HK$'000* | Unit electronic components *HK$'000* | Properties investment *HK$'000* | Unallocated *HK$'000* | Total *HK$'000* | *HK$'000* | *HK$'000* |
| Additions to non-current assets | 2,739 | 2,241 | – | – | 4,980 | 36,227 | 41,207 |
| Depreciation and amortisation | 4,817 | 3,941 | – | – | 8,758 | 5,976 | 14,734 |
| Gain on disposal of property, plant and equipment | (166) | – | – | – | (166) | – | (166) |
| Change in fair value of investment properties | – | – | (4,292) | – | (4,292) | – | (4,292) |
| Impairment loss recognised on land and buildings held for own use | – | – | – | – | – | 2,178 | 2,178 |
| Impairment loss recognised on intangible asset | – | – | – | – | – | 5,929 | 5,929 |
| Impairment loss recognised on trade and other receivables | 751 | 614 | – | – | 1,365 | – | 1,365 |
| Reversal of impairment loss recognised on trade and other receivables | (78) | (64) | – | – | (142) | – | (142) |
| Allowance for inventories | 469 | 1,513 | – | – | 1,982 | 3,473 | 5,455 |
| Decrease in fair value of financial liabilities at fair value through profit or loss | – | – | – | (5,908) | (5,908) | – | (5,908) |

*Note:* Non-current assets excluded goodwill, intangible assets and deposits for purchase of property, plant and equipment.

**Geographical information**

The Group's operations are principally located in Hong Kong, Korea, Canada and other parts of the PRC.

The Group's revenue from continuing operations from external customers and information about its non-current assets by geographical location of the assets excluding those relating to discontinued operations are detailed below:

| | **Revenue** | | **Non-current assets** | |
|---|---|---|---|---|
| | **2013** **HK$'000** | 2012 *HK$'000* | **2013** **HK$'000** | 2012 *HK$'000* |
| PRC (other than Hong Kong) | **109,820** | 126,053 | **41,070** | 48,238 |
| Hong Kong | **79,636** | 153,865 | **12,366** | 9,800 |
| Korea | **88,312** | 31,296 | **–** | 22,072 |
| Canada | **4,375** | – | **113,246** | – |
| Others | **16,579** | 52,339 | **–** | – |
| | **298,722** | 363,553 | **166,682** | 80,110 |

**Information about major customers**

Revenue from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

| | 2013<br>*HK$'000* | 2012<br>*HK$'000* |
|---|---|---|
| Customer A[1] | **64,373** | N/A[2] |
| Customer B[1] | **32,333** | N/A[2] |
| Customer C[1] | **N/A[2]** | 22,049 |

1 Revenue from composite components segment and unit electronic components segment.

2 The corresponding revenue did not contribute 10% of the total sales of the Group.

## 5. OTHER INCOME AND GAINS

| | 2013<br>*HK$'000* | 2012<br>*HK$'000* |
|---|---|---|
| Continuing operations | | |
| Interest income from bank deposits | **636** | 135 |
| Other interest income | **–** | 19 |
| Gain on disposal of property, plant and equipment | **50** | 166 |
| Scrap sales | **389** | 369 |
| Decrease in fair value of financial liabilities at fair value through profit or loss | **–** | 5,908 |
| Gain arising from initial recognition of amount due to ultimate holding company at fair value | **1,287** | – |
| Gain arising from initial recognition of amount due to a director at fair value | **1,281** | – |
| Reversal of impairment loss recognised on trade and other receivables | **317** | 142 |
| Freight charge charged to customers | **–** | 663 |
| Others | **683** | 1,247 |
| | **4,643** | 8,649 |

## 6. FINANCE COSTS

| | 2013<br>*HK$'000* | 2012<br>*HK$'000* |
|---|---|---|
| Continuing operations | | |
| Interest charges on: | | |
| Finance lease | **35** | – |
| Interest on secured note | **1,679** | – |
| Bank loans wholly repayable within five years | **727** | 651 |
| | **2,441** | 651 |
| Less: amounts capitalised | **–** | (607) |
| | **2,441** | 44 |

## 7. INCOME TAX EXPENSE

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Continuing operations | | |
| **Hong Kong Profits Tax** | | |
| Provision for the year | – | – |
| Over-provision in prior years | **(5,879)** | (149) |
| | **(5,879)** | (149) |
| **PRC Enterprise Income Tax** | | |
| Provision for the year | **2,107** | 2,736 |
| Under-provision in prior years | – | 1,332 |
| | **2,107** | 4,068 |
| **Deferred tax** *(Note 15)* | | |
| Credited for the year | **(325)** | (71) |
| | **(4,097)** | 3,848 |

*Notes:*

(a) For the years ended 31 December 2013 and 31 December 2012, no Hong Kong Profits Tax has been provided in the financial statements as the Group has no assessable profits for both years. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for both years.

Provisions for the PRC Enterprise Income Tax for Shenzhen Kwang Sung Electronics Co., Ltd. ("Shenzhen Kwang Sung") and Kwang Sung Electronics Trading (Shenzhen) Co., Ltd. are calculated at 25% (2012: 25%) and 25% (2012: 25%) of the estimated assessable profits for the year respectively.

The Korea Branch operated in Korea are subject to Korean Corporate Income Tax. The basic Korean Corporate Tax rates for the years ended 31 December 2013 and 31 December 2012 are 11% on the first KRW200,000,000 of the tax base and 22% for the excess. In addition to the basic tax rate, there is a resident surcharge of 10% on the income tax liability. No provision for taxation has been made as there is no assessable profit for the years ended 31 December 2013 and 31 December 2012.

Canadian Corporate Tax is calculated at Federal tax rate of 15% and British Columbia provincial tax rate of 11% on the estimated assessable profits for the period since commencement of hotel operation. No provision for taxation has been made as there is no assessable profit for the period since commencement of hotel operation.

(b) The Group carries out manufacturing activities in the PRC through its subsidiary, Shenzhen Kwang Sung and under the terms of a processing agreement with a third party factory, and has substantial involvement in these manufacturing activities undertaken in the PRC. The profits earned are thus considered to be partly arising and derived from the manufacturing activities carried out in the PRC and partly from other activities performed in Hong Kong. Accordingly, the Group claimed a 50:50 offshore concession in respect of Hong Kong Profits Tax which had been agreed with the Hong Kong Inland Revenue Department (the "HKIRD") in the year of assessment 1999/2000.

In 2008, the HKIRD enquired the Group the basis of its 50:50 offshore claims for the years of assessment 2001/02 to 2006/07 in relation to the Group's manufacturing activities carried out in the PRC, and issued an additional assessment of approximately HK$3,318,000 for the year of assessment 2001/02 on the basis that the Group was not eligible to the 50:50 offshore claims for profits derived from manufacturing activities carried out by Shenzhen Kwang Sung. The Company lodged an objection against the additional assessment and purchased a tax reserve certificate of approximately HK$3,318,000 as demanded by the HKIRD in 2008.

In March 2009, the HKIRD issued another demand note for additional tax payable for the year of assessment 2002/03 amounted to approximately HK$6,423,000 in relation to the above 50:50 offshore claims. The Company lodged an objection against the additional assessment and purchased a tax reserve certificate of approximately HK$6,423,000 as demanded by the HKIRD in the year ended 31 December 2009.

In March 2010, the HKIRD issued another demand note for additional tax payable for the year of assessment 2003/04 amounted to approximately HK$9,334,000 in relation to the above 50:50 offshore claims. The Company lodged an objection against the additional assessment and purchased a tax reserve certificate of approximately HK$9,334,000 as demanded by the HKIRD in the year ended 31 December 2010.

In March 2011, the HKIRD issued another demand note for additional tax payable for the year of assessment 2004/05 amounted to approximately HK$4,305,000 in relation to the above 50:50 offshore claims. The Company lodged an objection against the additional assessment and purchased a tax reserve certificate of approximately HK$4,305,000 as demanded by the HKIRD in the year ended 31 December 2011.

The Group's operation has remained unchanged since 1999/2000, in view of the stringent approach adopted by the HKIRD in treating 50:50 manufacturing offshore profits claim, the Group had made provision for the previously 50:50 offshore claims of approximately HK$35,996,000 during the year ended 31 December 2009. In February 2012, HKIRD and the Company have reached a compromise settlement in relation to the Company's taxation affairs for the years of assessment 2001/02 to 2007/08 (the "Period"). Based on revised notices of assessment and letters received from HKIRD, net Profits Tax payable for the Period has been revised to approximately HK$24,239,000. As the Company had made provision for Hong Kong Profits Tax of approximately HK$33,891,000 for the Period, the excessive tax provision of approximately HK$9,652,000 made in prior years had been reversed in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2011.

On 30 December 2011, the tax representative of the Group sent a compromising letter to the HKIRD for the settlement of the above tax demand notes. The HKIRD agreed to the compromise and issued tax returns to the Group in February 2012. In 2012, the tax reserve certificates of approximately HK$23,380,000 included in other receivables had been fully utilised to settle the above mentioned tax payables.

Pursuant to a Deed of Indemnity dated 23 June 2003, two former shareholders, Mr. Yang and Kwang Sung Korea would indemnify the Group for any tax liabilities for period prior to 30 June 2003. Out of the above tax liabilities of approximately HK$24,239,000, a sum of tax expenses of approximately HK$8,478,000 should be therefore borne by the two former shareholders. The amount was recognised in prior years.

Subsequent to the year ended 31 December 2013, the Company has received revised notices of assessment from HKIRD, for the three years of assessment 2008/09 to 2010/11. Based on revised notices of assessment, net Profits Tax payable has been revised to approximately HK$3,084,000. As the Company had made provision for Hong Kong Profits Tax of approximately HK$8,963,000 for the Period, the excessive tax provision of approximately HK$5,879,000 made in prior years had been reversed in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2013.

In 2012, the Group made advanced pricing arrangement with Shenzhen Local Tax Bureau concerning Shenzhen Kwang Sung's transactions with group companies. During the process, the Shenzhen Local Tax Bureau demanded additional tax in respect of transfer pricing adjustment for prior years. Under-provision of approximately HK$1,332,000 has been made for the three years ended 31 December 2009, 2010 and 2011. The amount was fully settled during the year ended 31 December 2012.

The tax charge for the year can be reconciled to the loss before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

| | **2013**<br>***HK$'000*** | 2012<br>*HK$'000* |
|---|---|---|
| Loss before tax from continuing operations | **(55,753)** | (19,796) |
| Notional tax on loss before tax, calculated at the rates applicable to profit in the tax jurisdictions concerned | **(8,179)** | (4,076) |
| Tax effect of expenses not deductible for tax purpose | **11,602** | 5,238 |
| Tax effect of income not taxable for tax purpose | **(5,753)** | (1,864) |
| Tax effect of tax losses and other temporary differences not recognised | **4,112** | 3,367 |
| (Over) under-provision in respect of prior years | **(5,879)** | 1,183 |
| Income tax expense for the year (relating to continuing operations) | **(4,097)** | 3,848 |

Details of the deferred taxation are set out in note 15.

## 8. DISCONTINUED OPERATIONS

During the year ended 31 December 2012, the Group paid a special dividend by way of Distribution In Specie of shares in a subsidiary, Jay Star, in which its subsidiaries carried out the composite components and unit electronic components operations. This resulted in the Group disposing of a separate major geographical area of operations in Korea, as the result from composite components and unit electronic components operations in Korea of the Group for the years ended 31 December 2012 and 31 December 2011 are only contributed by the subsidiaries of Jay Star.

The Privateco Group was distributed to the Record Date Shareholders on 11 December 2012. Thereafter, the Group is principally engaged in the Retained Businesses and the businesses operated by the Privateco Group (i.e. Distributed Business) have been classified as discontinued operations.

The loss for the year/period from the discontinued operations is analysed as follows:

| | **Year ended<br>31/12/2013**<br>***HK$'000*** | 1/1/2012-<br>11/12/2012<br>*HK$'000* |
|---|---|---|
| Loss of the composite components and unit electronic components operations of Jay Star Group for the year/period | **–** | (30,461) |

The results of the Jay Star Group for the period from 1 January 2012 to 11 December 2012, which have been included in the consolidated statement of profit or loss and other comprehensive income, were as follows:

| | **Year ended 31/12/2013** ***HK$'000*** | 1/1/2012- 11/12/2012 *HK$'000* |
|---|---|---|
| Revenue | – | 169,240 |
| Cost of sales | – | (155,223) |
| Gross profit | – | 14,017 |
| Other income | – | 15,165 |
| Selling and distribution expenses | – | (7,175) |
| Administrative expenses | – | (20,492) |
| Research and development expenses | – | (22,231) |
| Other operating expenses | – | (10,675) |
| Loss before tax | – | (31,391) |
| Income tax credit | – | 930 |
| Loss for the year/period | – | (30,461) |

Loss for the year/period from discontinued operations include the following:

| | **Year ended 31/12/2013** *HK$'000* | 1/1/2012- 11/12/2012 *HK$'000* |
|---|---|---|
| Interest income from bank deposits | – | (11) |
| Other interest income | – | (6) |
| Auditor's remuneration | – | 107 |
| Minimum lease payments under operating leases | | |
| – hire of properties | – | 1,028 |
| Staff costs (including directors' remuneration) | | |
| – salaries, wages, allowances and other benefits in kind | – | 31,587 |
| – retirement scheme contributions | – | 2,693 |
| | – | 34,280 |
| Cost of inventories recognised as an expense | – | 113,010 |
| Amortisation of intangible asset | – | 1,095 |
| Impairment loss recognised on intangible asset (included in other operating expenses) | – | 5,929 |
| Impairment loss recognised on land and buildings for own use (included in other operating expenses) | – | 2,178 |
| Net foreign exchange losses | – | 614 |
| Allowance for inventories (included in cost of sales) | – | 3,473 |
| Depreciation | – | 4,942 |
| Less: amount recorded under government grant | – | (61) |
| Amount charged to the consolidated statement of profit or loss and other comprehensive income | – | 4,881 |
| Interest charges on: | | |
| Bank loans wholly repayable within five years | – | 2,302 |
| Less: amounts capitalised | – | (2,302) |
| | – | – |

During the year ended 31 December 2012, Jay Star Group contributed approximately HK$39,801,000 outflows (2013: nil) to the Group's net operating cash flows, approximately HK$33,908,000 outflows (2013: nil) in respect of investing activities and approximately HK$65,529,000 inflows (2013: nil) in respect of financing activities.

The carrying amounts of the assets and liabilities of Jay Star Group at the date of the Distribution In Specie are disclosed in note 17.

## 9. LOSS FOR THE YEAR

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Loss for the year from continuing operations has been arrived at after charging (crediting): | | |
| Auditor's remuneration | **515** | 615 |
| Minimum lease payments for rented premises under operating leases | **7,206** | 3,375 |
| Gross rental income less outgoing of HK$130,000 (2012: HK$149,000) | **(1,532)** | (1,929) |
| Staff costs (including directors' remuneration) | | |
| – salaries, wages, allowances, long service payment and other benefits in kind | **73,658** | 52,461 |
| – retirement scheme contributions | **2,536** | 1,939 |
| | **76,194** | 54,400 |
| Cost of inventories recognised as an expense | **174,697** | 228,330 |
| Loss on disposal of investment properties | **2,956** | – |
| Impairment loss recognised on trade and other receivables (included in other operating expenses) | **71** | 1,365 |
| Impairment loss recognised on property, plant and equipment | **873** | 2,178 |
| Net foreign exchange losses | **2,086** | 1,730 |
| Allowance for inventories (included in cost of sales) | **–** | 1,982 |
| Reversal of allowance of inventories (included in cost of sales) | **(2,134)** | – |
| Depreciation | **9,321** | 8,758 |

Minimum lease payments include an amount of approximately HK$1,459,000 (2012: HK$1,739,000) for staff quarters which is also included and disclosed in staff costs.

## 10. DIVIDENDS

No dividend was paid or proposed during the year ended 31 December 2013, nor has any dividend been proposed since the end of the reporting period.

During the year ended 31 December 2012, pursuant to the approval by the shareholders of the Company at the extraordinary general meeting held on 5 December 2012, a special dividend by way of the Distribution In Specie of Jay Star Group was distributed to the shareholders of the Company, amounted to HK$111,773,000. Details of the assets and liabilities distributed are set out in note 17.

Except for the above, no dividend was paid or proposed during the year ended 31 December 2012, nor has any dividend been proposed since the end of the reporting period.

## 11. LOSS PER SHARE

From continuing and discontinued operations

The calculation of the basic and diluted loss per share attributable to owners of the Company is based on the following data:

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Loss** | | |
| Loss for the purpose of basic and diluted loss per share | | |
| Loss for the year attributable to owners of the Company | **51,656** | 52,339 |
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purpose of basic and diluted loss per share | **323,896,933** | 323,896,933 |

The diluted loss per share is the same as basic loss per share as the Company has no dilutive potential shares outstanding for both years.

From continuing operations

The calculation of the basic and diluted loss per share from continuing operations attributable to the owners of the Company is based on the following data:

**Loss figures are calculated as follows:**

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Loss for the year attributable to owners of the Company | **51,656** | 52,339 |
| Less: Loss for the year from discontinued operations | – | (28,695) |
| Loss for the purpose of basic and diluted loss per share from continuing operations | **51,656** | 23,644 |

The denominators used are the same as those detailed above for both basic and diluted earnings per share.

From discontinued operations

Basic and diluted loss per share for the discontinued operation was HK8.86 cents (2013: nil) per share for the year ended 31 December 2012, based on the loss for the year from the discontinued operations of approximately HK$28,695,000 (2013: nil).

The denominators used are the same as those detailed above for both basic and diluted loss per share.

## 12. TRADE AND OTHER RECEIVABLES

| | 2013<br>*HK$'000* | 2012<br>*HK$'000* |
|---|---|---|
| Trade receivables | **62,332** | 66,479 |
| Less: impairment loss recognised | **(10,960)** | (11,194) |
| | **51,372** | 55,285 |
| Deposits and other receivables | **19,275** | 8,094 |
| Prepayments | **6,790** | 2,099 |
| Total trade and other receivables | **77,437** | 65,478 |

### (a) Ageing analysis

The Group does not hold any collateral or other credit enhancements over its trade receivables.

The Group allows an average credit period of 30 to 90 days to its trade customers. The following is an aged analysis of trade receivables net of impairment loss presented based on the date of delivery of goods or date of rendering of services which approximated the respective dates on which revenue was recognised.

| | 2013<br>*HK$'000* | 2012<br>*HK$'000* |
|---|---|---|
| Within 90 days | **50,054** | 52,961 |
| 91 to 180 days | **1,318** | 2,103 |
| 181 to 365 days | **–** | 221 |
| | **51,372** | 55,285 |

### (b) Impairment loss on trade receivables

Impairment loss in respect of trade receivables recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly.

At 31 December 2013, the Group's trade receivables of approximately HK$10,960,000 (2012: HK$11,194,000) were individually determined to be impaired.

The movements in impairment loss recognised during the year are as follows:

| | 2013<br>*HK$'000* | 2012<br>*HK$'000* |
|---|---|---|
| At 1 January | **11,194** | 10,000 |
| Exchange adjustments | **12** | (29) |
| Impairment loss recognised | **71** | 1,365 |
| Reversal of impairment loss | **(317)** | (142) |
| At 31 December | **10,960** | 11,194 |

## 13. TRADE AND OTHER PAYABLES

| | 2013 | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade payables | **42,937** | 46,322 |
| Accrued expenses and other payables | **22,544** | 28,191 |
| | **65,481** | 74,513 |

The following is an aged analysis of the trade payables presented based on the invoice date at the end of the reporting period.

| | 2013 | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 90 days | **33,955** | 41,978 |
| 91 to 180 days | **412** | 2,709 |
| 181 to 365 days | **459** | 95 |
| Over 365 days | **8,111** | 1,540 |
| | **42,937** | 46,322 |

The average credit period on purchases of goods is 0 to 90 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

## 14. CAPITAL AND RESERVES

| | Attributable to owners of the Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Share capital** *HK$'000* | **Share premium** *HK$'000* | **Other reserve** *HK$'000* | **Contribution reserve** *HK$'000* | **Properties revaluation reserve** *HK$'000* | **Statutory reserve** *HK$'000* | **Exchange reserve** *HK$'000* | **Retained profits (accumulated losses)** *HK$'000* | **Sub-total** *HK$'000* | **Non-controlling interests** *HK$'000* | **Total** *HK$'000* |
| At 1 January 2012 | 32,390 | 58,566 | 301 | 8,478 | 23,142 | 10,215 | (7,321) | 195,988 | 321,759 | 2,258 | 324,017 |
| Loss for the year | – | – | – | – | – | – | – | (52,339) | (52,339) | (1,766) | (54,105) |
| Other comprehensive expense for the year | | | | | | | | | | | |
| – Exchange differences arising on translation | – | – | – | – | – | – | 9,123 | – | 9,123 | – | 9,123 |
| Total comprehensive income (expense) for the year | – | – | – | – | – | – | 9,123 | (52,339) | (43,216) | (1,766) | (44,982) |
| Released upon the Distribution In Specie of shares in a subsidiary | – | – | (301) | – | – | – | (8,488) | 8,789 | – | (492) | (492) |
| Special dividend by way of Distribution In Specie of shares in a subsidiary *(Note 17)* | – | – | – | – | – | – | – | (111,773) | (111,773) | – | (111,773) |
| At 31 December 2012 | 32,390 | 58,566 | – | 8,478 | 23,142 | 10,215 | (6,686) | 40,665 | 166,770 | – | 166,770 |
| Loss for the year | – | – | – | – | – | – | – | (51,656) | (51,656) | – | (51,656) |
| Other comprehensive expense for the year | | | | | | | | | | | |
| – Actuarial gains on long service payment obligations | – | – | – | – | – | – | – | 548 | 548 | – | 548 |
| – Release of deferred tax upon disposal of investment properties *(Note 15)* | – | – | – | – | 2,211 | – | – | – | 2,211 | – | 2,211 |
| – Exchange differences arising on translation | – | – | – | – | – | – | 2,194 | – | 2,194 | – | 2,194 |
| | – | – | – | – | 2,211 | – | 2,194 | 548 | 4,953 | – | 4,953 |
| Total comprehensive income (expense) for the year | – | – | – | – | 2,211 | – | 2,194 | (51,108) | (46,703) | – | (46,703) |
| Disposal of investment properties | – | – | – | – | (14,956) | – | – | 14,956 | – | – | – |
| At 31 December 2013 | 32,390 | 58,566 | – | 8,478 | 10,397 | 10,215 | (4,492) | 4,513 | 120,067 | – | 120,067 |

## 15. DEFERRED TAX LIABILITIES

The following are the major deferred tax liabilities recognised in the Group's statement of financial position and the movements thereon during the current and prior years:

| | Depreciation allowances in excess of related depreciation | Revaluation of land and buildings held for own use and investment properties | Patents | Total |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| At 1 January 2012 | 826 | 9,428 | 2,247 | 12,501 |
| (Credited) charged to profit or loss *(Note 7)* | (619) | 548 | (930) | (1,001) |
| Decrease arising from the Distribution In Specie of shares in a subsidiary *(Note 17)* | – | – | (1,317) | (1,317) |
| At 31 December 2012 | 207 | 9,976 | – | 10,183 |
| Charged (credited) to profit or loss *(Note 7)* | 124 | (449) | – | (325) |
| Release of deferred tax upon disposal of investment properties recognised in other comprehensive income | – | (2,211) | – | (2,211) |
| At 31 December 2013 | 331 | 7,316 | – | 7,647 |

## 16. SECURED NOTE

On 20 November 2013, the Company issued a 13% guaranteed senior secured note due 2014 with aggregate principal amount of US$15,000,000 (equivalent to approximately HK$116,271,000) (the "Notes"). The Notes are guaranteed by two directors of the Company, have a maturity term of two years and bear a fixed interest rate of 13% per annum with interest payable annually in arrears. The Notes are secured by, among other things, the land and buildings of approximately HK$108,655,000 of the Group.

The proceeds of approximately US$15,000,000 (equivalent to approximately HK$116,271,000) was used for financing the acquisition of certain assets pertaining to the operation of a resort located in Victoria, British Columbia, Canada.

| On date of issue | *US$'000* | *HK$'000* |
|---|---|---|
| Guaranteed secured note | 15,000 | 116,271 |

In the opinions of the directors of the Company, the effective interest rate of the secured note approximated to the nominal interest rate of 13% per annum.

The carrying amount of the secured note was approximately HK$116,316,000 as at 31 December 2013.

## 17. DISTRIBUTION IN SPECIE OF SHARES IN A SUBSIDIARY

Pursuant to an extraordinary general meeting held on 5 December 2012, the shareholders of the Company approved the Group Reorganisation which involved the transfer of shares in a subsidiary carrying on composite components and unit electronic components operations in Korea and the PRC to a subsidiary of the Company, Jay Star. Pursuant to the Group Reorganisation, the Company distributed all of the ordinary shares in Jay Star to the shareholders of the Company. Details of the Distribution In Specie are set out in the Company's announcements dated 17 October 2012 and 11 December 2012 respectively.

As detailed in note 8, on 11 December 2012, the Group discontinued these operations at the time of disposal of the Jay Star Group. The net assets of Jay Star Group, at the date of disposal were as follows:

**Analysis of assets and liabilities which were distributed:**

| | **11/12/2012** |
|---|---|
| | ***HK$'000*** |
| Property, plant and equipment | **166,542** |
| Intangible asset | **9,727** |
| Deposits paid for acquisition of property, plant and equipment | **2,335** |
| Inventories | **29,597** |
| Trade and other receivables | **48,408** |
| Bank balances and cash | **7,731** |
| Trade and other payables | **(32,749)** |
| Amount due to a former shareholder | **(53,578)** |
| Bank borrowings – due within one year | **(64,431)** |
| Deferred tax liabilities | **(1,317)** |
| Non-controlling interests | **(492)** |
| Net assets attributable to the Group distributed to the shareholders | **111,773** |

**Net cash outflow arising on the Distribution In Specie:**

| | |
|---|---|
| Bank balances and cash disposal of | **7,731** |

## DIVIDEND

The Board did not recommend the payment of final dividend in respect of the year ended 31 December 2013 (2012: Nil). The Group's long-term dividend policy is to distribute not less than 30% of its net profit as dividend each financial year, and the Board will review this dividend policy from time to time to ensure optimal returns to shareholders.

## ANNUAL GENERAL MEETING

The annual general meeting (the "AGM") will be held at Taichi Room, Unit 3810 , 38/F., China Resources Building, 26 Harbour Road, Wanchai, Hong Kong on Friday, 30 May 2014 at 2:30 p.m. The Notice of AGM will be published on the websites of the Company at www.kse.com.hk and the Stock Exchange at www.hkexnews.hk, and is intended to be despatched to shareholders on or before Wednesday, 30 April 2014.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 28 May 2014 to Friday, 30 May 2014, both days inclusive, during which period, no transfer of shares will be registered. To be eligibility for attending and voting at the AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Standard Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on Tuesday, 27 May 2014.

## MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

### Revenue and Segment Information

Revenue represents sales of goods, rental income under operating lease and service income from hotel operation. Sales of goods accounted for approximately 98.0% (2012: 99.4%) of the total revenue. Revenue decreased by 17.8% to approximately HK$298,722,000 from approximately HK$363,553,000 in 2012 which was mainly due to the fall in customer demand for electronic components business. Following completion of acquisition of a resort in Canada on 20 November 2013, a new segment – hotel operation was introduced this year which contributed approximately HK$4,376,000, 1.5% of the total revenue.

### Cost of Sales

Cost of sales decreased by approximately HK$46,616,000 or 13.7% to approximately HK$292,923,000 which was in line with the drop in revenue.

### Gross Profit

Gross profit decreased by approximately HK$18,215,000 to approximately HK$5,799,000 and gross profit margin decreased from 6.6% to 1.9%. The decrease was due to the continuous pressure in pricing of its electronic components.

**Other Income and Gains**

Other income and gains decreased by approximately HK$4,006,000 or 46.3% from approximately HK$8,649,000 in 2012 to approximately HK$4,643,000 in 2013. The decrease in other income and gains was primarily due to the fact that there was a decrease in fair value of financial liabilities at fair value through profit and loss by approximately HK$5,908,000 in 2012.

**Operating Expenses**

Operating expenses slightly increased by approximately 1,890,000 or 3.3% from approximately HK$56,707,000 in 2012 to HK$58,597,000 in 2013. The increase was mainly due to net effect of increase in administrative expenses of approximately HK$13,249,000 arising from increase in payroll and office expenses for new management in Hong Kong office and decrease in selling and distribution expenses of HK$1,446,000, research and development expenses of approximately HK$3,536,000 and other operating expenses of HK$6,377,000 arising from decrease in sales of electronics components during the year.

**Finance Costs**

The increase of finance costs was mainly due to the interest on the 13% guaranteed senior secured notes of HK$1,679,000.

**Income Tax Expense**

Income tax expense represented a net tax credit of approximately HK$4,097,000 as compared to income tax expenses of approximately HK$3,848,000 in last year as there was over-provision of Hong Kong Profits Tax of approximately HK$5,879,000 in prior years.

**Loss for the Year**

As a result of the foregoing was combined effects of the above, the Group recorded a net loss of approximately HK$51,656,000.

**Liquidity and Financial Resources**

As at 31 December 2013, the Group's net current assets and current ratio were approximately HK$110,835,000 and 2.56 respectively (2012: approximately HK$97,294,000 and 1.93). The increase in current ratio mainly reflected the percentage decrease in current liabilities was higher than percentage decrease in current assets.

As at 31 December 2013, the Group's bank balances and cash amounted to approximately HK$ 77,866,000 (2012: approximately HK$110,250,000).

**Charge on Assets**

As at 31 December 2013, the Group's bank deposits of approximately HK$10,007,000 (2012: approximately HK$11,009,000), the investment properties of approximately HK$20,223,000 (2012: approximately HK$46,492,000) and the land and buildings held for own use of approximately HK$108,655,000 (2012: Nil) were pledged to secure banking facilities granted to and note issued by the Group.

**Capital Structure**

For the year ended 31 December 2013, the Group financed its liquidity requirements through a combination of cash flow as generated from operations, bank borrowings, secured note, advances from director and ultimate holding company.

**Capital Commitment and Contingent Liabilities**

As at 31 December 2013, the Group had no capital commitments (2012: approximately HK$88,000) and approximately HK$22,290,000 as operating lease commitments (2012: approximately HK$10,414,000). As at 31 December 2013, the Group did not have any significant contingent liabilities (2012: Nil).

**Material Acquisitions**

Save for the major acquisition of relevant assets pertaining to the operation of a resort on 20 November 2013, the Group did not have any material acquisitions or disposals of subsidiaries or associated companies during the year ended 31 December 2013.

**BUSINESS REVIEW**

**Composite Electronic Components Business**

During the year ended 31 December 2013, consumer demand for traditional electronics market has not recovered. Slowdown in the demand for traditional electronic goods resulted in shrinkage of the production orders of related manufacturing industries. Accordingly, turnover from the composite components business decreased by approximately HK$53,507,000 or approximately 26.9% from approximately HK$199,257,000 in 2012 to approximately HK$145,750,000 in 2013. The decrease was mainly attributable to decrease in sales of tuner modules for home audios and sales of dual docking systems. The turnover amount represented approximately 48.8% of the Group's total turnover.

**Unit Electronic Components Business**

Turnover from the unit electronic components business also decreased by approximately HK$15,284,000 or approximately 9.4% from approximately HK$162,218,000 in 2012 to approximately HK$146,934,000 in 2013. The decrease was mainly due to sluggish demand from TV market for the year ended 31 December 2013. The turnover amount represented approximately 49.2% of the Group's total turnover.

**Property Investment Business**

For the year ended 31 December 2013, turnover from the property investment business decreased by approximately HK$416,000 or approximately 20% from approximately HK$2,078,000 in 2012 to approximately HK$1,662,000 in 2013. The decrease was due to disposal of the Group's investment properties in Korea. The turnover amount represented approximately 0.6% of the Group's total turnover.

**Hotel Operation Business**

On 20 November 2013, the Group completed the acquisition of a resort in Victoria, British Columbia, Canada, this is a new business segment. The turnover contributed by the hotel operation for the year was amounted to approximately HK$4,376,000 which represented 1.5% of the Group's total turnover.

**Staff and Remuneration Policy**

As at 31 December 2013, the Group had approximately 970 employees, including 840 based in the PRC, 40 based in Hong Kong and 90 based in Canada. Staff costs for the year ended 31 December 2013 were approximately HK$76,194,000, representing an increase of approximately HK$21,794,000 as compared to approximately HK$54,400,000 of last year.

Employee remuneration is determined in accordance with prevailing industry practice and employees' performance and experience. Discretionary bonuses are awarded to employees with outstanding performance with reference to the performance of the Group. Employees are also entitled to other staff benefits including medical insurance and mandatory provident fund.

**Foreign Exchange Fluctuation and Hedge**

The Group is exposed to foreign currency risk arising from various currency exposures, primarily with respect to RMB, United States Dollars and KRW. Foreign exchange risk arises from commercial transactions, recognised assets and liabilities and net investment in foreign operations.

During the year ended 31 December 2013, the Group did not enter into any forward foreign currency contracts (2012: Nil).

**Prospects**

Looking forward, the Group anticipates that the consumer electronics market is still stagnant and the demand for electronic components will remain challenging with no signs of recovery. The rising trend in costs of both labour and materials is expected to continue to place repeated pressure on profit margin. To cope with the challenges of intense competition and hostile environment, the Group will adopt appropriate business strategies to weaken continuing impacts from these tough conditions and to inspire a turnaround for the Group. The Group expects that its turnaround strategy will eventually help deliver competitive returns to the Company's shareholders in the long term.

As announced on 20 November 2013, the Group completed the acquisition of a resort in Victoria, British Columbia, Canada as the Group's hotel operation with a view to enhancing the regular and recurring revenue stream of the Group. The business performance of the hotel operation for the year has been satisfactory. In the long run, the Group will re-brand the hotel and strive to boost up revenue in all aspects by introducing tourists from the Mainland and other countries.

The Company is considering certain acquisition targets at present which, when materialized and completed, should improve the Group's assets base and financial position. The Company will make further announcement should any acquisition materialize to comply with the Listing Rules as and when required.

**Investor Relations**

The Company values its relationship with investors, and guided by its management philosophy, is committed to maintaining transparency of operational performance and strategic development plans. The management communicates continually with analysts and institutional investors and provides them with up-to-date comprehensive information regarding the Company's development. The Company practices timely dissemination of information and makes sure its website www.kse.com.hk contains the most current information, including annual reports, interim reports, announcements, monthly returns and press releases, and is updated in a timely manner to maintain transparency.

## Corporate Social Responsibility

As a caring corporation, the Group has been active in fulfilling its social responsibility to the interest of all stakeholders and society. The Group's corporate social responsibility efforts fall into the three following categories:

### *Marketplace*

In the interest of shareholders, the Group adheres to the business objectives of contributing to the sustainable development of the electronics industry, improving consumer electronics to heighten product efficiency and delivering the best end-user experience. To these ends, the Group invests substantially in research and development and internal quality control to ensure the continuous delivery of quality and reliable products to customers. The Company complies with the requirements of ISO/TS 16949:2002 on design and manufacture of its car tuners and ISO 9001:2000 on production and servicing of electronic products. These products include transformers, intermediate frequency transformers, antennas, filters, coils, coil inductors, electrical meters, dielectric filters, tuners, tuner modules, wireless modules, switching mode power supplies, digital tuner modules for DAB and digital amplifiers. The Group has also frequently received customers' performance certificates that signified recognition of the Group's professional procedures and appreciation of product quality.

The Group recognises the need and the cross-fertilisation benefits of collaboration between industry and academia. It hopes to ride on the resources of universities and selected research institutes to customise training courses and programmes that can help develop the business and professional competence of its people in successfully competing globally. In return, the Group provides consultancy services, financial aid and internships to university students.

### *Employee Health and Welfare*

Caring about the health and work safety of its staff, the Group has introduced appropriate safety systems and processes to minimise staffs exposure to potential hazardous materials or adverse working conditions. As an equal opportunity employer, the Group strives to provide a fair work environment to employees and does not tolerate any form of harassment or discrimination in respect of employment and occupation. To retain the best talents, the Group ensures its employee remuneration packages are competitive and that rewards are linked with performance excellence.

The Group also encourages employees to enroll in external job-related courses and sponsors these initiatives when appropriate. As part of the orientation procedure, all new employees are required to participate in programmes on topics include internal control and information protection, ISO and quality management systems.

The Group also arranges regular health checks for all employees to protect their health and therefore maintain their productivity at work. In case of sickness, employees are protected by comprehensive group medical insurance policies. Retirement and comprehensive pension funds are also provided to employees in accordance to relevant legislation.

### *Environment and Community*

The Company complies with the requirements of ISO 14001:2004 on environmental management systems and procedures.

The Group also continues to make sure its products comply with the European Union's environmental protection guidelines including the Directive on the Restriction of the use of certain Hazardous Substances in Electrical Equipment ("RoHS") for manufacturing activities. All products manufactured by the Group are lead-free and RoHS compliant.

The Group also encourages employees to save energy and resources. To cut down on paper consumption, the Group encourages double-sided printing and printing when necessary only. The Group also relays energy-saving tips to staff members through a daily learning programme. To fulfill its commitment to the society during the year, the Company has also provided donations to charities to help the needy.

## OTHER INFORMATION

### Corporate Governance

The Company is committed to achieving a high standard of practices of corporate governance so as to ensure the protection of shareholders' interests with better transparency. The Company has complied with the code provisions of the Corporate Governance Code set out in Appendix 14 to the Listing Rules during the year ended 31 December 2013, except for the following:

Pursuant to the code provision A.6.7, independent non-executive directors and other non-executive directors, as equal Board members, should attend the general meetings of the Company.

The Company held its extraordinary general meeting on 25 February 2013 ("the EGM") and annual general meeting on 30 May 2013 (the "AGM"), During the year ended 31 December 2013, certain independent non-executive directors were unable to attend the Company's general meetings due to their unavoidable business engagements.

The Company will continue to create excellent conditions for independent non-executive directors and (if any) non-executive directors to attend general meetings, so as to support non-executive directors to respond to shareholders' questions in the general meetings.

Code Provision E.1.2 stipulates that the Chairman of the Board should attend the AGM. Due to other business engagements, the Chairman of the Board was unable to attend the AGM.

### Model Code for Securities Transactions by Directors

The Company has adopted Appendix 10, Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules (the "Model Code") as the code of practice for carrying out securities transactions by the directors of the Company. The Company, having made specific enquiries to all directors of the Company, confirmed that as at 31 December 2013, all directors have complied with the code provisions as set out in the Model Code. The relevant employees who, because of their office in the Company, are likely to be in possession of unpublished price sensitive information, have been requested to comply with the provisions of the Model Code.

**Purchase, Sale or Redemption of the Company's Listed Securities**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2013.

**Review of Accounts**

The audit committee of the Board, which comprises all independent non-executive directors of the Company, has reviewed the financial results of the Group for the year ended 31 December 2013, including the accounting principles and practices adopted by the Group, and has reviewed and discussed with the management on the effectiveness of the Group's system regarding the internal controls and accounts.

**Publication of the Final Results and Annual Report**

This results announcement has been published on the Company's website at www.kse.com.hk and the website of the Stock Exchange at www.hkexnews.hk. The 2013 annual report is expected to be despatched to shareholders on or before Wednesday, 30 April 2014, which will be also made available on the websites of the Company and the Stock Exchange.

By order of the Board
**Forebase International Holdings Limited**
**SHEN YONG**
*Chairman*

Hong Kong, 21 March 2014

*As at the date hereof, the Board comprises seven executive Directors Mr. SHEN Yong, Mr. Ronald Lew PODLAS, Mr. SHEN Ke, Mr. LI Zhi, Mr. XU Li Jian, Mr. LEUNG Kin Pang and Mr. HONG Sang Joon; and four independent non-executive Directors Mr. YU Lei, Dr. JIANG Ying, Ms. ZHANG Cui Lan and Mr. Ernst Rudolf ZIMMERMANN.*