WINSHINE SCIENCE COMPANY LIMITED

瀛晟科學有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 209)

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

The Board of Directors (the "Board") of Winshine Science Company Limited (the "Company") hereby announces the audited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2016 together with comparative figures as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	**2016** *HK$'000*	2015 *HK$'000*
Revenue	4	**236,174**	247,732
Cost of sales		**(220,750)**	(220,459)
Gross profit		**15,424**	27,273
Other income and gain	5	**26,558**	11,100
Selling and distribution costs		**(5,063)**	(8,025)
Administrative expenses		**(75,763)**	(123,604)
Research and development expenses		**(20,690)**	–
Changes in fair value of trading securities		**(150,802)**	(18,238)
Other operating expenses		**(6,895)**	(12,954)
Finance costs	7	**(6,993)**	(5,971)
Loss before taxation	6	**(224,224)**	(130,419)
Income tax expense	8	**(3,072)**	(2,842)
Loss for the year		**(227,296)**	(133,261)
Loss per share			
Basic and diluted	10	**(HK8.92 cents)**	(HK5.71 cents)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

	2016	2015
	HK$'000	*HK$'000*
Loss for the year	**(227,296)**	(133,261)
Other comprehensive loss		
Items that will not be reclassified to profit or loss:		
Revaluation deficit on leasehold buildings	**(1,440)**	(1,006)
Deferred tax charge arising from revaluation surplus on leasehold buildings	**(287)**	(264)
	(1,727)	(1,270)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations	**(14,089)**	(9,112)
Reclassification adjustments relating to foreign operation disposed of during the year	**–**	49
	(14,089)	(9,063)
Other comprehensive loss for the year, net of tax	**(15,816)**	(10,333)
Total comprehensive loss for the year	**(243,112)**	(143,594)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Notes	**2016** **HK$'000**	2015 HK$'000
Non-current assets			
Property, plant and equipment		**110,530**	118,875
Prepaid land premiums		**4,246**	4,397
Investment properties		**37,631**	–
Deposit paid for construction of properties		**61,151**	–
Deposit paid for purchase of property, plant and equipment		**12,500**	12,500
		226,058	135,772
Current assets			
Trading securities		**34,595**	255,992
Inventories		**41,566**	37,362
Prepaid land premiums		**152**	152
Trade receivables	11	**29,311**	27,159
Loan receivables		**48,403**	48,000
Prepayments, deposits and other receivables		**51,393**	32,623
Pledged bank deposits		**2,570**	12,649
Cash and cash equivalents		**78,497**	26,005
		286,487	439,942
Current liabilities			
Trade and bills payables	12	**51,187**	48,286
Other payables and accruals		**28,256**	26,471
Borrowings		**119,569**	100,329
Tax payables		**4,882**	4,270
		203,894	179,356
Net current assets		**82,593**	260,586
Total assets less current liabilities		**308,651**	396,358
Non-current liabilities			
Borrowings		**45,000**	–
Deferred tax liabilities		**8,087**	7,461
		53,087	7,461
Net assets		**255,564**	388,897
Equity			
Share capital		**298,186**	248,489
(Deficit) reserves		**(42,622)**	140,408
Total equity		**255,564**	388,897

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in Bermuda. The Company's shares are listed on The Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The principal activity of the Company is investment holding. The principal activities of its principal subsidiaries are manufacturing and trading of toys and securities investments.

The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is also the functional currency of the Company.

2. STATEMENT OF COMPLIANCE

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") and by the Hong Kong Companies Ordinance.

The HKICPA has issued certain new and amendments to HKFRSs which are first effective or available for early adoption for the current accounting period of the Group. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in the consolidated financial statements.

3. APPLICATION OF NEW AND AMENDMENT TO HKFRSs

The Group has applied the following amendments to HKFRSs issued by the HKICPA for the first time in the current year:

Amendments to HKFRS 11	Accounting for Acquisitions of Interest in Joint Operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle

The application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in the consolidated financial statements.

New and revised HKFRSs in issue 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:

HKFRS 9	Financial instruments[1]
HKFRS 15	Revenue from contracts with customers and the related amendments[1]
HKFRS 16	Leases[2]
Amendments to HKFRS 2	Classification and measurement of share-based payment transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial instruments with HKFRS 4 Insurance contracts[1]
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture[3]
Amendments to HKAS 7	Disclosure initiative[4]
Amendments to HKAS 12	Recognition of deferred tax assets for unrealised losses[4]
Amendments to HKFRSs	Annual improvements to HKFRSs 2014 – 2016 cycle[5]

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

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

3 Effective for annual periods beginning on or after a date to be determined

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

5 Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate

HKFRS 9 "Financial instruments"

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 are described below:

- all recognised financial assets that are within the scope of HKAS 9 are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at fair value through other comprehensive income ("FVTOCI"). All other financial assets are measured at their fair value at the end of subsequent accounting 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.

- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

The directors of the Company anticipate that the application of HKFRS 9 in the future may have a material impact on 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.

HKFRS 15 "Revenue from contracts with customers"

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

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

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

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

In 2016, the HKICPA issued clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the directors of the Company do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

HKFRS 16 "Leases"

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

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

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

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

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

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2016, the Group has non-cancellable operating lease commitments of HK$5,474,000. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors complete a detailed review.

The directors of the Company anticipate that the application of the other new and amendments to HKFRSs will have no material impact on the Group's consolidated financial statements.

4. REVENUE AND SEGMENT REPORTING

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

An analysis of the Group's revenue is as follows:

	2016	2015
	HK$'000	*HK$'000*
Revenue		
Sale of goods	**236,174**	247,732

The Group is organised and its businesses are managed by divisions, which are a mixture of both business lines and geographical location. However, based on the information that is reported internally to the executive directors of the Company, being the chief operating decision maker of the Group, for the purposes of resources allocation and performance assessment, the Group has presented the following three reportable segments. No operating segments have been aggregated to form the following reportable segments.

1. Securities investments: this segment derives its revenue from dividends received from equity securities investments.

2. Manufacturing and trading of toys: this segment derives its revenue from manufacturing and trading of toys (the "Toys Segment").

3. Medical and health: this segment is under development stage in which research and development expenses for the medical and health technology development have been incurred.

In accordance with HKFRS 8, segment information disclosed in these consolidated financial statements has been prepared in a manner consistent with the information used by the chief operating decision maker for the purposes of assessing segment performance and allocating resources among segments. In this regard, the chief operating decision maker monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

All assets are allocated to reportable segments other than loan receivables, certain property, plant and equipment, investment properties, certain prepayments and certain cash and cash equivalents, which are grouped as unallocated corporate assets.

All liabilities are allocated to reportable segments other than certain accruals, which are grouped as unallocated corporate liabilities.

Segment profit or loss before taxation exclude unallocated interest income and unallocated corporate expenses which are not directly attributable to the business activities of any operating segment.

(a) Segment results, assets and liabilities

For the year ended 31 December 2016 and 2015

	Securities investments		Manufacturing and trading of toys		Medical and health		Total	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Reportable segment revenue								
Revenue from external customers	**–**	–	**236,174**	247,732	**–**	–	**236,174**	247,732
Reportable segment loss before taxation	**(151,424)**	(19,882)	**(22,217)**	(24,175)	**(20,690)**	–	**(194,331)**	(44,057)
Unallocated corporate income							**17,090**	5,901
Unallocated corporate expenses							**(46,983)**	(92,263)
Loss before taxation							**(224,224)**	(130,419)
Other segment information (included in the measure of segment profit or loss or regularly provided to chief operating decision maker)								
Depreciation of property, plant and equipment	**–**	–	**(8,382)**	(5,157)	**–**	–	**(8,382)**	(5,157)
Amortisation of prepaid land premiums	**–**	–	**(151)**	(150)	**–**	–	**(151)**	(150)
Impairment loss of trade receivables	**–**	–	**(2,609)**	(1,893)	**–**	–	**(2,609)**	(1,893)
Write down of inventories, net	**–**	–	**(9,072)**	(9,117)	**–**	–	**(9,072)**	(9,117)
Loss on disposal of property, plant and equipment, net	**–**	–	**(78)**	(883)	**–**	–	**(78)**	(883)
Changes in fair value of trading securities	**(150,802)**	(18,238)	**–**	–	**–**	–	**(150,802)**	(18,238)
Bank interest income	**–**	2	**310**	34	**–**	–	**310**	36
Interest expense	**–**	–	**(6,992)**	(5,971)	**–**	–	**(6,992)**	(5,971)
Research and development expenses	**–**	–	**–**	–	**(20,690)**	–	**(20,690)**	–
Addition to non-current assets								
Property, plant and equipment	**–**	–	**2,823**	3,891	**–**	–	**2,823**	3,891

Note: There were no inter-segment sales in both years.

(b) Reconciliation of reportable segment, assets and liabilities

As at 31 December 2016

	Securities investments *HK$'000*	Manufacturing and trading of toys *HK$'000*	Medical and health *HK$'000*	Total *HK$'000*
Reportable segment assets	**34,635**	**203,974**	**–**	**238,609**
Unallocated corporate assets				**273,936**
Total assets				**512,545**
Reportable segment liabilities	**–**	**(198,154)**	**–**	**(198,154)**
Unallocated corporate liabilities				**(58,827)**
Total liabilities				**(256,981)**

As at 31 December 2015

	Securities investments *HK$'000*	Manufacturing and trading of toys *HK$'000*	Total *HK$'000*
Reportable segment assets	267,936	218,890	486,826
Unallocated corporate assets			88,888
Total assets			575,714
Reportable segment liabilities	–	(176,225)	(176,225)
Unallocated corporate liabilities			(10,592)
Total liabilities			(186,817)

(c) Geographical information

The following is an analysis of geographical location of (i) the Group's revenue and (ii) the Group's non-current assets include property, plant and equipment, prepaid land premiums, investment properties, deposit paid for purchase of property, plant and equipment and deposit paid for construction of properties. The geographical location of customers refers to the customers' place of domicile. The geographical locations of property, plant and equipment, prepaid land premiums, investment properties, deposit paid for purchase of property, plant and equipment and deposit paid for construction of properties, are based on the physical location of the asset under consideration.

	Revenue from external customers		**Non-current assets**	
	2016	2015	**2016**	2015
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**19,862**	39,792	**2,109**	3,991
The PRC	**–**	–	**223,949**	131,781
United States and Canada	**157,418**	161,361	**–**	–
Japan and Europe	**58,894**	46,579	**–**	–
	236,174	247,732	**226,058**	135,772

(d) Information about major customers

Revenue from customers contributing 10% or more of the total revenue of the Group is as follows:

	2016	2015
	HK$'000	*HK$'000*
Revenue from manufacturing and trading of toys		
Customer A	**58,389**	33,979
Customer B	**48,630**	74,379
Customer C	**29,632**	N/A*
Customer D	**24,091**	43,712

* Customer C contributing less than 10% of the total revenue of the Group for the year ended 31 December 2015.

5. OTHER INCOME AND GAIN

	2016	2015
	HK$'000	*HK$'000*
Bank interest income	**310**	36
Loan interest and late charge	**7,670**	5,502
Changes in fair value of investment properties	**3,953**	–
Gain on disposal of a subsidiary	**–**	837
Mould income	**1,118**	2,292
Net foreign exchange gain	**11,693**	102
Sundry income	**1,814**	2,331
	26,558	11,100

6. LOSS BEFORE TAXATION

The Group's loss before taxation is arrived at after charging (crediting) the following:

	2016	2015
	HK$'000	*HK$'000*
Employee benefit expense (including directors' remuneration):		
Wages and salaries	**121,195**	116,741
Other employee benefits	**2,895**	5,400
Contributions to defined contribution retirement plans	**12,478**	10,238
Equity-settled share-based payments	**–**	7,591
	136,568	139,970
Auditors' remuneration	**1,780**	1,600
Cost of inventories	**204,974**	200,641
Equity settled share based payments to other participants	**–**	43,509
Depreciation of property, plant and equipment	**9,166**	5,363
Amortisation of prepaid land premiums	**151**	150
Impairment loss on trade receivables	**2,609**	1,893
Write down of inventories, net (included in cost of sales)	**9,072**	9,117
Loss on disposal of property, plant and equipment, net	**78**	894
Operating lease charges in respect of land and buildings	**4,307**	5,260
Rental income	**(1,399)**	–

7. FINANCE COSTS

	2016	2015
	HK$'000	*HK$'000*
Interest on borrowings	**6,993**	5,971

8. INCOME TAX EXPENSE

Income tax expense in the consolidated statement of profit or loss represents:

	2016	2015
	HK$'000	*HK$'000*
Hong Kong – current income tax		
– charge for the year	**–**	900
The PRC – current income tax		
– charge for the year	**2,377**	1,700
– underprovision in prior year	**356**	32
Withholding tax paid during the year	**–**	555
	2,733	3,187
Deferred tax charge (credit)	**339**	(345)
Income tax expense	**3,072**	2,842

Hong Kong Profits Tax has been provided at the rate of 16.5% (2015: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

The tax affairs of a subsidiary (incorporated in Hong Kong) of the Group for the period starting from 1 January 2004 are currently under field audit by the Hong Kong Inland Revenue Department ("IRD"). The directors, after consultation with the subsidiary's tax advisers, consider that the IRD is still in the information gathering stage and it is premature to quantify the amount of potential liabilities of the subsidiary, if any, that may arise.

Enterprise Income Tax ("EIT") in the PRC has been provided on the estimated assessable profits of subsidiaries operating in the PRC at 25% (2015: 25%).

Pursuant to the PRC Enterprise Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate of 5% is applied to the Group as there is a double tax treaty between the PRC and Hong Kong and the relevant Hong Kong companies should be qualified for the preferential tax rate based on the prescribed conditions.

The Group is therefore liable to withholding taxes on dividends distributed by the subsidiaries established in the PRC in respect of earnings generated from 1 January 2008.

Taxation arising in other jurisdictions is calculated at the rates of tax prevailing in the relevant jurisdictions.

9. DIVIDENDS

No dividend was paid or proposed by the directors for both years nor has any dividend been proposed since the end of the reporting period.

10. LOSS PER SHARE

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

	2016	2015
	HK$'000	*HK$'000*
Loss		
Loss attributable to owners of the Company for the purposes of basic and diluted loss per share	**(227,296)**	(133,261)
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	**2,547,350**	2,332,334

The computation of diluted loss per share for the years ended 31 December 2016 does not assume the exercise of warrants issued or share options granted by the Company as the exercise prices of those options and warrants were higher than the average market price.

The computation of diluted loss per share for the year ended 31 December 2015 does not assume the exercise of share options granted by the Company as such assumed exercise would be anti-dilutive.

11. TRADE RECEIVABLES

	2016	2015
	HK$'000	*HK$'000*
Trade receivables	**29,311**	27,159

Ageing analysis

The following is an analysis of the trade receivables by age, presented based on the invoice date which is approximate to the revenue recognition date and net of allowance:

	2016	2015
	HK$'000	*HK$'000*
0 to 30 days	**15,813**	19,816
31 to 90 days	**13,028**	7,023
Over 90 days	**470**	320
	29,311	27,159

The Group's trading terms with its customers are mainly on credit with credit periods generally ranging from 30 to 180 days. The Group seeks to maintain strict control over its outstanding receivables, and overdue balances are reviewed regularly by management. Trade receivables are non-interest bearing.

12. TRADE AND BILLS PAYABLES

The ageing analysis of the trade and bills payables as at 31 December 2016 is as follows:

	2016	2015
	HK$'000	*HK$'000*
0 to 30 days	**19,701**	20,366
31 to 90 days	**18,356**	10,504
Over 90 days	**13,130**	17,416
	51,187	48,286

Note: The trade and bills payables are expected to be settled within one year.

FINAL DIVIDEND

The Board does not recommend the payment of final dividend in respect of the year ended 31 December 2016 (2015: nil).

BUSINESS REVIEW

In 2016, the Group continued to consolidate its existing businesses in toys division while exploring new opportunities in the medical and health industry. In view of the volatile capital market, the Group reduced its exposure in the securities investments business by disposing a significant part of its existing securities portfolio. For the year of 2016, the Group recorded a year-over-year drop of 4.7% in revenue to HK$236.2 million. As a result of the substantial unrealized loss on fair value changes in the securities investment division, the Group incurred a loss of HK$227.3 million for 2016, representing a year-over-year increase of 70.6%.

Toys Division

For the year ended 31 December 2016, revenue of the toys division decreased slightly by 4.7% year-over-year to HK$236.2 million due to sluggish economic growth in its major customers markets and poor market response of their products. Gross profits however fell considerably by 43.4% year-over-year to HK$15.4 million because of a drop in sales orders of the higher margins products. The substantial drop was alleviated by the improvement in cost control in administrative expenses and increase in exchange gain during the year. The toys division recorded segment loss of HK$22.2 million for 2016 (2015: loss of HK$24.2 million), representing a year-over-year decrease of 8.1%.

Securities Investments Division

The global capital market was affected by the Brexit referendum and the US presidential election in 2016 and became highly volatile and uncertain. In fear of a slowdown in economic growth of Chinese economy, the Hong Kong stock market sentiment deteriorated and market activities dropped significantly. During the year, the Group reduced its exposure in securities investments and had disposed of a significant part of its portfolio. The Group recorded a segment loss of HK$151.4 million (2015: loss of HK$19.9 million) in the securities investments division mainly due to the unrealized loss on fair value changes of trading securities. As at 31 December 2016, the Group securities portfolio was valued at HK$34.6 million (2015: HK$256.0 million). The Group did not receive any dividend income during the year (2015: nil).

Medical and Health Division

During the year, the Group set foot on the medical and health industry by forming a joint venture and entering into acquisition agreements in several medical related projects.

As mentioned in the 2015 annual report, the Group would form a joint venture ("Novotide JV") with Beijing Novotide Biodmedical Technology Company Limited ("Novotide") to engage in the research and development of the Peptide Secretion Technology for malignant tumor treatment. Novotide JV would become the platform to speed up the research and development of the technology relating to the patents owned by Novotide in relation to the Peptide Secretion Technology. Upon entering into acquisition agreement of 70% equity interest of Beijing Wufang Hospital Management Company Limited ("BWHM"), Novotide JV collaborated with BWHM in the first half of 2016 and started further research studies on different types of antitumor peptide secretion formulations with tumor-suppressing properties. During the year, the Group incurred a total of HK$20.7 million in research and development expenses, mainly on the studies relating to the Peptide Secretion Technology.

Due to unfulfilled conditions precedent, the Group announced on 29 July 2016 that it decided not to proceed with the acquisition of 70% equity interest in BWHM. A termination agreement was later signed by all parties on 9 September 2016 to terminate the acquisition agreement.

Completion of acquisition of 100% equity interest of Yi Nuo Technology (Suzhou) Company Limited ("Yi Nuo")

The Group completed its acquisition of Yi Nuo on 1 November 2016 and initiated to consolidate the financial results of Yi Nuo thereafter. As at the completion date, Yi Nuo owned a piece of land at Jiangsu Suzhou Hi-Tech Zone of approximately 67,000 square meters and a factory thereon. Part of the land and the factory has been leased to an independent third party until 30 June 2018. Upon completion of acquisition, the Group entered into agreements with a contractor to renovate the existing plants and upgrade its equipment and facilities. It is expected that the rental value will be enhanced upon completion of renovation. On the other hand, the Group is also in discussion with different parties regarding the lease of factory for medical related research and development purposes.

FINANCIAL REVIEW

Liquidity, Financial Resources and Capital Structure

At 31 December 2016, the Group had current assets of HK$286,487,000 (2015: HK$439,942,000) comprising cash and cash equivalents of HK$78,497,000 (2015: HK$26,005,000) (excluding pledged bank deposits). The Group's current ratio, calculated as current assets divided by current liabilities of HK$203,894,000 (2015: HK$179,356,000), remained at an acceptable ratio of 1.41 (2015: 2.45). The Group's borrowings as at 31 December 2016 were denominated in Hong Kong dollars and Renminbi in the proportion of 84% and 16% (2015: 58% and 42%) respectively. Apart from borrowings of HK$45,000,000 (2015: HK$Nil) which would mature within a period of more than one year but not exceeding two years, borrowings totaling HK$119,569,000 (2015: HK$100,329,000) would mature within one year, out of which all bore fixed interest rate and none bore floating interest rate.

The equity attributable to owners of the Company decreased by 34% to HK$255,563,000 (2015: HK$388,897,000) mainly as a result of equity fund raising activities offset by the loss incurred by the Group during the year. The Group financed its operations through a combination of debt financing and shareholder's equity. The Group's gearing ratio was determined as its net debt divided by total equity plus net debt where net debt included borrowings, trade payables and other payables less pledged bank deposits and cash and cash equivalents. The gearing ratio of the Group as at 31 December 2016 was 39% (2015: 26%).

Despite the loss incurred by the Group, the financial position of the Group remains solid with sufficient cash to support the Group's ongoing business operations.

PROSPECTS

In a special general meeting held on 13 February 2017, the shareholders of the Company passed a resolution to grant specific mandate to the Company for issuing 680 million new shares at HK$0.18 per share. The Group will receive net proceeds of approximately HK$121.6 million upon completion. As the Group further enlarges its exposure in the medical and health industry, it is expected more resources will be allocated to investment and development of potential and newly acquired projects in this industry.

Looking into the first quarter of 2017, the toys division is still facing a challenging market environment as the strong US dollar continues to weaken the purchasing power of non-US customers. Production costs such as raw material and packing material costs are on the upward trend which will further dampen the performance of toys division. Despite the rebound of stock market upon the beginning of 2017, the Group will continue its strategy and reduce its exposure in the securities investments accordingly.

CORPORATE GOVERNANCE

During the year ended 31 December 2016, the Company had complied with all the applicable code provisions of the Corporate Governance Code set out in Appendix 14 to the Listing Rules except for the following deviation with reason as explained.

Pursuant to Code A.2.7, the chairman should at least annually hold meetings with the non-executive directors (including independent non-executive directors) without the executive directors present. However, the post of chairman of the Company (the "Chairman") has been vacant since the resignation of Mr. Gao Feng as the Chairman with effect from 29 November 2016 and therefore no meeting of the Chairman and Non-executive Directors has been held during the year ended 31 December 2016. If candidate with suitable skills and experience is identified within or outside the Group, the Company will make necessary arrangement for the new appointment at appropriate time.

Pursuant to Code A.6.7, the independent non-executive directors and other non-executive directors, as equal board members, should give the board and any committees on which they serve the benefit of their skills, expertise and varied backgrounds and qualifications through regular attendance and active participation. They should also attend general meetings and develop a balanced understanding of the views of shareholders.

Two Executive Directors and two Independent Non-executive Directors of the Company were unable to attend the special general meeting of the Company held on 6 January 2016 due to other prior business engagements. Two Executive Directors, one Non-executive Director and two Independent Non-executive Directors of the Company were unable to attend the special general meeting of the Company held on 15 January 2016 due to other prior business engagements. One Independent Non-executive Director of the Company was unable to attend the annual general meeting of the Company held on 1 June 2016 due to other prior business engagements. However, there were at least one Executive Director and one Independent Non-executive Director presented at each meeting to enable the Board to develop a balanced understanding of the views of shareholders of the Company.

AUDIT COMMITTEE

The annual results for the year ended 31 December 2016 have been reviewed by the Audit Committee of the Company. The Group's consolidated financial statements have been audited by the Company's auditor, Deloitte Touche Tohmatsu, and it has issued an unmodified opinion.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

During the year ended 31 December 2016, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

By Order of the Board
Zhang Jack Jiyei
Executive Director

Hong Kong, 30 March 2017

As at the date of this announcement, the Board comprises one Executive Director, being Mr. Zhang Jack Jiyei (Chief Executive Officer and Chief Financial Officer); one Non-executive Director, namely Mr. Lo Ming Chi, Charles; and three Independent Non-executive Directors, namely Mr. Li Fang, Mr. Wong Kee Fung Kenneth and Mr. Wong Kwok Tai.

* *For identification purposes only*