CHINA FORTUNE INVESTMENTS
中國幸福投資

Annual Report 2014

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中國幸福投資(控股)有限公司
China Fortune Investments (Holding) Limited

CHINA FORTUNE INVESTMENTS (HOLDING) LIMITED
(Incorporated in the Cayman Islands with Limited Liability)
(Stock code: 8116)

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

The GEM has been positioned as a market designed to accommodate companies to which a high investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of the GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on the GEM, there is a risk that securities traded on the GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on the GEM.

This report, for which the directors of China Fortune Investments (Holding) Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The directors of the Company, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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CORPORATE PROFILE

DIRECTORS

Executive Directors
Mr. Cheng Chun Tak *(Co-chairman)*
Mr. Wan Zihong *(Co-chairman, Chief Executive Officer)*
Mr. Stephen William Frostick
Mr. Zhang Jie
Mr. He Ling
Mr. Chang Chun
Mr. Xue Huixuan (Appointed on 6 June 2014)

Non-executive Director
Mr. Huang Shenglan

Independent Non-executive Directors
Mr. Lee Chi Hwa, Joshua
Mr. Tso Hon Sai, Bosco
Mr. Chang Jun
Ms. Ching Wai Han

AUTHORISED REPRESENTATIVES

Mr. Stephen William Frostick
Mr. Chow Kin Wing *CPA, ACS, ACIS*

AUDIT COMMITTEE MEMBERS

Mr. Lee Chi Hwa, Joshua *(Chairman)*
Mr. Tso Hon Sai, Bosco
Mr. Chang Jun

NOMINATION COMMITTEE MEMBERS

Mr. Chang Jun *(Chairman)*
Mr. Tso Hon Sai, Bosco
Mr. Lee Chi Hwa, Joshua

REMUNERATION COMMITTEE MEMBERS

Mr. Lee Chi Hwa, Joshua *(Chairman)*
Mr. Chang Jun
Mr. Tso Hon Sai, Bosco

COMPLIANCE OFFICER

Mr. Stephen William Frostick

COMPANY SECRETARY

Mr. Chow Kin Wing *CPA, ACS, ACIS*
(Appointed on 18 March 2015)
Mr. Ang Wing Fung *CPA (Aust), CPA, ACS, ACIS, EMBA*
(Resigned on 18 March 2015)

AUDITORS

HLM CPA Limited
Room 305, 3/F, Arion Commercial Centre,
2-12 Queen's Road West,
Hong Kong

PRINCIPAL BANKER

The Hongkong and Shanghai Banking Corporation Limited
Shanghai Commercial Bank Limited

LEGAL ADVISORS

On Hong Kong Law:
Tang Tso & Lau Solicitors

On Cayman Islands Law:
Conyers Dill & Pearman, Cayman

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS

Room 2204, 22/F,
MassMutual Tower
38 Gloucester Road
Wan Chai, Hong Kong

SHARE REGISTRARS AND TRANSFER OFFICE

Cayman Islands
Royal Bank of Canada
Trust Company (Cayman) Limited
4th Floor, Royal Bank House,
24 Shedden Road, George Town
Grand Cayman KY1-1110,
Cayman Islands

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

STOCK CODE

8116

WEBSITE OF THE COMPANY

www.cfihk.com.hk

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors, we are pleased to report the Group's results for the year ended 31 December 2014.

China is expected to maintain a slower but more sustainable growth, with continuing structural reforms, which would put pressure on growth in the short term but benefit in the long term. In particular, the retail market across Mainland China experienced a slowdown due to the sluggish global economy, which in turn impacted the luxury market.

We will continue to endeavour for the steady growth of the Group in the industry. Due to the unfavourable operating environment, we will review the efficiency of business operation and the Group take the procedures in managing costs.

Moving forward, we believe the economic conditions will improve, and anticipate that the industry will present a better performance in 2015, whereas we will exercise due caution to embrace the challenges. In this regard, we will review to develop and establish new retail shops. At the same time, we will improve our marketing strategies to enhance our sales results.

On behalf of the Board of Directors, we would like to thank all of our directors, management, and staff for their support and dedication in the past year. We would also like to express our most sincere appreciation to the shareholders of the Company and business partners for their unrelenting trust and support to the Group.

Cheng Chun Tak and Wan Zihong
Co-Chairmen

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

Diamonds and gemstone business in China

The Group will take a cautious approach according to global economic uncertainties and its effects on the jewellery industry. The Directors believe that there will be raising consumer demand for luxury goods in Mainland China and the prospects of diamonds will remain positive in the long run. However, the sluggish global economic recovery and slowing economic growth in Mainland China may pose a potential threat to the industry in the near future.

The Chinese economy slowed down in 2013 and 2014 amidst credit tightening and the anticorruption measures taken by the PRC government. Those factors have caused overall slackening in consumption and the luxury sector was particularly adversely affected. The Directors hope that the luxury market in China will rebound in 2015.

Our retail shops City-In-Love positions itself as a distributor in the diamonds and gemstone industry. City-In-Love acquires diamond merchandise through lower margin deposits and credit period with the sales of all diamonds in diamond hypermarket. City-In-Love has demonstrated its advantages as a distributor in such aspects in purchasing, products update and settlement with suppliers, including extensive merchandise sources, low purchase price, relatively low liquidity requirements and relatively high gross margin. With its more effective business development strategies, City-In-Love has attracted more attention as one of emerging sales model of jewellery products and has emerged itself the role of representing the affordable and professional diamond hypermarkets.

I. Purchases

Through the positive interaction with suppliers which is facilitated by the good sales performance, the global supply mechanism set up by City-In-Love is more comprehensive and has established stable co-operation with several suppliers. With the further development of its business, City-In-Love positions itself with more bargaining power to further its revolutionary purchase model of "Deposit-Leverage-Consignment" in the diamonds industry to purchase quality diamond merchandise through relatively low margin deposits.

At the same time, with the exchangeable nature of consignment merchandise, it will also enable City-In-Love to provide more fashionable and popular diamond and jewellery products.

II. Sales

As a result of the reform in traditional jewellery sales models, City-In-Love has significantly trimmed down the sales and circulation segments under the traditional department store models through its own hypermarkets and sold jewellery products at affordable prices by cutting down intermediaries.

Each of the diamonds sold by City-In-Love is attached with a diamond examination certificate issued by authoritative inspection institutes (including GIA, IGI, HRD and NGTC), and has to the greatest extent protected the consumers in buying genuine quality diamonds.

The sales model of "loose diamonds" plus "rings" initiated by City-In-Love has transformed consumers' comprehension of diamond jewellery products represented by "diamond rings" and implemented the concept of selling diamonds at affordable prices in a more quantitative and transparent sales model. The varieties, specifications, quantities and styles of diamonds sold at its stores far exceed the traditional department stores.

Besides, some hypermarkets have even expanded their merchandise to cover emeralds, jades, gemstones and pearls, thus, the merchandise sold at its stores cover nearly all of diamond jewellery products.

III. Jewellery retail stores

In January 2014, the Group closed down one store in Beijing due to slowdown in luxury consumption. City-In-Love further integrated its Beijing markets with currently three stores.

Besides the 3 chain stores in Beijing, the Group opened up its stores in Shenyang and Chengdu. In 2014, the Group upheld a more conservative strategy for the diamonds and gemstone business. In anticipation of a deteriorating economy in 2014, the Group cut over 50 staff in PRC to save the operation cost.

IV. Development planning

A management decision was made to slacken the pace of the opening of shops resulted from the weak consumer sentiment in retail business.

Besides its retail business, the Company will also focus on the development of various profit growing segments to improve its overall profitability, like the development of upstream industry chain and the jewellery wholesale business.

Besides the retail and wholesale of diamonds and gemstone, the Directors will consider franchise projects in PRC. The Group has been actively seeking interested parties for franchise of the Group's retail brands in different regions. Under the franchise model the Group will allow the franchisee to use the Group's branding and image and will supply inventories to the franchisee. Hence it is expected that the franchise model will increase the Group's sales and will also enhance the Group's branding in different locations of the PRC.

Meanwhile, City-In-Love will make new attempts on its online sales by leveraging on the advantages of its stores of physical presence to expand its sales regions and increase its influence.

Group and other business

The Group continues to explore any other new potential investment opportunities to improve the Group's standard performance and returns to its shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue and gross profit

The consolidated revenue of the Group from continuing operations decreased from approximately HK$292 million for the year ended 31 December 2013 to approximately HK$146 million for the year ended 31 December 2014. The entire revenue HK$146 million is from the diamond and jewellery business.

It represents a gross profit margin of approximately 47% and 45% for the years ended 31 December 2014 and 2013 respectively.

Other revenues

The other revenues from continuing operations increased from approximately HK$43,000 for the year ended 31 December 2013 to approximately HK$1.48 million for the year ended 31 December 2014. The increase was mainly attributable to interest income from promissory note receivable in 2014.

Selling and distribution expenses

Selling and distribution expenses from continuing operations decreased from approximately HK$61 million for the year ended 31 December 2013 to approximately HK$42 million for the year ended 31 December 2014, mainly due to reduction in employee remuneration and rental expenses in 2014.

Administrative expenses

Administrative expenses from continuing operations decreased from approximately HK$39 million for the year ended 31 December 2013 to approximately HK$35 million for the year ended 31 December 2014, primarily due to the decrease in employee remuneration in 2014.

Finance costs

Finance costs from continuing operations increased from approximately HK$10 million for the year ended 31 December 2013 to approximately HK$21 million for the year ended 31 December 2014. The finance costs were mainly consisted of convertible bonds imputed interest and interest in bank borrowings. The increase in finance costs mainly attributable to increase in the interest on convertible bonds and other finance costs.

Results of group operations

Loss attributable to shareholders of the Company decreased by 89% from approximately HK$183 million for the year ended 31 December 2013 to approximately HK$21 million for the year ended 31 December 2014. The change was mainly attributed to the absence of impairment loss on goodwill in 2014.

Dividends

The directors do not recommend the payment of a dividend for the year ended 31 December 2014 (2013: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

The cash and cash equivalents as at 31 December 2013 and 2014 amounted to approximately HK$808,000 and HK$1.2 million respectively. The major capital resources of the Group included cash generated from operating activities and the proceeds raised by the Group in Hong Kong and PRC.

The Group's gearing ratio (total liabilities divided by total assets) dropped from 79% as at 31 December 2013 to 55% as at 31 December 2014.

To manage liquidity risk, the Group monitors and maintains a level of cash and cash equivalents considered adequate by its management to finance its operations and mitigate the effects of fluctuations in cash flow. The Group's management also monitors its net current assets/liabilities and the utilisation of borrowings to ensure efficient use of the available banking facilities and compliance with loan covenants.

CAPITAL STRUCTURE

Convertible bonds in the original principal amount of HK$465 million ("CB I") was issued by the Company in 2009 was fully converted during the year.

In 2012, the Group issued convertible bonds in the original principal amount of HK$100 million ("CB II"). As at 31 December 2014, principal amount of HK$50 million of CB II was outstanding with conversion price of HK$2.45 per share. The CB II do not bear any interest. The effective interest rate of the liability component is 4.91% per annum. The maturity date is on the fifth anniversary of the date of issue of the CB II.

On 22 January 2014, the Group issued convertible bonds with an aggregate principal amount of HK$312,000,000 due in 2019 with conversion price of HK$2.45 per share (the "CB IV") with fair value of HK$236,376,000 at the date of issue to settle the Group's contingent consideration payable. The CB IV do not bear any interest. The effective interest rate of the liability component is 7.92% per annum. The maturity date is on the fifth anniversary of the date of issue of the CB IV. As at 31 December 2014, principal amount of HK$148 million of CB IV was outstanding.

CHARGE ON GROUP ASSETS

As at 31 December 2014, the Group's motor vehicles with carrying value amounting to HK$290,000 were pledged to the financial institution. Save as disclosed above, no other Group's assets were charged or pledged to secure any loans or borrowings.

FOREIGN EXCHANGE EXPOSURE

Since the Group's sales, purchases and loans were substantially denominated in either Renminbi or Hong Kong Dollar, the Directors of the Company consider that the potential foreign exchange exposure of the Group is limited.

CONTINGENT LIABILITIES

As at 31 December 2014, the Group did not have any material contingent liabilities.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2014, the Group employed a workforce with head count of approximately 120, the majority of whom were employed in the PRC. Employee benefit expenses from continuing operations, including directors' emoluments, amounted to approximately HK$14 million. The Group's remuneration policy has been in line with the prevailing market practice including discretionary bonus and remunerates its employees based on their performance and contribution. Other benefits include contributions to retirement scheme and medical insurance.

ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

Save as disclosed above, the Group had no other acquisitions or disposals of subsidiaries and affiliated companies for the year ended 31 December 2014.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed above, the Group did not have any future plans for material investments or capital assets as at 31 December 2014.

SIGNIFICANT INVESTMENT

Save as disclosed above, the Group did not have any significant investment as at 31 December 2014.

CORPORATE GOVERNANCE REPORT

INTRODUCTION

The Corporate Governance Code (the "CG") contained in Appendix 15 of the GEM Listing Rules was introduced on 1 January 2005. It sets out the principles of good corporate governance and the Company is required to comply with the code provisions of the CG. The Company is fully admitted that good corporate governance, as part of the Company's culture, can create values to the Group and our shareholders. The Board is committed to continue to enhance the standards of corporate governance within the Group and to ensure that the Group conducts its businesses in an honest and responsible manner. Except for disclosed in this report, the Group has adopted practices which meets the code provisions of the CG.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of the Directors of the Company, all Directors have complied with the required standard of dealings and code of conduct regarding securities transactions by Directors as set out in the code of conduct for the year 2014.

BOARD COMPOSITION

The Board of Directors ("Board") of the Company is entrusted with the overall responsibility for promoting the success of the Company by the direction and supervision of the Company's business and affairs and the ultimate responsibility for the day to day management of the Company which is delegated to the Chairman and Chief Executive Officer and the management.

The Board comprises a total of 12 Directors, with 7 Executive Directors, namely Mr. Cheng Chun Tak (Co-chairman), Mr. Wan Zihong (Co-chairman, Chief Executive Officer), Mr. Stephen William Frostick, Mr. Zhang Jie, Mr. He Ling, Mr. Chang Chun and Mr. Xue Hui Xuan, 1 Non-executive Director, namely Mr. Huang Shenglan and 4 Independent Non-executive Directors, namely Mr. Chang Jun, Mr. Tso Hon Sai Bosco, Mr. Lee Chi Hwa Joshua and Ms. Ching Wai Han. One Independent Non-executive Director has appropriate professional qualifications, accounting and financial management expertise.

As the Company's size is still relatively small and thus is not justified in separating the roles of chairman and chief executive officer of the Company. The Group has in place internal control system to perform the check and balance function. In addition, the Board comprises 12 directors, the balance of power and authority between the Board and management will not be compromised.

Each of the Independent Non-executive Directors has made an annual confirmation of independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company is of the view that all Independent Non-executive Directors meet the independence guidelines set out in Rule 5.09 of the GEM Listing Rules and are independent in accordance with the terms of the guidelines.

The Company has arranged appropriate insurance cover in respect of the legal action against the Directors.

TRAINING AND SUPPORT OF DIRECTORS

All Directors have been given relevant guideline materials regarding the duties and responsibilities of being a Director, the relevant laws and regulations applicable to the Directors, duty of disclosure of interest and business of the Group and such induction materials will also be provided to newly appointed Directors shortly upon their appointment as Directors. All Directors have been updated on the latest developments regarding the GEM Listing Rules and other applicable regulatory requirement to ensure compliance and enhance their awareness of good corporate governance practices. There is a procedure agreed by the Board to ensure Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expenses.

The Directors confirmed that they have complied with the Code Provision A.6.5 of the Code on Directors' training.

DIRECTORS' ATTENDANCE RECORD AT MEETINGS

The Board meets regularly over the Company's affairs and operations. Details of the attendance of each member of the Board at the meetings of the Board, its respective committees and the general meetings during the year ended 31 December 2014 are as follows:

Name of Directors	Board Meeting Attended/ Eligible to attend	Audit Committee Meeting Attended/ Eligible to attend	Remuneration Committee Meeting Attended/ Eligible to attend	Nomination Committee Meeting Attended/ Eligible to attend	General Meeting Attended/ Eligible to attend
Number of meetings held during the financial year	22	4	2	2	2
Executive Directors					
Mr. Cheng Chun Tak *(Co-chairman)*	22/22	N/A	N/A	N/A	N/A
Mr. Wan Zihong *(Co-chairman)*	15/22	N/A	N/A	N/A	N/A
Mr. Chang Chun	15/22	N/A	N/A	N/A	N/A
Mr. Zhang Jie	14/22	N/A	N/A	N/A	N/A
Mr. He Ling	15/22	N/A	N/A	N/A	N/A
Mr. Stephen William Frostick	22/22	N/A	N/A	N/A	2/2
Mr. Xue Hui Xuan	7/7	N/A	N/A	N/A	N/A
Non-executive Director					
Mr. Huang Shenglan	15/22	N/A	N/A	N/A	N/A
Independent Non-executive Directors					
Mr. Lee Chi Hwa, Joshua	15/22	4/4	2/2	2/2	N/A
Mr. Tso Hon Sai, Bosco	15/22	4/4	2/2	2/2	N/A
Mr. Chang Jun	15/22	4/4	2/2	2/2	N/A
Ms. Ching Wai Han	15/22	N/A	N/A	N/A	N/A

All of the Independent Non-executive Directors were unable to attend the Company's annual general meeting held on 30 May 2014 and extraordinary general meetings held during the year due to other prior business engagements.

NON-EXECUTIVE DIRECTORS

The Non-executive Directors are subject to retirement by rotation in accordance with the articles of association of the Company (the "Articles").

All the existing Non-executive Directors are appointed for an initial term of three years and the term of office shall continue after the expiration of the initial term until at least 1 month's prior written notice is given by the Director. The remuneration packages for Non-executive directors are determined by the Board of Directors. They are reimbursed for reasonable expenses incurred during the performance of their duties to the Company and are eligible to be granted share options under the Share Option Scheme.

REMUNERATION OF DIRECTORS

A Remuneration Committee was formed on 30 October 2005 for, inter alia, the following purposes:–

(a) to make recommendations to the Board on policies and structure for remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;

(b) to determine the remuneration packages for Executive Directors and senior management and to make recommendations to the Board on the remuneration of Non-executive Directors.

The Remuneration Committee is made up of the Company's Independent Non-executive Directors, namely Mr. Chang Jun, Mr. Tso Hon Sai Bosco and Mr. Lee Chi Hwa Joshua. Mr. Lee Chi Hwa Joshua is the Chairman of the Remuneration Committee.

Meetings have been held in 2014 to review the remuneration packages of Executive Directors, which are nominal by market standards. The Directors' fees of the Company's Independent Non-executive Directors have not been changed during the year according to market levels. The Remuneration Committee held 2 meetings during the year to consider and approve (a) bonus payments to employees of the Group, (b) salary increases of senior management of the Group and (c) range of salary increase for employees of the Group.

The Remuneration Committee will meet and determine the emolument policy and long-term incentive schemes as well as the basis of determining the emolument payable to the Company's Directors in 2014.

NOMINATION OF DIRECTORS

A Nomination Committee was formed on 31 October 2007 for, inter alia, the following purposes:

(a) to review the structure, size and composition (including the skills, knowledge and experience) of the Board;

(b) to identify individuals suitably qualified to become Board members and make recommendations to the Board on the selection of individuals nominated for directorship; and

(c) to make recommendations to the Board on relevant matters relating to the appointment or re-appointment of directors and succession planning for Directors.

The Nomination Committee is made up of the Company's Independent Non-executive Directors, namely Mr. Chang Jun, Mr. Tso Hon Sai Bosco and Mr. Lee Chi Hwa Joshua, Mr. Chang Jun is the Chairman of the Nomination Committee. The Nomination Committee held 2 meetings during the year to review the structure, size and composition of the Company's Board of Directors. The Nomination Committee was satisfied with the existing composition of the Company's Board of Directors and recommended no change in the near term.

The Nomination Committee will meet and determine the nomination procedures and the process and criteria to select and recommend candidates for directorship in 2015.

AUDITORS' REMUNERATION

The remuneration in respect of audit provided by the auditors, HLM CPA Limited, to the Company for the year 2014 amounted to HK$860,000. No non-audit services were provided by HLM CPA Limited during the year.

AUDIT COMMITTEE

The Company's Audit Committee was formed on 13 July 2000 and is currently composed of three Independent Non-executive Directors of the Company, namely Mr. Lee Chi Hwa Joshua, Mr. Tso Hon Sai Bosco and Mr. Chang Jun, Mr. Lee Chi Hwa Joshua is the Chairman of the Audit Committee. The primary duties of the Audit Committee are (a) to review the Group's annual reports, financial statements, interim reports and quarterly reports, (b) to provide advice and comments thereon to the Board and (c) to review and supervise the financial reporting process and internal control procedures of the Group.

In 2014, the Audit Committee held 4 meetings. The Audit Committee has carefully reviewed the Company's quarterly, half-yearly and annual results and its system of internal control and has made suggestions to improve them. The Audit Committee also carried out and discharged its duties set out in the CG. In the course of doing so, the Audit Committee has met the Company's management, qualified accountant and external auditors in 2014.

CORPORATE GOVERNANCE FUNCTIONS OF THE BOARD

The Board is responsible for performing the corporate governance functions of the Group. The Board has reviewed this corporate governance report in discharge of its corporate governance functions, ensuring compliance with the GEM Listing Rules.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors are responsible for the preparation of the financial statements, which give a true and fair view. The Auditors are responsible for forming an independent opinion, based on the audit, on the financial statements prepared by the Directors and reporting the opinion solely to the shareholders of the Company.

INTERNAL CONTROL

The Board is responsible for the maintenance of a sound and effective internal control system of the Group and has established the Group's internal control policies and procedures for monitoring the internal control system. The internal control system of the Group is designed for the achievement of business objectives, safeguard assets against unauthorised use or disposition, ensure maintenance of proper books and records for the provision of reliable financial information for internal use or publication, and to ensure compliance with relevant legislations and regulations. The management and various departments conduct periodic self-assessment of the effectiveness of the internal control policies and procedures. Besides, the Board reviews at least annually the overall effectiveness of the Group's internal control system.

The Board is of the view that the Group's internal control system is effective to achieve the Group's internal control objectives and will continue to assess the effectiveness of internal controls by considering reviews performed by the Audit Committee and the management.

COMPANY SECRETARY

The company secretary of the Company ("Company Secretary") is responsible for distributing detailed documents to the Directors prior to the Board meetings to ensure that the Directors are able to make informed decisions regarding the matters discussed in the meetings. And all Directors have access to the advice and services of the Company Secretary with a view to ensuring that the Board procedures, and all applicable rules and regulations, are followed. During the year, the Company fully complied with Rules 5.14 of the GEM Listing Rules.

As at 31 December 2014, the Company Secretary is Mr. Ang Wing Fung ("Mr. Ang"), who resigned on 18 March 2015, and a written confirmation had been received by the Company from Mr. Ang to confirm he took not less than 15 hours of relevant professional training during the current year ended under reviewed. The Company is on the view that Mr. Ang comply with the GEM Listing Rule of 5.15.

INVESTOR RELATIONS

The Company has disclosed all necessary information to the shareholders and established a range of communication channels between itself, its shareholders and investors which in compliance with the GEM Listing Rules. During the year under review, there is no change in the Company's constitutional documents.

PROCEDURES FOR SHAREHOLDERS TO CONVENE AN EXTRAORDINARY GENERAL MEETING

There are no provisions allowing shareholders to propose new resolutions at the general meetings under the Cayman Islands Companies Law (2012 Revision). However, shareholders are requested to follow article 58 of the Articles, general meetings shall be convened on the written requisition of any one or more members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

PROCEDURES FOR SHAREHOLDERS TO PROPOSE A PERSON FOR ELECTION AS A DIRECTOR

The provisions for a shareholder to propose a person for election as a director of the Company are laid down in article 88 of the Articles. No person other than a Director retiring at the meeting shall, unless recommended by the Board for election, be eligible for election to as a Director at any general meeting unless a notice in writing of the intention to propose such person for election as a Director, signed by a shareholder (other than the person to be proposed for election as a Director) duly qualified to attend and vote at the meeting for which such notice is given, and a notice in writing signed by such person of his willingness to be elected shall have been lodged at the head office or at the Registration Office. The minimum length of the period during which such notices are given shall be at least seven days and the period for lodgement of such notices shall commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven days prior to the date of such general meeting.

PROCEDURES FOR SENDING ENQUIRIES TO THE BOARD

Shareholders may send written enquiries to the Company, for the attention of Company Secretary, by mail to Room 2204, 22/F., MassMutual Tower, 38 Gloucester Road, Wan Chai, Hong Kong.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Cheng Chun Tak, aged 53, is the Co-Chairman of the Company. He was graduated from Xidian University (formerly known as Xi Bei Institute of Telecommunications Engineering (西北電訊工程學院)) in 1983 majored in Computer Engineering and obtained a Bachelor Degree in Computer Engineering. In 1986, he obtained a Master Degree in Engineering (Computer Science) from the Institute of Microelectronics of Shanxi (陝西微電子學研究所).

Mr. Cheng has been worked as the general manager of Proxim Wireless Corporation (OTCQX: PRXM) from 2002 to 2004. Listed in United States, Proxim Wireless Corporation is a global leading provider for products and services in end-to-end broadband wireless system that provides integrated services in data transmission, acoustic frequency, audio frequency and mobile networks for all companies. Mr. Cheng is mainly responsible for the sales and after-sales services of that company in the Greater China region, being Hong Kong, Mainland China, Macau and Taiwan.

Mr. Cheng has extensive experience in the sales and customer services of communication industry in which he has over 20 years of experience in sales and customer services.

Mr. Wan Zihong, aged 50, is the Co-Chairman and Chief Executive Officer of the Company. He has over 10 years' experience in project management and marketing in retail sales in The People's Republic of China ("PRC"). He has been responsible for launching a large scale shopping arcade for women in Beijing and similar projects in Hebei and Tianjin, PRC. Mr. Wan had also been actively engaged in the retail sales of luxury products such as gold and diamonds in the PRC. Mr. Wan is currently a director of various subsidiaries of the Company engaging in diamond sales in the PRC.

Mr. Chang Chun, aged 50, has over 20 years' experience in the wholesale and trading of diamonds in Japan and the PRC. Prior to joining the Group, Mr. Chang worked for a Japanese corporation in its diamond wholesale business in the PRC. Mr. Chang is currently a director of various subsidiaries of the Company engaging in diamond sales in the PRC.

Mr. Xue Huixuan, aged 47, is a holder of Bachelor's Degree of Beijing University of Civil Engineering and Architecture. He was an engineer of the Design Management Department of Sinopec International Petroleum Engineering Company, and took up duties in EDS department of Maison Worley Parsons E&C Company Limited in Beijing as a professional person-in-charge and a project manager. Mr. Xue has been engaged in engineering design, technology introduction, international cooperation, investment and financing as well as guarantee operations for a number of years. He has extensive experience in project management, technology management, financial management and actual operation. He joined the Group on 6 June 2014.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Stephen William Frostick, aged 65, he obtained a Juris Doctorate at Old College School of Law, Nevada, United States in 1984, a Master of Public Administration and a Bachelor of Science in Business Administration at the University of Nevada, Las Vegas, United States in 1976 and 1974 respectively. Mr. Frostick has over 35 years of experience in leading capacities in the State Government of Nevada, United States, large corporations and international consulting organisations.

Mr. Frostick is well experienced in strategic planning, operational management and organisational development and has about 39 years of senior management experience. He joined the Group in 2007. He is currently the Executive Director of Code Agriculture (Holdings) Limited and also an Independent Non-executive Director of Legend Strategy International Holdings Group Company Limited which are listed on the Stock Exchange of Hong Kong Limited.

Mr. Zhang Jie, aged 55, was graduated from Beijing Institute of Technology in 1983 and obtained a Bachelor degree of Engineering. In 1988, he obtained a professional engineer qualification in computer technology from Beijing Municipal Bureau of scientific and technical cadres.

Mr. Zhang has over 10 years' experience in risk management, electronic engineering, fund management and marketing. Mr. Zhang is the director of Fortman Fund.

Mr. He Ling, aged 50, he founded and operated various trading companies and large scale retailing malls. He has engaged in the investment of various sectors such as film, television, real estate and culture over 10 years. Currently, Mr. He is the chairman of Ru Yi Ji Xiang Film & Television Planning Company (如意吉祥影視策劃公司) and an executive director of Beijing Shi Ji Jing Rong Investment Advisory Co., Ltd. (北京世紀京融投資顧問有限公司).

NON-EXECUTIVE DIRECTOR

Mr. Huang Shenglan, aged 64, holds a diploma in Arts from Huazhong Normal University, a master degree in International Economics from Huadong Normal University and a certificate in International Economic Law from Xiamen University. He also took the Advanced Management Programme from the Business School of Harvard University, USA. Mr. Huang was an executive director and the deputy governor of China Everbright Bank, Head Office and was an executive director and the general manager of China Everbright Technology Limited. He is also an Independent Non-executive Director of China LotSynergy Holdings Limited and Burwill Holdings Limited. All Companies are listed in Hong Kong Stock Exchange. Apart from the above, he did not hold any directorship in other listed companies in Hong Kong or overseas in the last three years.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lee Chi Hwa, Joshua, aged 42, is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants. Mr. Lee has extensive experience in the fields of auditing, accounting and finance. He joined the Group in 2007. He is currently the Independent Non-executive Director of Code Agriculture (Holdings) Limited, Hao Tian Development Group Limited and Jin Bao Bao Holding Limited which are listed on the Stock Exchange of Hong Kong Limited.

Mr. Tso Hon Sai, Bosco, aged 50, is currently a partner with Messrs. Tso Au Yim&Yeung, Solicitors and has been a Hong Kong practising solicitor since 1990. Mr. Tso received his Bachelor of Laws degree from King's College, London. He joined the Group in 2007. He is currently the Independence Non-executive Director of Imperial Pacific International Holdings Limited, a company listed on the Main Board of the Stock Exchange.

Mr. Chang Jun, aged 46, is currently a partner of Messrs, Allbright Law Office-Shenzhen and has been a Chartered lawyer of Chinese Ministry of Law since 2000. Mr. Chang received his Bachelor of Laws degree from Southwest University of Polities & Law, Chongqing and master degree in Economic & Commercial Law in People's University of China, Beijing. Mr. Chang has more than 15 years' experience in Chinese legal profession and extensive experience in legal advisory to public and multinational enterprise in PRC. He joined the Group in 2007.

Ms. Ching Wai Han, aged 39, she obtained a Master of Commerce in International Business at the University of New South Wales in 2001 and a Bachelor of Social Science at the Chinese University of Hong Kong in 1999. Ms. Ching has extensive experience in the field of public relation over 10 years. She joined the Group in 2012.

SENIOR MANAGEMENT

Mr. Chow Kin Wing, aged 33, is the Company Secretary and Financial Controller of the Company, who holds a Bachelor degree in Accounting and Finance from the Queensland University of Technology, Australia. He is an associate member of Hong Kong Institute of Certified Public Accountants, an associate member of the Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators. He has more than 9 years of experience in financial management, auditing and accounting in an international accounting firm and a listed company in Hong Kong.

REPORT OF DIRECTORS

The Directors of the Company ("Directors") submit herewith their annual report together with the audited financial statements for the year ended 31 December 2014.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 16 to the financial statements.

SEGMENT INFORMATION

An analysis of the Group's segment information is set out in note 5 to the financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2014 and the state of the affairs of the Group at that date are set out in the financial statements on pages 28 to 108.

The Directors do not recommend the payment of a dividend for the year.

PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries of the Company as at 31 December 2014 are set out in note 16 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group and of the Company are set out in note 14 to the financial statements.

RESERVES

Details of movements in the reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity on page 33 and note 32 to the financial statements respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2014, the Company has no reserves available for distribution to shareholders (2013: Nil) in accordance with the Companies Law of the Cayman Islands and the Company's Articles of Association.

CONVERTIBLE BONDS

Details of movements in the convertible bonds of the Company during the year are set out in note 28 to the financial statements.

DONATION

The Group's charitable and other donations during the year amounted to approximately HK$340,000 (2013: Nil). No donations were made to political parties.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in note 30 to the consolidated financial statements.

FUND RAISING ACTIVITIES OF THE COMPANY UNDER GENERAL MANDATE

With respect to the placing on 15 January 2014, 80,000,000 new ordinary shares were placed to not less than six independent individual or corporate investors at the placing price of HK$0.103 per share. The aggregate nominal value of the placing shares was HK$8,000,000. The net price per placing share after deducting relevant expenses was approximately HK$0.1005. The closing price of the Company's shares as quotes on GEM on 15 January 2014, being the date of the placing agreement, was HK$0.116. The net proceeds from the placing was approximately HK$8.04 million which have been used as general capital, of which approximately HK$1.5 million for repayment to directors, HK$2.5 million for payment of professional fees and HK$4.04 million for general administrative expenses. The Directors considered that the placing represented a good opportunity to broaden the capital and shareholder base of the Company and to raise capital for its business operation and development.

With respect to the placing on 26 February 2014, 30,000,000 existing ordinary shares were placed to one placee, namely Ko Kin Hang, who is an Independent Third Party at the placing price of HK$0.103 per share. The aggregate nominal value of the subscription shares was HK$30,000. The net price per subscription share after deducting relevant expenses was approximately HK$0.0997. The closing price of the Company's shares as quotes on GEM on 26 February 2014, being the date of the placing agreement, was HK$0.103. The net proceeds from the placing was approximately HK$2.99 million which have been used as general capital, of which approximately HK$0.5 million for payment of professional fees and HK$2.49 million for general administrative expenses. The Directors considered that the placing represented a good opportunity to broaden the capital and shareholder base of the Company and to raise capital for its business operation and development.

With respect to the placing on 4 March 2014, 50,000,000 existing ordinary shares were placed to not less than six independent individual or corporate investors at the placing price of HK$0.103 per share. The aggregate nominal value of the subscription shares was HK$50,000. The net price per subscription share after deducting relevant expenses was approximately HK$0.1004. The closing price of the Company's shares as quotes on GEM on 4 March 2014, being the date of the placing agreement, was HK$0.105. The net proceeds from the placing was approximately HK$5.02 million which have been used as general capital, of which approximately HK$5.02 million for purchase inventories. The Directors considered that the placing represented a good opportunity to broaden the capital and shareholder base of the Company and to raise capital for its business operation and development.

With respect to the placing on 4 April 2014, 20,000,000 existing ordinary shares were placed to one placee, namely Ko Kin Hang, who is an Independent Third Party at the placing price of HK$0.096 per share. The aggregate nominal value of the subscription shares was HK$20,000. The net price per subscription share after deducting relevant expenses was approximately HK$0.0925. The closing price of the Company's shares as quotes on GEM on 4 April 2014, being the date of the placing agreement, was HK$0.096. The net proceeds from the placing was approximately HK$1.83 million which have been used as general capital, of which approximately HK$1.83 million for payment of professional fees. The Directors considered that the placing represented a good opportunity to broaden the capital and shareholder base of the Company and to raise capital for its business operation and development.

With respect to the placing on 9 April 2014, 30,000,000 existing ordinary shares were placed to one placee, namely Ko Kin Hang, who is an Independent Third Party at the placing price of HK$0.10 per share. The aggregate nominal value of the subscription shares was HK$30,000. The net price per subscription share after deducting relevant expenses was approximately HK$0.0973. The closing price of the Company's shares as quotes on GEM on 9 April 2014, being the date of the placing agreement, was HK$0.11. The net proceeds from the placing was approximately HK$2.92 million which have been used as general capital, of which approximately HK$2.92 million for general administrative expenses. The Directors considered that the placing represented a good opportunity to broaden the capital and shareholder base of the Company and to raise capital for its business operation and development.

With respect to the placing on 11 April 2014, 187,000,000 new ordinary shares were placed to one placee, namely Ardon Maroon Asia Master Fund, who is an Independent Third Party at the placing price of HK$0.09 per share. The aggregate nominal value of the placing shares was HK$187,000. The net price per placing share after deducting relevant expenses was approximately HK$0.88. The closing price of the Company's shares as quotes on GEM on 11 April 2014, being the date of the placing agreement, was HK$0.09. The net proceeds from the placing was approximately HK$16.5 million which have been used as general capital, of which approximately HK$2.7 million for repayment to directors, HK$3.3 million for general administrative expenses and HK$10.5 million for purchase inventories. The Directors considered that the placing represented a good opportunity to broaden the capital and shareholder base of the Company and to raise capital for its business operation and development.

REPORT OF DIRECTORS

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five years is set out on page 109 of this annual report.

MAJOR CUSTOMERS AND SUPPLIERS

The percentage of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases

– the largest supplier	28%
– five largest suppliers combined	78%

Sales

– the largest customer	13%
– five largest customers combined	17%

To the best of the Directors' knowledge, none of the Directors, their associates or any shareholder who owns more than 5% of the Company's share capital had an interest in any of the major customers or suppliers above.

EVENTS AFTER THE REPORTING PERIOD

Details of the significant events of the Group after the reporting period are set out in note 39 to the financial statements.

DIRECTORS

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

Mr. Cheng Chun Tak *(Co-chairman)*
Mr. Wan Zihong *(Co-chairman)*
Mr. Stephen William Frostick
Mr. Zhang Jie
Mr. He Ling
Mr. Chang Chun
Mr. Xue Huixuan (Appointed on 6 June 2014)
Mr. Huang Shenglan#
Mr. Lee Chi Hwa, Joshua*
Mr. Tso Hon Sai, Bosco*
Mr. Chang Jun*
Ms. Ching Wai Han*

Non-executive Director
* *Independent Non-executive Director*

One-third of the Directors shall retire at the forthcoming annual general meeting in accordance with Article 87 of the Company's Articles of Association and, being eligible, offer themselves for re-election.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITION IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2014, the interests and short positions of the Directors and the Chief Executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Long positions in the ordinary shares of HK$0.005 each of the Company

Name of the Shareholders	Type of interest	Number of shares	Number of underlying shares	Approximate percentage of issued share capital
Mr. Zhang Jie *(Note 1)*	Beneficial	21,342,857	–	3.42%
Mr. Xue Hui Xuan *(Note 2)*	Beneficial	–	22,285,714	3.58%

Note:

1. Mr. Zhang Jie, an Executive Director of the Company, deemed to have interest in the Company which is held by GLORYWIDE GROUP LIMITED.

2. Mr. Xue Hui Xuan, an Executive Director of the Company has interest in the Company.

Long Positions in the underlying shares

Save as disclosed above, as at 31 December 2014, none of the Directors or the Chief Executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

DIRECTORS' SERVICE CONTRACTS

Each of the Executive Directors has entered into a service contract with the Company for an initial term of three years and will continue thereafter until the contract is terminated by either party giving to the other party not less than one calendar months' notice in writing.

As at 31 December 2014, none of the Directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

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

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the Independent Non-executive Directors, an annual confirmation of his independence pursuant to Rule 5.09 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. The Company considers all of the Independent Non-executive Directors are independent.

EMOLUMENT POLICY

The emolument policy regarding the employees of the Group is set up by the Remuneration Committee and is based on their merit, qualifications and competence.

The emoluments of the Directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the paragraph headed "Directors' and Chief Executives' interests and short positions in shares, underlying shares and debentures" above and the "Share option scheme" below, at no time during the year have rights to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors, their spouse or children under 18 years of age to acquire such rights in any other body corporate.

SHARE OPTION

The Company adopted a share option scheme on 30 July 2007 ("the Scheme"), which became effective for a period of 10 years commencing on 10 August 2007. Under the Scheme, the Directors of the Company may at their discretion grant options to any eligible person to subscribe for the shares of the Company ("Share") at the highest of: (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; (ii) the average closing price of the share as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of a Share. The offer of a grant of option shall remain open for acceptance within 21 days from the date of offer. A nominal consideration of HK$1 is payable on acceptance of the grant of the option. The exercise period of the option must not be more than 10 years from the date of grant of the option.

The Company operates the Scheme for the purpose of advancing the interests of the Company and its shareholders by enabling the Company to grant options to attract, retain and reward any eligible persons which include any director of the Group, any employee of the Group, any consultant, adviser, agent, supplier, customer, business partner or shareholder of the Group for their contribution or potential contribution to the Group.

The total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes in force from time to time must not in aggregate exceed 30% of the shares in issue from time to time.

The total number of shares which may be issued upon exercise of all options to be granted under the Scheme shall not in aggregate exceed 10% of the total number of shares in issue as at the date of the passing of the relevant resolution adopting the Scheme.

As at 31 December 2014, no share options were outstanding.

SUBSTANTIAL SHAREHOLDERS OF THE COMPANY

As at 31 December 2014, the following persons (other than the director and the chief executive of the Company) had interests and short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

Long positions in the ordinary shares of HK$0.005 each of the Company

Name of the Shareholders	Type of interest	Number of shares	Number of underlying shares	Total Number of shares and underlying shares	Approximate percentage of issued share capital
Mr. Lin Haibin *(note a)*	Beneficial	34,081,633	33,061,224	67,142,857	10.77%
Twin Wins Capital Limited ("Twin Wins") *(note b)*	Beneficial	–	32,448,979	32,448,979	5.21%

Note:

(a) Mr. Lin Haibin is an independent third party not connected with the directors, chief executives or substantial shareholders of the Company, any of its subsidiaries or any of their respective associates. He is not involved in the management of the Company and its subsidiaries.

(b) Twin Wins is wholly owned by Liu Qiang who is deemed to be interest in the shares.

Save as disclosed above, as at 31 December 2014, the Directors were not aware of any other person (other than the Directors or the chief executive of the Company) who had, or was deemed to have, interests or short positions in the Shares or underlying Shares (including any interests in options in respect of such capital), which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

MANAGEMENT CONTRACTS

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

CONNECTED TRANSACTIONS

During the year ended 31 December 2014, the Company has not entered into any connected transaction or continuing connected transaction which should be disclosed pursuant to the requirements of GEM Listing Rules.

Significant related party transactions entered by the Group during the year, which do not constitute connected transactions under GEM Listing Rules, are disclosed in note 35 to the financial statements.

COMPETING INTERESTS

The Directors are not aware of, as at 31 December 2014, any business or interest of each Director, controlling shareholder and the respective associates of each that competes or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2014.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association and there is no restriction against such rights under the laws of the Cayman Islands.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company as at the date of this report, the Company has maintained the prescribed public float under the GEM Listing Rules.

AUDITORS

The financial statements of the Company for the years ended 31 December 2012 and 2013 were audited by Ernst & Young, Certified Public Accountants. During the year, Ernst & Young, Certified Public Accountants resigned as auditors of the Company and HLM CPA Limited were appointed by the Board of Directors to fill the casual vacancy so arising. A resolution to re-appoint HLM CPA Limited as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the board

Cheng Chun Tak and Wan Zihong
Co-Chairmen

Hong Kong, 27 March 2015

恒健會計師行有限公司
HLM CPA LIMITED
Certified Public Accountants

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TO THE SHAREHOLDERS OF CHINA FORTUNE INVESTMENTS (HOLDING) LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Fortune Investments (Holding) Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 28 to 108, which comprise the consolidated and the Company's statements of financial position as at 31 December 2014, and the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion
In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014, and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

HLM CPA Limited
Certified Public Accountants
Chan Lap Chi
Practising Certificate Number: P04084

Hong Kong, 27 March 2015

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2014

	Notes	**2014** **HK$'000**	2013 HK$'000
Continuing operations			
Revenue	6	**146,188**	291,771
Cost of sales		**(77,804)**	(160,925)
Gross profit		**68,384**	130,846
Other income and gains, net	6	**1,478**	43
Selling and distribution expenses		**(41,736)**	(61,100)
Administrative expenses		**(35,004)**	(38,894)
Impairment loss on goodwill	15	**–**	(197,307)
Other expenses		**(86)**	(1,697)
Finance costs	7	**(21,136)**	(9,779)
Gain on settlement of contingent consideration payable	24	**9,932**	–
Fair value loss on derivative financial instrument transaction not qualifying as hedges	24	**–**	(17,236)
Loss before tax from continuing operations	8	**(18,168)**	(195,124)
Income tax expense	10	**(2,528)**	(13,434)
Loss for the year from continuing operations		**(20,696)**	(208,558)
Discontinued operations			
Profit for the year from discontinued operations	12	**–**	25,809
Loss for the year		**(20,696)**	(182,749)
Loss for the year attributable to:			
Owners of the Company	11	**(20,696)**	(182,804)
Non-controlling interests		**–**	55
		(20,696)	(182,749)
Loss per share	13		
Basic and diluted			
– For loss for the year		**HK(0.75) cents**	HK(24.77) cents
– For loss from continuing operations		**HK(0.75) cents**	HK(28.26) cents

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2014

	Notes	**2014** **HK$'000**	2013 HK$'000
Loss for the year		**(20,696)**	(182,749)
Other comprehensive income (expense)			
Items that may be subsequently reclassified to profit or loss:			
Exchange differences on translation of foreign operations		**(6,016)**	15,567
Realisation of foreign currency translation reserves upon disposal of subsidiaries	33	**–**	(38,285)
Other comprehensive expense for the year, net of tax		**(6,016)**	(22,718)
Total comprehensive expense for the year		**(26,712)**	(205,467)
Total comprehensive income (expense) attributable to:			
Owners of the Company		**(26,712)**	(206,364)
Non-controlling interests		**–**	897
		(26,712)	(205,467)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2014

	Notes	**2014** **HK$'000**	2013 HK$'000
Non-current assets			
Property, plant and equipment	14	**24,010**	34,144
Deposits and prepayments	20	**5,312**	5,153
Goodwill	15	**372,399**	372,399
Deferred tax assets	29	**674**	691
		402,395	412,387
Current assets			
Inventories	17	**233,442**	186,012
Trade receivables	18	**381**	789
Promissory note receivable	19	**80,000**	80,000
Other receivables, deposits and prepayments	20	**128,254**	139,760
Pledged deposit	21	**–**	7,692
Cash and cash equivalents	21	**1,226**	808
		443,303	415,061
Current liabilities			
Trade payables	22	**18,537**	22,245
Accruals, other payables and deposits received	23	**179,603**	167,394
Contingent consideration payable	24	**–**	246,308
Convertible bonds	28	**–**	71,565
Interest-bearing bank borrowings	25	**81,835**	49,025
Advances from a shareholder of the Company/ a former shareholder of a subsidiary	27	**–**	25,933
Amounts due to directors	27	**11,748**	10,693
Tax payable		**9,250**	14,888
		300,973	608,051
Net current assets (liabilities)		**142,330**	(192,990)
Total assets less current liabilities		**544,725**	219,397

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
Non-current liabilities			
Convertible bonds	28	**161,135**	44,927
Interest-bearing bank borrowings	25	**504**	1,089
		161,639	46,016
Net assets		**383,086**	173,381
Equity attributable to owners of the Company			
Issued capital	30	**3,116**	221,432
Reserves	32(a)	**379,970**	(48,051)
Total equity		**383,086**	173,381

Mr. Cheng Chun Tak
Director

Mr. Wan Zihong
Director

STATEMENT OF FINANCIAL POSITION

At 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
Non-current assets			
Property, plant and equipment	14	**628**	49
Deposits	20	**389**	403
Investments in subsidiaries	16	**450,857**	437,464
		451,874	437,916
Current assets			
Promissory note receivable	19	**80,000**	80,000
Deposits and other receivables	20	**2,817**	1,392
Cash and cash equivalents	21	**721**	352
		83,538	81,744
Current liabilities			
Accruals and other payables	23	**4,771**	5,928
Amounts due to directors	27	**11,747**	10,757
Contingent consideration payable	24	**–**	246,308
Convertible bonds	28	**–**	71,565
Interest-bearing bank borrowings	25	**585**	564
		17,103	335,122
Net current assets (liabilities)		**66,435**	(253,378)
Total assets less current liabilities		**518,309**	184,538
Non-current liabilities			
Interest-bearing bank borrowings	25	**504**	1,089
Convertible bonds	28	**161,135**	44,927
		161,639	46,016
Net assets		**356,670**	138,522
Equity			
Issued capital	30	**3,116**	221,432
Reserves	32(b)	**353,554**	(82,910)
Total equity		**356,670**	138,522

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

		Attributable to the owners of the Company										
	Notes	**Issued capital** *HK$'000*	**Share premium account** *HK$'000*	**Merger reserve** *HK$'000* *(Note 32(a)(i))*	**Statutory surplus reserve** *HK$'000* *(Note 32(a)(ii))*	**Share-based compensation reserve** *HK$'000*	**Convertible bonds equity reserve** *HK$'000*	**Foreign currency translation reserves** *HK$'000*	**Accumulated losses** *HK$'000*	**Total** *HK$'000*	**Non – controlling Interests** *HK$'000*	**Total equity** *HK$'000*
At 1 January 2014		221,432	1,311,243	(46,815)	2,817	–	16,443	2,012	(1,333,751)	173,381	–	173,381
Loss for the year		–	–	–	–	–	–	–	(20,696)	(20,696)	–	(20,696)
Other comprehensive expense for the year:												
Exchange differences on translation of foreign operations		–	–	–	–	–	–	(6,016)	–	(6,016)	–	(6,016)
Total comprehensive expense for the year		–	–	–	–	–	–	(6,016)	(20,696)	(26,712)	–	(26,712)
Issue of shares	30	17,772	225,031	–	–	–	(14,345)	–	–	228,458	–	228,458
Share issue expenses	30	–	(4,595)	–	–	–	–	–	–	(4,595)	–	(4,595)
Capital reorganisation	30(f)	(236,088)	–	–	–	–	–	–	236,088	–	–	–
Issue of convertible bonds	28	–	–	–	–	–	12,554	–	–	12,554	–	12,554
At 31 December 2014		**3,116**	**1,531,679**	**(46,815)**	**2,817**	**–**	**14,652**	**(4,004)**	**(1,118,359)**	**383,086**	**–**	**383,086**
At 1 January 2013		154,646	1,119,870	(46,815)	20,585	47,215	54,563	25,572	(1,215,930)	159,706	(1,644)	158,062
Profit (loss) for the year		–	–	–	–	–	–	–	(182,804)	(182,804)	55	(182,749)
Other comprehensive income (expense) for the year:												
Exchange differences on translation of foreign operations		–	–	–	–	–	–	14,725	–	14,725	842	15,567
Realisation of foreign currency translation reserves upon disposal of subsidiaries	33	–	–	–	–	–	–	(38,285)	–	(38,285)	–	(38,285)
Total comprehensive income (expense) for the year		–	–	–	–	–	–	(23,560)	(182,804)	(206,364)	897	(205,467)
Disposal of subsidiaries	33	–	–	–	(20,585)	–	–	–	20,585	–	747	747
Issue of shares	30	66,786	192,049	–	–	–	(38,120)	–	–	220,715	–	220,715
Share issue expenses	30	–	(676)	–	–	–	–	–	–	(676)	–	(676)
Share options lapsed		–	–	–	–	(47,215)	–	–	47,215	–	–	–
Transfer to statutory surplus reserve		–	–	–	2,817	–	–	–	(2,817)	–	–	–
At 31 December 2013		221,432	1,311,243	(46,815)	2,817	–	16,443	2,012	(1,333,751)	173,381	–	173,381

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

	Notes	**2014** **HK$'000**	2013 HK$'000
CASH FLOW FROM OPERATING ACTIVITIES			
Loss before tax:			
From continuing operations		**(18,168)**	(195,124)
From discontinued operations	12	**–**	25,809
Adjustments for:			
Interest income	6	**(1,300)**	(133)
Finance costs	7	**21,136**	10,250
Write off of trade receivables	8	**–**	208
Write off of other receivables	8	**86**	305
Fair value loss on derivative financial instrument transaction not qualifying as hedges	8	**–**	17,236
Gain on settlement of contingent consideration payable	8	**(9,932)**	–
Impairment loss on items of property, plant and equipment	8	**–**	1,184
Depreciation of items of property, plant and equipment	14	**10,868**	10,120
Loss on disposal/write off of items of property, plant and equipment	8	**–**	222
Impairment loss on goodwill	15	**–**	197,307
Net gain on disposal of subsidiaries	12, 33	**–**	(32,168)
Operating cash flows before movements in working capital		**2,690**	35,216
Increase in inventories		**(47,430)**	(65,357)
Decrease in trade receivables		**408**	590
Decrease (increase) in other receivables, deposits and prepayments		**12,546**	(86,066)
Decrease in an amount due from a related company		**–**	861
(Decrease) increase in trade payables		**(3,708)**	10,072
Increase in accruals, other payables and deposits received		**7,963**	57,746
Effect of foreign exchange rate changes, net		**(5,295)**	14,928
Cash used in operations		**(32,826)**	(32,010)
Interest paid		**(6,187)**	(3,589)
Interest element of finance lease rental payments		**(51)**	(73)
Overseas taxes paid		**(7,906)**	(8,427)
Net cash flows used in operating activities		**(46,970)**	(44,099)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
CASH FLOW FROM INVESTING ACTIVITIES			
Interest received		**15**	133
Purchases of items of property, plant and equipment	14	**(1,454)**	(19,164)
Proceeds from disposal of items of property, plant and equipment		**16**	–
Proceeds from disposal of subsidiaries	33	**–**	18,145
Proceeds from disposal of financial assets at fair value through profit or loss		**–**	300
Decrease (increase) in pledged deposit		**7,692**	(7,692)
Net cash flows from (used in) investing activities		**6,269**	(8,278)
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	30	**38,627**	22,545
Share issue expenses	30	**(4,595)**	(676)
Capital element of finance lease rental payments		**(564)**	(542)
Drawdown of bank loans		**210,379**	143,590
Repayment of bank loans		**(175,949)**	(118,059)
Increase (decrease) in amounts due to directors		**1,055**	(1,529)
Repayment of advances from a shareholder of the Company/a former shareholder of a subsidiary		**(25,933)**	(11,164)
Net cash flows from financing activities		**43,020**	34,165
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**2,319**	(18,212)
Cash and cash equivalents at beginning of year		**808**	18,862
Effect of foreign exchange rate changes, net		**(1,901)**	158
CASH AND CASH EQUIVALENTS AT END OF YEAR		**1,226**	808

1. GENERAL

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 13 October 1999 under the Companies Law of the Cayman Islands and its shares are listed on the Growth Enterprise Market ("GEM") of the Stock Exchange of Hong Kong Limited ("Stock Exchange").

The registered office address of the Company is Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681, George Town, Grand Cayman, British West Indies. The principal place of business of the Company is located at Room 2204, 22/F., MassMutual Tower, 38 Gloucester Road, Wanchai, Hong Kong.

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 16 to the financial statements.

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

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

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

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC) – Int 21	Levies

The application of these amendments to HKFRSs and new interpretation 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 these financial statements.

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

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[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle[4]
HKFRS 9	Financial Instruments[6]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to HKFRS 10, HKFRS12 and HKAS 28 (2011)	Investment Entities: Applying the Consolidation Exception[4]
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations[4]
HKFRS 14	Regulatory Deferral Accounts[3]
HKFRS 15	Revenue from Contracts with Customers[5]
Amendments to HKAS 1	Disclosure Initiative[4]
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[4]
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants[4]
Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions[1]
Amendments to HKAS 27	Equity Method in Separate Financial Statements[4]

[1] Effective for annual periods beginning on or after 1 July 2014, with earlier application permitted.
[2] Effective for annual periods beginning on or after 1 July 2014, with limited exceptions. Earlier application is permitted.
[3] Effective for first annual HKFRS financial statements beginning on or after 1 January 2016, with earlier application permitted.
[4] Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.
[5] Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.
[6] Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

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

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

New Companies Ordinance

In addition, the requirements of Part 9, "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation from the Group's first financial year commencing after 3 March 2014 (that is, the Group's financial year which began on 1 January 2015) in accordance with section 358 of the Hong Kong Companies Ordinance (Cap. 622). The Group is in the process of making an assessment of the expected impact of the changes in the Companies Ordinance on these financial statements in the period of initial application of Part 9. So far, it has concluded that the impact is unlikely to be significant and will primarily only affect the presentation and disclosure of information in these financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with HKFRSs (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the HKICPA. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange and by the Hong Kong Companies Ordinance.

The financial statements have been prepared on the historical cost basis, except for the contingent consideration payable that is measured at fair value, at the end of each reporting period.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirely, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassess whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

– the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;

– potential voting rights held by the Group, other vote holders or other parties;

– rights arising from other contractual arrangements; and

– any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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

Investment in subsidiaries

Investment in subsidiaries are stated at cost less any identified impairment loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Revenue recognition

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

(i) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(ii) from the rendering of services relating to Healthcare Information Technology ("HIT"), on the percentage of completion basis, as further explained in the accounting policy for "Contracts for services relating to Healthcare Information Technology"; and

(iii) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts over the expected life of the financial instrument to the net carrying amount of the financial asset.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Contracts for services relating to Healthcare Information Technology

Contract revenue on the rendering of services relating to HIT comprises the agreed contract amount. Costs of rendering services comprise labour and other costs of personal and materials directly engaged in providing the services and attributable overheads.

Revenue from the rendering of services is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction. Where the outcome of a contract cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profit less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. When progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease payable.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see in the accounting policy below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing (continued)

The Group as lessee *(continued)*

Operating lease payments are recognised as an expense on straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

– exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;

– exchange differences on transactions entered into in order to hedge certain foreign currency risks; and

– exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of foreign currency translation reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation, (i.e. a disposal of the Group's entire interest in a foreign operation, a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

Goodwill and fair value adjustments to identifiable assets acquired and liabilities assumed through acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and differences arising are recognised in other comprehensive income.

Borrowing costs

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

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

Other employee benefits

Pension schemes and other retirement benefits

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments

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

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external professionally qualified valuer using Black-Scholes option pricing model, further details of which are given in note 31 to the financial statements.

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

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the consolidated statement of profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of reporting period, to recover or settle the carrying amount of its assets and liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

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

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

Leasehold improvements	33% to 50%
Furniture, fixture and equipment	20%
Computer equipment	33%
Motor vehicles	10% to 33%

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the relevant asset and is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual assets, the Group estimates the recoverable amount of the cash-generating unit to which the assets belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating unit, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whatever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an assets (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the assets (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the assets (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the specific identification basis for loose diamonds and gem-set jewellery; and weighted average for other inventories. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is possible that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

Cash and cash equivalents

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

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

Related parties

A related party is a person or an entity that is related to the Group;

(a) A person, or a close member of that person's family, is related to the Group if that person:

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

(b) An entity is related to the Group if any of the following conditions applies:

(i) the entity and the Group are members of the same Group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

(iii) both entities are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and other entity is an associate of the third entity;

(v) the entity has a post-employment benefit plan for the benefits of employees of either the Group or an entity related to the Group.

(vi) the entity is controlled or jointly controlled by a person identified in (a);or

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with an entity.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attribute to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets *(continued)*

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade receivables, promissory note receivable, other receivables and deposits, pledged deposit and cash and cash equivalents) are measured at amortised cost using the effective interest method, less any impairment (see accounting policy on impairment loss on financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Objective evidence of impairment could include:

– significant financial difficulty of the issuer or counterparty; or

– breach of contract, such as a default or delinquency in interest or principal payments; or

– it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or

– disappearance of an active market for that financial asset because of financial difficulties.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets *(continued)*

Impairment of financial assets (continued)

For certain categories of financial assets, such as trade receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit periods, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets that are carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity instruments *(continued)*

Convertible bonds

The component parts of compound instruments (convertible bonds) issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognised in equity will be transferred to share premium account. When the conversion option remains unexercised at the maturity date of the convertible bonds, the balance recognised in equity will be transferred to accumulated losses. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognised directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortised over the lives of the convertible bonds using the effective interest method.

Financial liabilities

Financial liabilities (including trade payables, accruals, other payables and deposits received, interest-bearing bank borrowings, advances from a shareholder of the Company/a former shareholder of a subsidiary and amounts due to directors) are subsequently measure at amortised cost, using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity instruments *(continued)*

Financial liabilities (continued)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit of loss immediately unless the derivative is designated and effective as a hedging instrument, in which case the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Current versus non-current classification

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

– where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.

– embedded derivatives that are not closely related to the host contract are classified consistently with cash flows of the host contract.

– derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current and non-current portions only if a reliable allocation can be made.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Offsetting of financial instruments

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

4. CRITICAL ACCOUNT JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Judgements

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

Withholding taxes arising from the distributions of dividends

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

4. CRITICAL ACCOUNT JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Estimation uncertainty

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

Impairment of goodwill

The Group determined whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill as at 31 December 2014 was HK$372,399,000 (2013: HK$372,399,000). Further details are given in note 15 to the financial statements.

Impairment of non-financial assets (other than goodwill)

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

Impairment allowance for trade and other receivables

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

4. CRITICAL ACCOUNT JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Estimation uncertainty (continued)

Net realisation value of inventories

Net realisation value of inventories is based on estimated selling prices less any estimation costs to be incurred to completion and disposal. These estimates are based on the current market condition and the historical experience in selling goods of similar nature. It could change significantly as a result of changes in market conditions. The Group will reassess the estimation at the end of each reporting period.

Contingent consideration payable

The Group accounted for the contingent consideration payable in the acquisition of subsidiaries during the year ended 31 December 2012 under HKFRS 3 (Revised) Business Combinations. The contingent consideration will be settled by convertible bonds. The principal amount of the convertible bonds would be issued by the Company as the contingent consideration of the acquisition is subject to the results of the acquired subsidiaries. The Group determines, with reference to a valuation of the convertible bond performed by an independent valuation firm, the amount of derivative financial liabilities to be recognised in respect of such contingent consideration payable. As the process requires input of subjective assumptions, any changes to the assumptions can materially affect the amount of derivative financial liabilities. Subsequent change in fair value of the derivative financial liabilities is recognised in profit or loss. As at 31 December 2014, the carrying amount of contingent consideration payable amounted to HK$Nil (2013: HK$246,308,000). Further details are given in note 24 to the financial statements.

Revenue recognition

The Group recorded certain sale of goods to customers, who have the unconditional right to require the Group to repurchase the related goods at an agreed price. The Group considered that, based on past experience with similar sales, a reasonable estimate of future returns, as well as the provision against revenue for estimated return, could not be made by the Group as at the date of approval of these financial statements. Accordingly, no revenue would be recognised by the Group for these sales transactions.

5. OPERATING SEGMENT INFORMATION

The Group's primary operating segment is the diamond and jewellery business after the disposal of the HIT business in last year (note 12). Since the diamond and jewellery business is the only continuing operating segment of the Group, no further analysis thereof is presented.

Geographical information

(a) ***Revenue from external customers***

	2014	2013
	HK$'000	*HK$'000*
Mainland China	**146,188**	256,290
Hong Kong	**–**	35,481
	146,188	291,771

The revenue information of continuing operations above is based on the locations of the customers.

(b) ***Non-current assets***

	2014	2013
	HK$'000	*HK$'000*
Mainland China	**395,489**	405,036
Hong Kong	**920**	1,507
	396,409	406,543

The non-current assets information of continuing operations above is based on the locations of the assets and excludes deposits and prepayments and deferred tax assets.

Information about major customers

Revenue from continuing operations of approximately HK$19,846,205 was derived from sales by the diamond and jewellery business segment to the largest customer for the year ended 31 December 2014.

The revenue from continuing operations from the Group's largest customer amounted to less than 10% of the Group's total turnover for the year ended 31 December 2013.

6. REVENUE, OTHER INCOME AND GAINS, NET

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns, trade discounts, value-added tax and consumption tax.

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

	Group	
	2014	2013
	HK$'000	*HK$'000*
Revenue		
Sale of goods	**146,188**	291,771
Other income and gains, net		
Bank interest income	**15**	37
Interest income from promissory note receivable	**1,285**	–
Others	**178**	6
	1,478	43

7. FINANCE COSTS

An analysis of finance costs from continuing operations is as follows:

	Group	
	2014	2013
	HK$'000	*HK$'000*
Interest on bank loans wholly repayable within five years	**5,490**	2,448
Interest on finance leases	**51**	73
Interest on convertible bonds	**10,652**	5,907
Amortisation of guarantee fees on bank loans	**697**	681
Provision of finance costs for deposits received *(note 23)*	**4,246**	670
	21,136	9,779

8. LOSS BEFORE TAX FROM CONTINUING OPERATIONS

The Group's loss before tax from continuing operations is arrived at after charging (crediting) the following items:

	2014 **HK$'000**	2013 HK$'000
Cost of inventories sold	**77,804**	160,925
Auditors' remuneration	**860**	2,500
Depreciation of items of property, plant and equipment	**10,868**	10,120
Employee benefit expenses (excluding directors' and chief executive's remuneration – note 9):		
Wages and salaries	**10,346**	19,809
Pension scheme contributions	**2,834**	5,086
	13,180	24,895
Minimum lease payments under operating leases in respect of land and buildings	**19,558**	20,063
Loss on disposal/write off of items of property, plant and equipment	**–**	222
Impairment loss on items of property, plant and equipment*	**–**	1,184
Write off of trade receivables*	**–**	208
Write off of other receivables*	**86**	305
Foreign exchange differences, net	**–**	190
Fair value loss on derivative financial instrument transaction not qualifying as hedges	**–**	17,236
Gain on settlement of contingent consideration payable	**(9,932)**	–

* *Included in "other expenses" on the face of the consolidated statement of profit or loss.*

9. DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

(a) Directors' emoluments

The aggregate amount of emoluments payables to directors of the Company during the years were as follows:

	Group	
	2014	2013
	HK$'000	*HK$'000*
Fee	**3,830**	1,565
Other emoluments:		
Salaries, allowances and benefits in kind	**–**	–
Pension scheme contribution	**–**	–
	3,830	1,565

9. DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION (continued)

(a) Directors' emoluments (continued)

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total HK$'000
2014				
Executive directors:				
Cheng Chun Tak	600	–	–	600
Wan Zihong *(note a)*	600	–	–	600
Chang Chun	600	–	–	600
Zhang Jie	600	–	–	600
He Ling	600	–	–	600
Stephen William Frostick	120	–	–	120
Xue Huixuan *(note b)*	350	–	–	350
Non-executive director:				
Huang Shenglan	120	–	–	120
Independent non-executive directors:				
Chang Jun	60	–	–	60
Tso Hon Sai Bosco	60	–	–	60
Lee Chi Hwa Joshua	60	–	–	60
Ching Wai Han	60	–	–	60
	3,830	–	–	3,830
Senior management:				
Ang Wing Fung	–	1,053	17	1,070
	3,830	1,053	17	4,900

9. DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION (continued)

(a) Directors' emoluments (continued)

	Fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Pension scheme contributions *HK$'000*	Total *HK$'000*
2013				
Executive directors:				
Cheng Chun Tak	200	–	–	200
Wan Zihong *(note a)*	200	–	–	200
Chang Chun	200	–	–	200
Zhang Jie	200	–	–	200
He Ling	200	–	–	200
Stephen William Frostick	120	–	–	120
Non-executive director:				
Huang Shenglan	200	–	–	200
Independent non-executive directors:				
Chang Jun	60	–	–	60
Tso Hon Sai Bosco	60	–	–	60
Lee Chi Hwa Joshua	60	–	–	60
Ching Wai Han	65	–	–	65
	1,565	–	–	1,565
Senior management:				
Ang Wing Fung	–	975	15	990
	1,565	975	15	2,555

Note (a): Mr. Wan Zihong is also the chief executive officer of the Group.

Note (b): Appointed on 6 June 2014.

No director waived or agreed to waive any emoluments during the years ended 31 December 2014 and 2013.

9. DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION (continued)

(b) Five highest paid and individual

The five highest paid employees during the year included one (2013: one) senior management and four (2013: Nil) directors of the Company, details of whose remuneration are set above. Details of the remuneration for the year of the remaining Nil (2013: four) highest paid employees who are neither a director nor senior management of the Company are as follows:

	Group	
	2014	2013
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	–	1,063
Pension scheme contributions	–	48
	–	1,111

The number of the highest paid employees, who are neither a director nor senior management of the Company, whose remuneration fell within the following bands is as follows:

	Number of employees	
	2014	2013
Nil to HK$1,000,000	–	4

During the year, no emoluments were paid by the Group to any of the highest paid employees who are neither a director nor senior management of the Company as an inducement to join or upon joining the Group or as compensation for loss of office (2013: Nil).

10. INCOME TAX EXPENSE

No provision for Hong Kong profits tax has been made as the Group has no assessable profits in Hong Kong for the year (2013: Nil).

Hong Kong profits tax had been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong in 2013. Taxes on profits assessable elsewhere had been calculated at the rates of tax prevailing in the jurisdictions in which the Group operated.

	Group	
	2014	2013
	HK$'000	*HK$'000*
Current tax – Hong Kong		
(Credit) charge for the year	**–**	2,503
Over-provision of taxation in a prior year	**(4)**	–
	(4)	2,503
Current tax – Mainland China		
Charge for the year	**2,532**	10,931
Total tax charge for the year from continuing operations	**2,528**	13,434

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

10. INCOME TAX EXPENSE (continued)

A reconciliation of the tax charge applicable to loss before tax from continuing operations at the applicable statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

	Group	
	2014	2013
	HK$'000	*HK$'000*
Loss before tax from continuing operations	**(18,168)**	(195,124)
Tax at the applicable statutory tax rates	**(2,808)**	(29,878)
Income not subject to tax	**(1,852)**	(5)
Expenses not deductible for tax	**5,686**	40,612
Tax losses not recognised	**1,506**	2,651
Over-provision of taxation in a prior year	**(4)**	–
Others	**–**	54
Tax charge for the year	**2,528**	13,434

The Group has estimated tax losses arising in Hong Kong of HK$51,876,000 (2013: HK$36,367,000) that are available indefinitely for offsetting against future taxable profits of the Company and the respective subsidiaries in which the losses arose. The Group also has estimated tax losses arising in Mainland China of RMB14,377,000 equivalent to HK$17,971,000 (2013: RMB8,378,000 (equivalent to HK$10,605,000)) that will expire in five years for offsetting against future taxable profit of the companies in which the losses arose. No deferred tax assets have been recognised in respect of these losses as the directors consider it is not probable that future taxable profit will be available against which these tax losses can be utilised.

11. LOSS ATTRIBUTABLE TO THE OWNERS OF THE COMPANY

The consolidated loss attributable to the owners of the Company for the year ended 31 December 2014 includes a loss of HK$18,269,000 (2013: HK$38,389,000) which has been dealt with in the financial statements of the Company note 32(b).

12. DISCONTINUED OPERATIONS

On 28 March 2013, the Company and a subsidiary of the Potential HIT Purchaser (the "HIT Purchaser") entered into a sales and purchase agreement (the "HIT Sales and Purchase Agreement") to dispose of the Group's entire equity interests in Wealthy China Group Limited ("Wealthy China") and Champion Skill Holdings Limited ("Champion Skill") and the loan due from the HIT Group to the Group of approximately HK$147,000,000 for a total consideration of HK$100,000,000. The disposal of the HIT Group was completed on 27 December 2013. Details of the net assets of the HIT Group disposed of are disclosed in note 33 to the financial statements.

The results of the HIT Group for the year are presented below:

	2014	2013
	HK$'000	*HK$'000*
Revenue	–	27,714
Interest income	–	96
Other income	–	1,103
Finance costs	–	(471)
Expenses	–	(34,801)
Gain on disposal of subsidiaries *(note 33)*	–	32,168
Profit before tax from discontinued operations	–	25,809
Income tax expense	–	–
Profit for the year from discontinued operations	–	25,809
Attributable to non-controlling interests	–	(55)
Profit for the year from discontinued operations attributable to owners of the Company	–	25,754

12. DISCONTINUED OPERATIONS (continued)

The net cash flows incurred by the HIT Group are as follows:

	2014	2013
	HK$'000	*HK$'000*
Operating activities	–	(507)
Investing activities	–	(1,759)
Net cash outflow	–	(2,266)
Earnings per share:		
Basic, from discontinued operations	–	HK3.49 cents
Diluted, from discontinued operations	–	HK2.96 cents

The calculation of basic and diluted earnings per share from discontinued operations are based on:

	2014	2013
	HK$'000	*HK$'000*
Profit attributable to the owners of the Company from discontinued operations	–	25,754

	Number of shares	
	2014	2013
Weighted average number of ordinary shares in issue during the year used in the basic earnings (loss) per share calculation *(note 13)*	**2,759,537,657**	737,985,433
Weighted average number of ordinary shares used in the diluted earnings (loss) per share calculation *(note 13)*	**2,915,109,704**	869,964,689

13. EARNINGS (LOSS) PER SHARE ATTRIBUTABLE TO THE OWNERS OF THE COMPANY

The calculation of basic earnings (loss) per share amount is based on the loss for the year attributable to the owners of the Company of HK$20,696,000 (2013: HK$182,804,000), and the weighted average number of 2,759,537,657 (2013: 737,985,433) ordinary shares for the purpose of calculating the basic earnings (loss) per share.

The weighted average number of ordinary shares for the years ended 31 December 2014 and 31 December 2013 for the purpose of calculating basic earnings (loss) per share amount has been adjusted for (i) the consolidation of shares on the basis that every 5 issued and unissued shares being converted into one consolidated share which took place on 3 June 2014 and (ii) the open offer on the basis of two offer shares for every one share held on the record date. Details of the share consolidation and the Open Offer are set out in note 30 and note 39 respectively to the financial statements.

The calculations of basic and diluted earnings (loss) per share are based on:

	2014	2013
	HK$'000	*HK$'000*
Earnings (loss)		
Profit (loss) attributable to the owners of the Company, used in the basic earnings (loss) per share calculation:		
From continuing operations	**(20,696)**	(208,558)
From discontinued operations	**–**	25,754
	(20,696)	(182,804)
Interest on convertible bonds	**10,652**	5,907
Loss attributable to the owners of the Company before interest on convertible bonds	**(10,044)***	(176,897)*
Attributable to:		
Continuing operations	**(10,044)***	(202,651)*
Discontinued operations	**–**	25,754
	(10,044)*	(176,897)*

13. EARNINGS (LOSS) PER SHARE ATTRIBUTABLE TO THE OWNERS OF THE COMPANY (continued)

	Number of shares	
	2014	2013
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings (loss) per share calculation	**2,759,537,657**	737,985,433
Effect of dilution – weighted average number of ordinary shares:	**155,572,046**	131,979,257
	2,915,109,703*	869,964,690*

* *No adjustment has been made to the basic loss per share amount for the years ended 31 December 2014 and 31 December 2013 in respect of a dilution because the diluted loss per share amount is decreased when taking convertible bonds into account, so the convertible bonds had an anti-dilutive effect on the basic loss per share amount for the years ended 31 December 2014 and 31 December 2013, and were ignored in the calculation of diluted loss per share amount.*

No adjustment has been made to the basic loss per share amount from continuing operations for the years ended 31 December 2014 and 31 December 2013 in respect of a dilution because the diluted loss per share amount from continuing operations is decreased when taking convertible bonds into account, so the convertible bonds had an anti-dilutive effect on the basic loss per share amount from continuing operations for the years ended 31 December 2014 and 31 December 2013, and were ignored in the calculation of diluted loss per share amount from continuing operations.

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold improvements HK$'000	Furniture, fixture and equipment HK$'000	Computer equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost					
At 1 January 2013	17,253	5,384	4,900	3,682	31,219
Addition	15,969	412	2,783	–	19,164
Write off	(317)	–	–	–	(317)
Exchange realignment	492	150	118	6	766
At 31 December 2013 and 1 January 2014	33,397	5,946	7,801	3,688	50,832
Addition	1,378	–	76	–	1,454
Disposal	–	–	(39)	–	(39)
Write off	(1,689)	–	–	–	(1,689)
Exchange realignment	(875)	(160)	(191)	(6)	(1,232)
At 31 December 2014	32,211	5,786	7,647	3,682	49,326
Accumulated depreciation and impairment					
At 1 January 2013	2,267	896	1,158	856	5,177
Charge for the year	6,175	1,254	1,475	1,216	10,120
Impairment	1,184	–	–	–	1,184
Write off	(95)	–	–	–	(95)
Exchange realignment	202	52	46	2	302
At 31 December 2013 and 1 January 2014	9,733	2,202	2,679	2,074	16,688
Charge for the year	6,595	1,271	1,797	1,205	10,868
Write off	(1,689)	–	–	–	(1,689)
Eliminated upon disposal	–	–	(23)	–	(23)
Exchange realignment	(356)	(83)	(86)	(3)	(528)
At 31 December 2014	14,283	3,390	4,367	3,276	25,316
Carrying amounts					
At 31 December 2014	17,928	2,396	3,280	406	24,010
At 31 December 2013	23,664	3,744	5,122	1,614	34,144

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Company

	Leasehold Improvement	Furniture, fixture and equipment	Computer	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cost				
At 1 January 2013, 31 December 2013 and 1 January 2014	–	247	608	855
Addition	746	–	–	746
At 31 December 2014	746	247	608	1,601
Accumulated depreciation				
At 1 January 2013	–	215	552	767
Charge for the year	–	18	21	39
At 31 December 2013 and 1 January 2014	–	233	573	806
Charge for the year	137	8	22	167
At 31 December 2014	137	241	595	973
Carrying amounts				
At 31 December 2014	609	6	13	628
At 31 December 2013	–	14	35	49

Included in the net carrying amount of the Group's items of property, plant and equipment held under finance leases is an amount attributable to motor vehicles amounting to approximately HK$290,000 (2013: approximately HK$1,450,000).

15. GOODWILL

Group

	HK$'000
Cost	
At 1 January 2013, 31 December 2013 and 31 December 2014	569,706
Impairment	
At 1 January 2013	–
Impairment during the year	197,307
At 31 December 2013, 1 January 2014 and 31 December 2014	197,307
Net carrying amount	
At 31 December 2014	372,399
At 31 December 2013	372,399

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the diamond and jewellery cash-generating unit for impairment testing.

Diamond and jewellery cash-generating unit

As at 31 December 2014, the recoverable amount of the diamond and jewellery cash-generating unit was assessed with reference to a valuation report by using a value-in-use calculation from VAL Consulting Limited, an independent valuation firm. These calculations use cash flow projection based on financial budgets approved by management covering a five-year period (the "5-Year Projection"). Cash flows beyond the five-year period are using estimated growth rate of 8% (2013: 3%). The cash flows are discounted using a discount rate of 18% (2013: 19%).

Due to the slowdown of the People's Republic of China (the "PRC"), the Group adopted a new growth strategy which is to expend its market coverage by opening smaller retail stores and revised the 5-Year Projection in the current year, after taking into account the current operating environment and market condition. The key assumptions used in calculating the recoverable amount of the diamond and jewellery cash-generating unit were budgeted revenue, budgeted gross margin and discount rate. Management determined budgeted revenue and budgeted gross margin based on past performance and its expectations of the market development. The discount rate was pre-tax and reflected specific risks relating to the relevant segment.

As at 31 December 2014, the net carrying amount of goodwill allocated to the diamond and jewellery cash generating unit has been reduced to its recoverable amount of approximately HK$372,399,000 (2013: approximately HK$372,399,000).

16. INVESTMENTS IN SUBSIDIARIES

	Company	
	2014	2013
	HK$'000	*HK$'000*
Unlisted shares, at cost	**582,211**	582,211
Amounts due from subsidiaries	**53,099**	40,039
Amounts due to subsidiaries	**(3,038)**	(3,371)
	632,272	618,879
Impairment*	**(181,415)**	(181,415)
	450,857	437,464

Movements in the provision for impairment are as follows:

	2014	2013
	HK$'000	*HK$'000*
At 1 January	**181,415**	890
Provision for impairment recognised	**–**	181,407
Write-off as uncollectible	**–**	(882)
At 31 December	**181,415**	181,415

* *The impairment as at 31 December 2014 and 2013 includes impairment provision of approximately HK$141,394,000 and approximately HK$40,021,000 for the Company's unlisted investments with gross carrying amount of approximately HK$582,210,000 (before deducting the impairment loss) and amounts due from subsidiaries with gross carrying amount of approximately HK$40,023,000 (before deducting impairment loss), respectively, because the recoverable amounts of these investments/amounts due from subsidiaries were lower than their carrying amounts.*

Balances with subsidiaries are unsecured, interest-free and not expected to be settled within the next twelve months from the end of the reporting period.

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

16. INVESTMENTS IN SUBSIDIARIES (continued)

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

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/registered paid-up capital	Percentage of equity attributable to the Company 2014	Percentage of equity attributable to the Company 2013	Principal activities
Directly held:					
Ample Rich Capital Limited*	BVI/Hong Kong	US$1	**100**	100	Investment holding
Forever Wise Developments Limited*	BVI/Hong Kong	US$1	**100**	100	Investment holding
Indirectly held:					
Great Rise Limited	Hong Kong	HK$1	**100**	100	Investment holding and sale of diamond products
Beijing City-In-Love Market Limited*	PRC/Mainland China	RMB20,000,000 *(note a)*	**100**	100	Sale of diamond and jewellery products
Chengdu City-In-Love Market Limited*	PRC/Mainland China	RMB200,000 *(note a)*	**100**	100	Sale of diamond and jewellery products
Sky Topworld Limited	Hong Kong	HK$1	**100**	100	Dormant

Note a: These entities are registered as private companies with limited liability under the PRC law.

* *The statutory financial statements of these subsidiaries are not audited by HLM CPA Limited.*

17. INVENTORIES

	Group	
	2014	2013
	HK$'000	*HK$'000*
Finished goods	**233,442**	186,012

18. TRADE RECEIVABLES

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

	Group	
	2014	2013
	HK$'000	*HK$'000*
Within 30 days	**381**	789

The Group's sales of diamond and jewellery products are normally made on a cash basis. Credit card receivables from financial institutions in respect of such cash sales are aged within one month. For the Group's credit sales, the credit term is generally 60 days. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

As at 31 December 2014, trade receivables amounting to approximately HK$381,000 (2013: approximately HK$789,000) were past due but not impaired as these balances related to debtors with sound repayment history and no recent history of default.

19. PROMISSORY NOTE RECEIVABLE

As at 31 December 2014, the promissory note receivable from the HIT Purchaser of HK$80,000,000 (2013: HK$80,000,000) relates to the HIT Disposal during the year ended 31 December 2013 as detailed in note 33 to the consolidated financial statements. Pursuant to the HIT Sales and Purchase Agreement, partial consideration of HK$80,000,000 was settled by a promissory note of HK$80,000,000 issued by the HIT Purchaser (the "Promissory Note").

The Promissory Note is secured by the shares of Wealthy China and Champion Skill and the loan due from the HIT Group of HK$149,000,000, and bears interest at a rate of 1% per annum. Promissory Note of HK$30,000,000 was due on 27 March 2014, and the remaining balance of HK$50,000,000 was due on 27 December 2014. An independent guarantee company established in the PRC provided guarantee in favour of the Company for the payment of all sums payable under the Promissory Note.

The Company and the HIT Purchaser entered into the two supplemental agreements (the "Supplemental Agreements") on 27 March 2014 and 27 April 2014 respectively. Pursuant to the Supplemental Agreements, the repayment date of the Promissory Note of HK$30,000,000 was postponed to 27 April 2014 and 27 July 2014 respectively, and the HIT Purchaser has agreed to pay an additional interest at a rate of 2% per annum over the extended period to the Company as the compensation.

HK$62,400,000 of the promissory note receivable has been subsequently settled after the end of reporting period, and the remaining balance has been scheduled to be settled within six months in accordance with supplemental agreement dated 20 March 2015. The directors of the Company have assessed the collectability of the Promissory Note receivable and consider that there was no indication of deterioration in the collectability of the Promissory Note receivable and no allowance was considered necessary.

20. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	Group		**Company**	
	2014	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Other receivables *(note a)*	**47,891**	1,480	**2,801**	1,376
Deposits paid	**7,914**	8,407	**405**	419
Prepayments for inventories	**75,689**	111,745	**–**	–
Other prepayments	**2,072**	23,281	**–**	–
	133,566	144,913	**3,206**	1,795
Portion classified as non-current assets	**(5,312)**	(5,153)	**(389)**	(403)
	128,254	139,760	**2,817**	1,392

Note a: Balance included approximately HK$39,504,000 was due from an independent third party (2013: HK$Nil). Subsequent to the end of reporting period, the balance was fully settled by cash.

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

21. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSIT

	Group		Company	
	2014	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances	**1,226**	8,500	**721**	352
Less: Pledged deposit for a bank loan *(note 25)*	**–**	(7,692)	**–**	–
	1,226	808	**721**	352

As at 31 December 2014, the cash and bank balances of the Group denominated in RMB amounted to approximately HK$486,000 (2013: approximately HK$8,011,000). RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances and pledged deposit are deposited with creditworthy banks with no recent history of default.

22. TRADE PAYABLES

	Group	
	2014	2013
	HK$'000	*HK$'000*
Within 30 days	**1,920**	4,201
31 to 60 days	**370**	2,531
61 to 90 days	**729**	4,939
91 to 180 days	**5,472**	6,202
Over 180 days	**10,046**	4,372
	18,537	22,245

The trade payables are non-interest-bearing and are normally settled on credit terms of 30 days.

23. ACCRUALS, OTHER PAYABLES AND DEPOSITS RECEIVED

	Group		Company	
	2014	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Receipt in advance *(note a)*	**80,725**	79,231	**–**	–
Deposits received *(note b)*	**69,772**	60,126	**–**	–
Provision of finance costs for deposits received *(note b)*	**4,916**	670	**–**	–
Other payables and accruals	**24,190**	27,367	**4,771**	5,928
	179,603	167,394	**4,771**	5,928

Notes:

(a) On 7 September 2012, the Company entered into a memorandum of understanding (the "Investment MOU") with Beijing Yong An Wealth Investment Fund Management Company Limited (the "Potential Investor"), an independent third party, in relation to the potential investment in the Group's diamond and jewellery business. Pursuant to the Investment MOU, the Potential Investor shall invest and/or procure other investors to invest a total of RMB300 million in the Group's diamond and jewellery business by setting up joint venture with the Company. Up to the date of approval of these financial statements, no legal binding agreements have been signed in relation to the above investment. As at 31 December 2014, HK$80,725,000 (equivalent to approximately RMB64,580,000) (2013: HK$79,231,000 (equivalent to approximately RMB61,800,000)) was received in advance from the Potential Investor in relation to the above investment. The balance is unsecured, interest-free and repayable on demand. As at 31 December 2014 and 31 December 2013, a director of the Company and an independent guarantee company established in the PRC had provided guarantees in favour of the Potential Investor for this receipt in advance.

(b) Balance included HK$65,586,000 (equivalent to approximately RMB52,469,000) (2013: HK$41,163,000 (equivalent to approximately RMB32,107,000)) received from a number of independent third party customers (the "Customers") during the year ended 31 December 2014 and 2013 for the Group's sale of certain loose diamonds (the "Diamonds") in the PRC amounting to RMB52,469,000 (2013: RMB32,107,000) via the online platform. All the loose diamonds for these online transactions were specified and part of the Group's inventories as at 31 December 2014. Pursuant to the terms of these online transactions, the Customers, who have not yet taken the underlying loose diamonds from the Group, have the unconditional right to require the Group to purchase the Diamonds at an agreed price, which is ranging from approximately 112% to 116% of the original selling price of the Diamonds, one week before specified dates in April 2015, June 2015, August 2015 or October 2015. In the opinion of the directors, the significant risks and rewards of the ownership of the Diamonds have not been transferred to the Customers until the delivery of the underlying goods. Accordingly, no revenue was recognised by the Group for these online transactions during the years ended 31 December 2014 and 2013, and the related proceeds received were recorded as "Deposits received" under current liabilities.

24. CONTINGENT CONSIDERATION PAYABLE

	HK$'000
Group and Company	
Contingent consideration payable, at fair value:	
At 11 May 2012, date of recognition	294,208
Fair value gain on derivative financial instrument	(65,136)
At 31 December 2012 and 1 January 2013	229,072
Fair value loss on derivative financial instrument	17,236
At 31 December 2013 and 1 January 2014	246,308
Fair value of convertible bonds at the date of settlement	(236,376)
Gain on settlement of contingent consideration payable	9,932

On 11 May 2012, the Group acquired 100% equity interest in Million Zone and its subsidiaries (collectively, "Million Zone Group") from three independent entities (the "Vendors") for a consideration of HK$600,000,000 (the "Acquisition"). The consideration was satisfied by the Group as follows:

- HK$80 million in cash;
- HK$208 million by the issue of convertible bonds in the equivalent principal amount; and
- HK$312 million contingent consideration, subject to adjustment detailed below, by procuring the Company to issue the convertible bonds in the equivalent principal amount.

The contingent consideration is subject to adjustment if the audited net profit (before tax and all extraordinary and exceptional items as defined or recognised under generally accepted accounting principles and practices in Hong Kong) of Million Zone Group for the period of one year immediately after the completion date of the Acquisition is less than HK$70 million ("Profit Guarantee").

24. CONTINGENT CONSIDERATION PAYABLE (continued)

The contingent consideration payable constitutes a derivative within the scope of HKAS 39, and is recognised at its fair value as a liability on initial recognition and is subsequently remeasured at fair value with changes in fair value recognised in profit or loss.

The fair values of the contingent consideration payable as at 11 May 2012, 31 December 2012, 31 December 2013 and 22 January 2014 were determined with reference to the valuations as at those dates performed by Peak Vision Appraisal Limited, an independent valuation firm. The valuations were arrived at using a binomial option pricing model, which have taken into account factors including the adjusted weighted average market prices of the Company's shares, volatilities, the credit spread of the Company, and prevailing market interest rates, etc.

On 22 January 2014, the Group issued convertible bond with an aggregate principal amount of HK$312,000,000 (the "CB IV")due in 2019 with a conversion price of HK$0.49 (adjusted to HK$2.45 with effect from 3 June 2014 as a result of the share consolidation as further explained in note 30(i)) per share to settle the Group's contingent consideration payable with carrying amount of HK$246,308,000 as at 31 December 2013. The fair value of the CB IV amounted to approximately HK$236,376,000, thus resulted a gain on settlement of approximately HK$9,932,000 recognised to profit or loss during the year. The CB IV was valued by Peak Vision Appraisals Limited, an independent valuation firm, using Binomial Option Pricing Model.

25. INTEREST-BEARING BANK BORROWINGS

Group

	2014			2013		
	Effective interest rate *(%)*	**Maturity**	***HK$'000***	Effective interest rate *(%)*	Maturity	*HK$'000*
Current						
Finance lease payables *(note(d), note 26)*	**4.72%**	**2015**	**585**	4.72%	2014	564
Bank loans – secured *(note (a), (b) and (c))*	**6.72% to 7.5%**	**2015**	**81,250**	7.2% to 130% of PBOC	2014	48,461
			81,835			49,025
Non-current						
Finance lease payables *(note (d), note 26)*		**2016**	**504**	4.72%	2015-2016	1,089
			82,339			50,114

	Group	
	2014	2013
	HK$'000	*HK$'000*
Analysed into:		
Bank loans repayable		
Within one year	**81,250**	48,461
Finance lease payables:		
Within one year	**585**	564
In the second year	**504**	585
In the third to fifth years, inclusive	**–**	504
	1,089	1,653
	82,339	50,114

25. INTEREST-BEARING BANK BORROWINGS (continued)

Company

	2014			2013		
	Effective interest rate *(%)*	**Maturity**	***HK$'000***	Effective interest rate *(%)*	Maturity	*HK$'000*
Current						
Finance lease payables *(note (d), note 26)*	**4.72%**	**2015**	**585**	4.72%	2014	564
Non-current						
Finance lease payables *(note (d), note 26)*	**4.72%**	**2016**	**504**	4.72%	2015-2016	1,089
			1,089			1,653

	Company	
	2014	2013
	HK$'000	*HK$'000*
Analysed into:		
Finance lease payables:		
Within one year	**585**	564
In the second year	**504**	585
In the third to fifth years, inclusive	**–**	504
	1,089	1,653

Notes:

(a) As at 31 December 2014, the Group's bank loan of HK$56,250,000 (2013: HK$12,820,000) was secured by:

(i) three properties situated in Mainland China and held by a spouse of a shareholder of the Company, a staff of a subsidiary and a spouse of a former shareholder of a subsidiary, and

(ii) was supported by guarantees provided by a director of the Company, a senior management personnel of a subsidiary, a subsidiary of the Company and an independent guarantee company established in the PRC.

(b) As at 31 December 2014, the Group's bank loan of HK$25,000,000 (2013: HK$15,385,000) was secured by:

(i) a property situated in Mainland China and held by a spouse of a director of the Company, and

(ii) was supported by guarantee provided by an independent guarantee company established in the PRC.

25. INTEREST-BEARING BANK BORROWINGS (continued)

Notes: (continued)

(c) As at 31 December 2013, the Group's bank loan of HK$20,256,000 was secured by:

(i) The Group's pledged bank deposits of HK$7,692,000 *(note 21)*, and

(ii) was supported by guarantees provided by a director of the Company, a senior management personnel of a subsidiary.

(d) As at 31 December 2014 and 31 December 2013, the finance lease payables were secured by the Group's motor vehicle *(note 14)*.

As at 31 December 2014, except for the bank loans of HK$81,250,000 (2013: HK$48,461,000), which were denominated in RMB, all borrowings were denominated in Hong Kong dollars.

26. FINANCE LEASE PAYABLES

The Group leases a motor vehicle for its business operation *(note 14)*. This lease is classified as a finance lease and has a remaining lease term of two years.

At 31 December 2014, the total future minimum lease payments under finance lease and their present values were as follows:

Group and Company

	Minimum lease payments		**Present value of minimum lease payments**	
	2014	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amounts payable:				
Within one year	**615**	614	**585**	564
In the second year	**512**	615	**504**	585
In the third to fifth years, inclusive	**–**	512	**–**	504
Total minimum finance lease payments	**1,127**	1,741	**1,089**	1,653
Future finance charges	**(38)**	(88)		
Total net finance lease payables	**1,089**	1,653		
Portion classified as current liabilities *(note 25)*	**(585)**	(564)		
Non-current portion *(note 25)*	**504**	1,089		

At 31 December 2014 and 31 December 2013, the finance lease payables were secured by the Group's motor vehicle *(note 14)*.

27. ADVANCES FROM A SHAREHOLDER OF THE COMPANY/A FORMER SHAREHOLDER OF A SUBSIDIARY AND BALANCES WITH DIRECTORS

The advances from a shareholder of the Company/a former shareholder of a subsidiary and amounts due to directors are unsecured, interest-free and have no fixed terms of repayment.

28. CONVERTIBLE BONDS

On 8 January 2009, the Group issued convertible bonds with an aggregate principal amount of HK$465,000,000 (the "CB I") due in 2014 with a conversion price of HK$0.04 per share (adjusted to HK$0.4 per share with effect from 26 March 2013 as a result of the share consolidation as further explained in note 30(b)) to acquire 100% equity interests in Super Surplus Trading Limited. The CB I do not bear any interest. The effective interest rate of the liability component is 3.44% per annum. The maturity date is on the fifth anniversary of the date of issue of the CB I.

For the year ended 31 December 2014, the CB I was fully converted into the Company's ordinary shares of HK$0.1 each at a conversion price of HK$0.4.

On 19 April 2012, the Group issued convertible bonds with an aggregate principal amount of HK$100,000,000 (the "CB II") due in 2017 with a conversion price of HK$0.049 per share (adjusted to HK$0.49 per share with effect from 26 March 2013 and further adjusted to HK$2.45 with effect from 3 June 2014 as a results of the share consolidation as further explained in note 30(b) and (i)). HK$80,000,000 of the proceeds raised was used to finance the Acquisition and the remaining HK$20,000,000 was used for the Group's general working capital. The CB II do not bear any interest. The effective interest rate of the liability component is 4.91% per annum. The maturity date is on the fifth anniversary of the date of issue of the CB II.

As at 31 December 2014, the CB II with an aggregate principal amount of HK$50,000,000 remained outstanding (2013: HK$50,000,000).

On 11 May 2012, the Group issued convertible bonds with an aggregate principal amount of HK$208,000,000 (the "CB III") due in 2017 with a conversion price of HK$0.049 per share (adjusted to HK$0.49 per share with effect from 26 March 2013 as a result of the share consolidation as further explained in note 30(b)) to acquire 100% equity interest in Million Zone Holdings Limited. The CB III do not bear any interest. The effective interest rate of the liability component is 4.77% per annum. The maturity date is on the fifth anniversary of the date of issue of the CB III.

For the year ended 31 December 2013, the CB III with an aggreate principal amount of HK$208,000,000 was fully converted into the Company's ordinary shares of HK$0.1 each at a conversion price of HK$0.49.

28. CONVERTIBLE BONDS (continued)

On 22 January 2014, the Group issued convertible bonds with an aggregate principal amount of HK$312,000,000 due in 2019 with conversion price of HK$0.049 per share (adjusted to HK$0.49 per share with effect from 26 March 2013 and further adjusted to HK$2.45 with effect from 3 June 2014 as a results of the share consolidation as further explained in note 30(b) and (i)) to settle the Group's contingent consideration payable with the carrying amount of approximately HK$236,376,000. The CB IV do not bear any interest. The effective interest rate of the liability component is 7.92% per annum. The maturity date is on the fifth anniversary of the date of issue of the CB IV.

As at 31 December 2014, the CB IV with an aggregate principal amount of HK$148,200,000 remained outstanding.

The Group may redeem the CB I, the CB II, the CB III and the CB IV at 105% of the principal outstanding amount at any time from the date of issue to the maturity date.

During the year ended 31 December 2014, the fair value of the liability component upon initial recognition of the CB IV at the issue date was estimated based on the valuation performed by Peak Vision Appraisals Limited, an independent valuation firm. The residual amount was assigned as the equity component and was included in the convertible bonds equity reserve.

The various components of the Group's and the Company's convertible bonds recognised on initial recognition are as follows:

	CB I	**CB II**	**CB III**	**CB IV**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Proceeds of issue, at fair value	465,000	100,000	208,000	236,376	1,009,376
Equity component	(52,898)	(18,252)	(34,991)	(12,554)	(118,695)
Liability component at date of issue	412,102	81,748	173,009	223,822	890,681

28. CONVERTIBLE BONDS (continued)

The movements of the liability component of the Group's and the Company's convertible bonds are as follows:

	CB I	CB II	CB III	CB IV	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2013	96,134	42,824	169,797	–	308,755
Interest charged during the year	2,477	2,103	1,327	–	5,907
Conversion of convertible bonds *(note 30(a) and (c))*	(27,046)	–	(171,124)	–	(198,170)
At 31 December 2013 and 1 January 2014	71,565	44,927	–	–	116,492
Issued during the year	–	–	–	223,822	223,822
Interest charged during the year	8	2,206	–	8,438	10,652
Conversion of convertible bonds *(note 30(e) and (g))*	(71,573)	–	–	(118,258)	(189,831)
At 31 December 2014	**–**	**47,133**	**–**	**114,002**	**161,135**
Classified as current liabilities	–	–	–	–	–
Non-current liabilities	–	47,133	–	114,002	161,135
At 31 December 2013	71,565	44,927	–	–	116,492
Classified as current liabilities	(71,565)	–	–	–	(71,565)
Non-current liabilities	–	44,927	–	–	44,927

Subsequent to the end of reporting period, the CB II with the remaining aggregate principal amount of HK$50,000,000 was early redeemed in full and the CB IV with aggregate principal amount of HK$93,600,000 was early redeemed in part by the Group, as further detailed in note 39 to the financial statements.

29. DEFERRED TAX

The movements in deferred tax assets of the Group during the year ended 31 December 2014 were as follows:

	Deferred income	
	2014	2013
	HK$'000	*HK$'000*
At 1 January	**691**	674
Exchange realignment	**(17)**	17
At 31 December	**674**	691

29. DEFERRED TAX (continued)

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2014, no deferred tax (2013: Nil) has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future after their assessment based on the factors which included the dividend policy and the level of capital and working capital required for the Group's operation.

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

30. SHARE CAPITAL

	2014	2013
	HK$'000	*HK$'000*
Authorised:		
100,000,000,000 (2013: 5,000,000,000) ordinary shares of HK$0.005 (2013: HK$0.1) each	**500,000**	500,000
Issued and fully paid:		
623,202,176 (2013: 2,214,317,006) ordinary shares of HK$0.005 (2013: HK$0.1) each	**3,116**	221,432

30. SHARE CAPITAL (continued)

A summary of the movements in the Company's issued share capital is as follow:

	Notes	Number of shares in issue	Issued capital HK$'000	Share premium account HK$'000	Total HK$'000
At 1 January 2013		15,464,621,272	154,646	1,119,870	1,274,516
Conversion of convertible bonds	(a)	4,420,893,925	44,209	191,934	236,143
Consolidation of shares	(b)	(17,896,963,678)	–	–	–
Conversion of convertible bonds	(c)	315,510	32	115	147
Placement of new shares	(d)	225,449,977	22,545	–	22,545
		(13,250,304,266)	66,786	192,049	258,835
Share issue expenses		–	–	(676)	(676)
At 31 December 2013 and 1 January 2014		2,214,317,006	221,432	1,311,243	1,532,675
Conversion of convertible bonds	(e)	170,408,163	17,041	62,286	79,327
Capital reorganisation	(f)	–	(236,088)	–	(236,088)
Conversion of convertible bonds	(g)	334,285,713	334	124,515	124,849
Placement of new shares	(h)	397,000,000	397	38,230	38,627
Consolidation of shares	(i)	(2,492,808,706)	–	–	–
		(1,591,114,830)	(218,316)	225,031	6,715
Share issue expenses		–	–	(4,595)	(4,595)
At 31 December 2014		**623,202,176**	**3,116**	**1,531,679**	**1,534,795**

Notes:

(a) During the year ended 31 December 2013, prior to the Share Consolidation 2013 (as defined in note (b) below), the Company issued a total 379,121,020 ordinary shares of HK$0.01 each at a conversion price of HK$0.04 for partial conversion of the CB I with a principal amount of HK$15,165,000. Upon conversion, the liability component of HK$26,914,000 and equity component of HK$4,593,000 of the convertible bonds were transferred to the issued share capital of HK$3,791,000 and the share premium account of HK$27,716,000.

During the year ended 31 December 2013, prior to the Share Consolidation 2013 (as defined in note (b) below), the Company issued a total of 4,041,772,905 ordinary shares of HK$0.01 each at conversion price of HK$0.049 for partial conversion of the CB III with a principal amount of HK$198,047,000. Upon conversion, the liability component of HK$171,124,000 and equity component of HK$33,512,000 of the convertible bonds were transferred to the issued share capital of HK$40,418,000 and the share premium account of HK$164,218,000.

30. SHARE CAPITAL (continued)

Notes: (continued)

(b) With effect from 26 March 2013, the Company has its every existing 10 issued and unissued shares of HK$0.01 each consolidated into 1 consolidated share of HK$0.1 each (the "Share Consolidation 2013"). Upon the Share Consolidation 2013 became effective, the authorised share capital of the Company became HK$500,000,000 dividend into 5,000,000,000 ordinary shares of HK$0.1 each. Based on a total of 19,885,515,197 ordinary shares of HK$0.01 each in issue immediately prior to the Share Consolidation 2013, the issued and fully paid share capital of the Company became approximately HK$198,855,000 divided into 1,988,551,519 ordinary shares of HK$0.1 each.

(c) During the year ended 31 December 2013, after the Share Consolidation 2013, the Company issued a total 315,510 ordinary shares of HK$0.1 each at conversion price of HK$0.4 for partial conversion of the CB I with principal amount of HK$126,000. Upon conversion, the liability component of HK$132,000 and equity component of HK$15,000 of the convertible bonds were transferred to the issued capital of HK$32,000 and the share premium account of HK$115,000.

(d) On 20 May 2013, the Company entered into a placing agreement with a placing agent, pursuant to which the Company has agreed to place up to 225,449,977 new ordinary shares of the Company of HK$0.1 each through the placing agent at HK$0.1 per share.

On 28 May 2013, 225,449,977 ordinary shares of HK$0.1 each were issued for cash at HK$0.1 per share pursuant to the placing agreement dated 20 May 2013 for a total cash consideration, before related expenses, of HK$22,545,000.

(e) During the year ended 31 December 2014, prior to the Capital Reorganisation (as defined in note (f) below) and the Share Consolidation 2014 (as defined in note (i) below), the Company issued a total 170,408,163 ordinary shares of HK$0.1 each at conversion price of HK$0.4 for fully conversion of the CB I with principal amount of HK$68,163,000. Upon conversion, the liability component of HK$71,573,000 and equity component of HK$7,754,000 of the convertible bonds were transferred to the issued capital of HK$17,041,000 and the share premium amount of HK$62,286,000.

(f) On 4 September 2013, a special resolution in respect of a capital reorganisation of the Company (the "Capital Reorganisation") was approved by the shareholders of the Company. The Capital Reorganisation would involve (i) a reduction in par value of each issued share of the Company from HK$0.1 to HK$0.001, and (ii) a subdivision of each authorised but unissued share of the Company into 100 new shares of the Company of HK$0.001 each. The purpose of the Capital Reorganisation is to reduce the credit standing to the issued capital account of the Company and to apply the credit arising from such reduction to eliminate the accumulated losses of the Company by the same account. Details of the Capital Reorganisation are set out in the Company's announcement dated 30 July 2013 and circular dated 12 August 2013.

On 14 January 2014, the Court made an order confirming the Capital Reorganisation. An office copy of the Order was registered with the Registrar of the Companies on 17 January 2014 in accordance with Section 61 of the Hong Kong Companies Ordinance. Accordingly, the Capital Reorganisation became effective immediately following the registration of the Order of the Court and the accumulated losses of the Company of approximately HK$236,088,000 were eliminated against the Company's issued capital account.

(g) During the year ended 31 December 2014, after the Capital Reorganisation (as defined in note (f) above) and the Share Consolidation 2014 (as defined in note (i) below), the Company issued a total 334,285,713 ordinary shares of HK$0.001 each at conversion price of HK$0.49 for partial conversion of the CB IV with principal amount of HK$163,800,000. Upon conversion, the liability component of HK$118,258,000 and equity component of HK$6,591,000 of the convertible bonds were transferred to the issued capital of HK$334,000 and the share premium amount of HK$124,515,000.

30. SHARE CAPITAL (continued)

Notes: (continued)

(h) On 15 January 2014, the Company entered into a placing agreement with a placing agent pursuant to which the Company has agreed to place up to 80,000,000 new ordinary shares of the Company of HK$0.1 each through the placing agent at HK$0.103 per share.

On 22 January 2014, 80,000,000 ordinary shares of HK$0.001 each (the par value of ordinary share was reduced from HK$0.1 to HK$0.001 after the Capital Reorganisation (as defined in note (f) above)) were issued for cash at HK$0.103 per share pursuant to the placing agreement dated 15 January 2014 for a total cash consideration, before related expenses, of HK$8,240,000.

On 26 February 2014, Glorywide Group Limited ("Glorywide"), a shareholder of the Company, entered into a placing agreement with the Company and a placing agent, pursuant to which Glorywide has agreed to place up to 30,000,000 existing ordinary shares of the Company of HK$0.001 each through the placing agent to an independent third party at HK$0.103 per share. On 26 February 2014, Glorywide entered into a subscription agreement with the Company, pursuant to which Glorywide agreed to subscribe for the number of new ordinary shares of the Company of HK$0.001 each as is equal to the number of the shares successfully placed by the placing agent in relation to the placing agreement dated 26 February 2014, at the subscription price of HK$0.103 per share.

On 10 March 2014, 30,000,000 ordinary shares of HK$0.001 each were issued to Glorywide for cash at a subscription price of HK$0.103 per share pursuant to the subscription agreement dated 26 February 2014 for a total cash consideration, before related expenses, of approximately HK$3,090,000.

On 4 March 2014, Glorywide entered into a placing agreement with the Company and a placing agent, pursuant to which Glorywide has agreed to place up to 50,000,000 existing ordinary shares of the Company of HK$0.001 each through the placing agent to certain independent third parties at HK$0.103 per share. On 4 March 2014, Glorywide entered into a subscription agreement with the Company, pursuant to which Glorywide agreed to subscribe for the number of new ordinary shares of the Company of HK$0.001 each as is equal to the number of the shares successfully placed by the placing agent in relation to the placing agreement dated 4 March 2014, at the subscription price of HK$0.103 per share.

On 12 March 2014, 50,000,000 ordinary shares of HK$0.001 each were issued to Glorywide for cash at a subscription price of HK$0.103 per share pursuant to the subscription agreement dated 4 March 2014 for a total cash consideration, before related expenses, of approximately HK$5,150,000.

On 4 April 2014, Glorywide entered into a placing agreement with the Company and a placing agent, pursuant to which Glorywide has agreed to place up to 20,000,000 existing ordinary shares of the Company of HK$0.096 each through the placing agent to an independent third party at HK$0.096 per share. On 4 April 2014, Glorywide entered into a subscription agreement with the Company, pursuant to which Glorywide agreed to subscribe for the number of new ordinary shares of the Company of HK$0.096 each as is equal to the number of the shares successfully placed by the placing agent in relation to the placing agreement dated 4 April 2014, at the subscription price of HK$0.096 per share.

On 14 April 2014, 20,000,000 ordinary shares of HK$0.096 each were issued to Glorywide for cash at a subscription price of HK$0.096 per share pursuant to the subscription agreement dated 4 April 2014 for a total cash consideration, before related expenses, of approximately HK$1,920,000.

On 9 April 2014, Glorywide entered into a placing agreement with the Company and a placing agent, pursuant to which Glorywide has agreed to place up to 30,000,000 existing ordinary shares of the Company of HK$0.10 each through the placing agent to an independent third party at HK$0.10 per share. On 9 April 2014, Glorywide entered into a subscription agreement with the Company, pursuant to which Glorywide has agreed to subscribe for the number of new ordinary shares of the Company of HK$0.10 each as is equal to the number of the shares successfully placed by the placing agent in relation to the placing agreement dated 9 April 2014, at the subscription price of HK$0.10 per share.

On 17 April 2014, 30,000,000 ordinary shares of HK$0.10 each were issued to Glorywide for cash at a subscription price of HK$0.10 per share pursuant to the subscription agreement dated 9 April 2014 for a total cash consideration, before related expenses, of approximately HK$3,000,000.

30. SHARE CAPITAL (continued)

Notes: (continued)

(h) (continued)

On 11 April 2014, Glorywide entered into a placing agreement with the Company and a placing agent, pursuant to which Glorywide agreed to place up to 187,000,000 new ordinary shares of the Company of HK$0.09 each through the placing agent to an independent third party at HK$0.09 per share. On 11 April 2014, Glorywide entered into a subscription agreement with the Company, pursuant to which Glorywide agreed to subscribe for the number of new ordinary shares of the Company of HK$0.09 each as is equal to the number of the shares successfully placed by the placing agent in relation to the placing agreement dated 11 April 2014, at the subscription price of HK$0.09 per share.

On 23 April 2014, 187,000,000 ordinary shares of HK$0.09 each were issued to Glorywide for cash at a subscription price of HK$0.09 per share pursuant to the subscription agreement dated 11 April 2014 for a total cash consideration, before related expenses, of approximately HK16,830,000.

(i) With effect from 3 June 2014, the Company has its every existing 5 issued and unissued shares of HK$0.001 each consolidated into 1 consolidated share of HK$0.005 each (the "Share Consolidation 2014"). Upon the Share Consolidation 2014 became effective, the authorised share capital of the Company became HK$500,000,000 divided into 100,000,000,000 ordinary shares of HK$0.005 each. Based on a total of 3,116,010,882 ordinary shares of HK$0.001 each in issue immediately prior to the Share Consolidation 2014, the issued and fully paid share capital of the Company became approximately HK$3,116,000 divided into 623,202,176 ordinary shares of HK$0.005 each.

31. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, any consultant, advisor, manager or officer who provides research, development, other technological support or services to the Group, the Company's shareholders, and any non-controlling shareholder of the Company's subsidiaries. The Scheme became effective on 10 August 2007 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

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

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

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

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

31. SHARE OPTION SCHEME (continued)

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

	2014		2013	
	Weighted average exercise price	**Number of options**	Weighted average exercise price	Number of options
	HK$ per share	***'000***	*HK$ per share*	*'000*
At 1 January	**N/A**	**–**	0.09	1,058,000
Adjusted during the year *(Note)*	**N/A**	**–**	N/A	(952,200)
Lapsed during the year	**N/A**	**–**	1.86	(25,800)
Cancelled during the year	**N/A**	**–**	0.61	(80,000)
At 31 December	**–**	**–**	–	–

Note: During the year ended 31 December 2013, the number of share options and their respective exercise price were adjusted to 105,800,000 at HK$1.86 or HK$0.61, respectively, as a result of the Share Consolidation 2013 as detailed in note 30 to the consolidated financial statements.

During the years ended 31 December 2014 and 2013, no new share options were granted or exercised.

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

32. RESERVES

(a) Group

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

(i) The Group's merger reserve represents the difference between the nominal value of the shares of subsidiaries acquired and the nominal value of the shares issued by the Company as consideration thereof pursuant to a reorganisation in prior years.

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

32. RESERVES (continued)

(b) Company

	Share premium account HK$'000	Share-based compensation reserve HK$'000	Convertible bonds equity reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2013	1,119,870	47,215	54,563	(1,238,015)	(16,367)
Issue of shares *(note 30(a) and (c))*	192,049	–	(38,120)	–	153,929
Share issue expenses	(676)	–	–	–	(676)
Share option lapsed	–	(47,215)	–	47,215	–
Loss and total comprehensive expense for the year	–	–	–	(219,796)	(219,796)
At 31 December 2013 and 1 January 2014	1,311,243	–	16,443	(1,410,596)	(82,910)
Issue of shares *(note 30(e), (g) and (h))*	225,031	–	(14,345)	–	210,686
Issue of convertible bonds	–	–	12,554	–	12,554
Share issue expenses	(4,595)	–	–	–	(4,595)
Capital reorganisation *(note 30(f))*	–	–	–	236,088	236,088
Loss and total comprehensive expense for the year	–	–	–	(18,269)	(18,269)
At 31 December 2014	**1,531,679**	**–**	**14,652**	**(1,192,777)**	**353,554**

The loss of HK$18,269,000 for the year ended 31 December 2014 (2013: HK$219,796,000) included impairment loss on interests in subsidiaries of the Company of HK$Nil (2013: HK$181,407,000).

33. DISPOSAL OF SUBSIDIARIES

During the year ended 31 December 2013, the Group disposed of its 100% equity interest in the HIT Group and the loan due from the HIT Group to the Group of HK$149,000,000 to an independent purchaser the ("HIT Purchaser"), for a consideration of HK$100,000,000. The consideration of HK$100,000,000 was satisfied as follows:

- HK$20 million in cash; and
- HK$80 million by a promissory note issued by the HIT Purchaser in the equivalent principal amount

	2013
	HK$'000
Net assets disposed of:	
Trade receivables	50,330
Other receivables, deposits and prepayments	118,571
Cash and cash equivalents	1,855
Trade payables	(32,142)
Accruals, other payables and deposits received	(28,763)
Due to the then immediate holding company	(149,000)
Tax payable	(4,481)
Non-controlling interests	747
	(42,883)
Assignment of loan due from the HIT Group	149,000
Realisation of foreign currency translation reserves	(38,285)
Gain on disposal of subsidiaries – from discontinued operations *(note 12)*	32,168
	100,000
Satisfied by	
Cash	20,000
Promissory Note *(note 19)*	80,000
	100,000

33. DISPOSAL OF SUBSIDIARIES (continued)

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries for the year ended 31 December 2013 is as follows:

	HK$'000
Cash consideration received	20,000
Cash and cash equivalents disposed of	(1,855)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	18,145

34. OPERATING LEASE ARRANGEMENTS

The Group has leased certain properties under operating lease arrangements, with leases negotiated for terms ranging from one to six years.

At 31 December 2014, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		**Company**	
	2014	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Within one year	**17,239**	21,179	**462**	1,437
In the second to fifth years, inclusive	**22,102**	30,885	**–**	479
	39,341	52,064	**462**	1,916

35. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties:

As at 31 December 2014, a director of the Company has provided a guarantee to the Potential Investor for HK$80,725,000 (2013: HK$79,231,000) received in advance from the Potential Investor. Details of which are set out in note 23(a) to the financial statements.

As at 31 December 2014, a director of the Company and a senior management personnel of a subsidiary have provided guarantees for bank loans amounting to HK$56,250,000 (2013: HK$33,076,000) granted to the Group. In addition, a spouse of a shareholder of the Company/a senior management personnel of a subsidiary and a spouse of a director of the Company have pledged certain properties situated in Mainland China to secure certain of the Group's bank loans of HK$81,250,000 (2013: HK$28,205,000). Details of which are set out in note 25 to the consolidated financial statements.

(b) Outstanding balances with related parties:

The Group's balances with directors and advances from a shareholder of the Company as at the end of the reporting period are unsecured, interest-free and have no fixed term of repayment.

(c) Compensation of key management personnel of the Group:

	2014	2013
	HK$'000	*HK$'000*
Short term employee benefits	**4,883**	2,540
Post-employment benefits	**17**	15
	4,900	2,555

Further details of directors' and senior management's emoluments are included in note 9 to the consolidated financial statements.

36. FINANCIAL INSTRUMENTS BY CATEGORY

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

2014

Financial assets	**Group Loans and receivables** *HK$'000*
Trade receivables	**381**
Promissory note receivable	**80,000**
Financial assets included in other receivables and deposits	**55,805**
Pledged deposit	**–**
Cash and cash equivalents	**1,226**
	137,412

Financial liabilities	**Financial liabilities at fair value through profit or loss – held for trading** *HK$'000*	**Financial liabilities at amortised cost** *HK$'000*	**Total** *HK$'000*
Trade payables	–	18,537	18,537
Financial liabilities included in accruals, other payables and deposits received	–	179,603	179,603
Contingent consideration payable	–	–	–
Interest-bearing bank borrowings	–	82,339	82,339
Advances from a shareholder of the Company	–	–	–
Amounts due to directors	–	11,748	11,748
Convertible bonds	–	161,135	161,135
	–	453,362	453,362

36. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

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

2013

Financial assets	Group Loans and receivables *HK$'000*
Trade receivables	789
Promissory note receivable	80,000
Financial assets included in other receivables and deposits	9,887
Pledged deposit	7,692
Cash and cash equivalent	808
	99,176

Financial liabilities	Financial liabilities at fair value through profit or loss – held for trading *HK$'000*	Financial liabilities at amortised cost *HK$'000*	Total *HK$'000*
Trade payables	–	22,245	22,245
Financial liabilities included in accruals, other payables and deposits received	–	167,394	167,394
Contingent consideration payable	246,308	–	246,308
Interest-bearing bank borrowings	–	50,114	50,114
Advances from a shareholder of the Company	–	25,933	25,933
Amounts due to directors	–	10,693	10,693
Convertible bonds	–	116,492	116,492
	246,308	392,871	639,179

36. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

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

Financial assets – loan and receivables	Company 2014 HK$'000	2013 HK$'000
Amounts due from subsidiaries	12,988	18
Promissory note receivable	80,000	80,000
Financial assets included in deposits and other receivables	3,206	1,795
Cash and cash equivalents	721	352
	96,915	82,165

2014

Financial liabilities	Company: Financial liabilities at fair value through profit or loss – held for trading HK$'000	Financial liabilities at amortised cost HK$'000	Total HK$'000
Amounts due to subsidiaries	–	3,038	3,038
Financial liabilities included in accruals and other payables	–	4,771	4,771
Contingent consideration payable	–	–	–
Interest-bearing bank borrowings	–	1,089	1,089
Amounts due to directors	–	11,747	11,747
Convertible bonds	–	161,135	161,135
	–	181,780	181,780

36. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

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

2013	Company		
Financial liabilities	Financial liabilities at fair value through profit or loss – held for trading	Financial liabilities at amortised cost	Total
	HK$'000	*HK$'000*	*HK$'000*
Amounts due to subsidiaries	–	3,371	3,371
Financial liabilities included in accruals and other payables	–	5,928	5,928
Contingent consideration payable	246,308	–	246,308
Interest-bearing bank borrowings	–	1,653	1,653
Amounts due to directors	–	10,757	10,757
Convertible bonds	–	116,492	116,492
	246,308	138,201	384,509

37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

At the end of the reporting period, the carrying amounts of the Group's and the Company's financial assets and financial liabilities approximated their fair values largely due to the short term maturities of these instruments.

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's financial instruments:

The Group did not have any financial assets measured at fair value as at 31 December 2014 and 2013.

The Company did not have any financial assets measured at fair value as at 31 December 2014 and 2013.

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

The following table illustrates the fair value measurement hierarchy of the Group's financial liabilities:

Group and Company	**Fair value Measurement using significant observable input (Level 2)**
	HK$'000
As at 31 December 2013	
Contingent consideration payable	246,308

During the year ended 31 December 2014, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2013: Nil).

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise interest-bearing bank borrowings, convertible bonds and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables, promissory note receivable, other receivables and deposits, trade payables, accruals, other payables and deposits received, amounts due to directors and advances from a shareholder of the Company/a former shareholder of a subsidiary, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 5 to the consolidated financial statements.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing bank borrowings with floating interest rates. The contractual interest rates and terms of repayment of the interest-bearing bank borrowings of the Group are set out in note 25 to the financial statements.

A reasonably possible change of 100 basis points in interest rates would have no material impact on the Group's loss before tax during the years ended 31 December 2014 and 31 December 2013 and there would be no material impact on the Group's equity (excluding accumulated losses).

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

Foreign currency risk is the risk of losses due to advance movements in foreign exchange rates relating to investments dominated in foreign currencies. The Group has transactional currency exposures. Such exposures arise from sales and purchase by operating units in currencies other than the units' functional currencies. For Hong Kong operations, all sales and purchases transactions are settled in Hong Kong dollars or United States dollars. Meanwhile, most of the sales and purchases transactions in Mainland China operations are settled in RMB. Accordingly, the transactional currency exposures of the Group are not significant. The Group has not entered into any hedging transaction to reduce the Group's exposure to foreign currency in this regard.

A reasonably possible appreciation of 5% (2013: 5%) of the exchange rate of the Hong Kong dollar against RMB would have no significant effect on the Group's loss before tax for the year ended 31 December 2014 and 31 December 2013 and there would be no material impact on the Group's equity.

Credit risk

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

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

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

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

Liquidity risk

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

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank borrowings and advances from a shareholder of the Company/a former shareholder of a subsidiary to meet its working capital and capital expenditure requirements.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

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

Group		**2014**	
	On demand or less than 12 months	**1 to 5 years**	**Total**
	HK$'000	***HK$'000***	***HK$'000***
Trade payables	**18,537**	**–**	**18,537**
Financial liabilities included in accruals, other payables and deposits received	**179,603**	**–**	**179,603**
Contingent consideration payable	**–**	**–**	**–**
Interest-bearing bank borrowings	**81,835**	**504**	**82,339**
Advances from a shareholder of the Company	**–**	**–**	**–**
Amounts due to directors	**11,748**	**–**	**11,748**
Convertible bonds	**–**	**161,135**	**161,135**
	291,723	**161,639**	**453,362**

		2013	
	On demand or less than 12 months	1 to 5 years	Total
	HK$'000	*HK$'000*	*HK$'000*
Trade payables	22,245	–	22,245
Financial liabilities included in accruals, other payables and deposits received	170,607	1,136	171,743
Contingent consideration payable	246,308	–	246,308
Interest-bearing bank borrowings	50,224	1,127	51,351
Advances from a shareholder of the Company	25,933	–	25,933
Amounts due to directors	10,693	–	10,693
Convertible bonds	71,571	52,500	124,071
	597,581	54,763	652,344

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

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

Company	2014		
	On demand or less than 12 months	**1 to 5 years**	**Total**
	HK$'000	***HK$'000***	***HK$'000***
Amounts due to subsidiaries	**3,038**	**–**	**3,038**
Financial liabilities included in accruals and other payables	**4,771**	**–**	**4,771**
Contingent consideration payable	**–**	**–**	**–**
Interest-bearing bank borrowings	**585**	**504**	**1,089**
Amounts due to directors	**11,747**	**–**	**11,747**
Convertible bonds	**–**	**161,135**	**161,135**
	20,141	**161,639**	**181,780**

	2013		
	On demand or less than 12 months	1 to 5 years	Total
	HK$'000	*HK$'000*	*HK$'000*
Amounts due to subsidiaries	3,371	–	3,371
Financial liabilities included in accruals and other payables	5,928	–	5,928
Contingent consideration payable	246,308	–	246,308
Interest-bearing bank borrowings	614	1,127	1,741
Amounts due to directors	10,757	–	10,757
Convertible bonds	71,571	52,500	124,071
	338,549	53,627	392,176

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issues new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2014 and 31 December 2013.

The Group monitors capital using a gearing ratio, which is net debt dividend by the total capital plus net debt. Net debt comprises all interest-bearing bank borrowings, advances from a shareholder of the Company/a former shareholder of subsidiary, amounts due to directors, trade payables, and accruals, other payables and deposits received and convertible bonds less cash and cash equivalents. The total equity comprises owners' equity as stated in the consolidated statement of financial position.

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

	Group	
	2014	2013
	HK$'000	*HK$'000*
Trade payables	**18,537**	22,245
Accruals, other payables and deposits received	**179,603**	167,394
Contingent consideration payable	**–**	246,308
Advance from a shareholder of the Company/ a former shareholder of a subsidiary	**–**	25,933
Interest-bearing bank borrowings	**82,339**	50,114
Amounts due to directors	**11,748**	10,693
Convertible bonds	**161,135**	116,492
Less: Cash and cash equivalent	**(1,266)**	(808)
Net debt	**452,096**	638,371
Equity attributable to owners of the Company and total capital	**383,086**	173,381
Capital and net debt	**835,182**	811,752
Gearing ratio	**54%**	79%

39. EVENTS AFTER THE REPORTING PERIOD

(a) On 27 October 2014, the Company announced that it proposed to raise approximately HK$124.6 million before expenses by issuing 1,246,404,352 Offer Shares by way of the Open Offer at the subscription price of HK$0.10 per Offer Share on the basis of two Offer Shares for every one Share held on the record date (the "Open Offer"). On 27 October 2014, the Company entered into underwriting agreement with the underwriter (the "Underwriter"), pursuant to which the Open Offer was fully underwritten by the Underwriter.

On 16 January 2015, upon the completion of the Open Offer, the Company issued a total of 1,246,404,352 new ordinary shares of HK$0.005 each at a subscriptions price of HK$0.1 for a total consideration, before related expenses of approximately HK$124.6 million. On 2 February 2015, the net proceeds of approximately HK$119 million from the Open Offer were applied for the early redemption of the principal amount of HK$50,000,000 of CB II in full and early redemption of the CB IV in part amounting to HK$31,200,000 and the remaining balances, were applied for general working capital purposes. Details and results of the Open Offer were set out in the Company's announcements dated 27 October 2014 and 16 January 2015 and prospectus dated 23 December 2014.

(b) On 20 March 2015, HK$62,400,000 of the CB IV were early redeemed by the Company.

(c) On 3 February 2015, the Company entered into a placing agreement with a placing agent pursuant to which the Company has agreed to place up to 124,600,000 new ordinary shares of the Company of HK$0.005 each through the placing agent at HK$0.13 per share.

On 16 February 2015, 124,600,000 ordinary shares of HK$0.005 each were issued for cash at HK$0.13 per share pursuant to the placing agreement dated 3 February 2015 for a total cash consideration, before related expenses, of HK$16,198,000.

40. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 March 2015.

FINANCIAL SUMMARY

31 December 2014

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

RESULTS

	Year ended 31 December				
	2014	2013	2012	2011	2010
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE	**146,188**	291,771	235,729	242,448	388,378
Profit/(loss) before tax	**(18,168)**	(195,124)	23,556	(261,176)	130,052
Income tax expense	**(2,528)**	(13,434)	(8,338)	–	–
Profit/(loss) for the year from continuing operations	**(20,696)**	(208,558)	15,218	(261,176)	130,052
Profit/(loss) before tax from discontinued operations	**–**	25,809	(785,925)	–	9,241
Income tax expense	**–**	–	(4,533)	–	(2,563)
Profit/(loss) for the year from discontinued operations	**–**	25,809	(790,458)	–	6,678
Profit/(loss) for the year	**(20,696)**	(182,749)	(775,240)	(261,176)	136,730
Attributable to:					
Owners of the Company	**(20,696)**	(182,804)	(748,372)	(256,611)	140,006
Non-controlling interests	**–**	55	(26,868)	(4,565)	(3,276)
	(20,696)	(182,749)	(775,240)	(261,176)	136,730

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2014	2013	2012	2011	2010
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
TOTAL ASSETS	**845,698**	827,448	967,421	1,016,701	1,266,705
TOTAL LIABILITIES	**(462,612)**	(654,067)	(809,359)	(316,266)	(351,339)
NON-CONTROLLING INTERESTS	**–**	–	1,644	(24,881)	(1,233)
	383,086	173,381	159,706	675,554	914,133