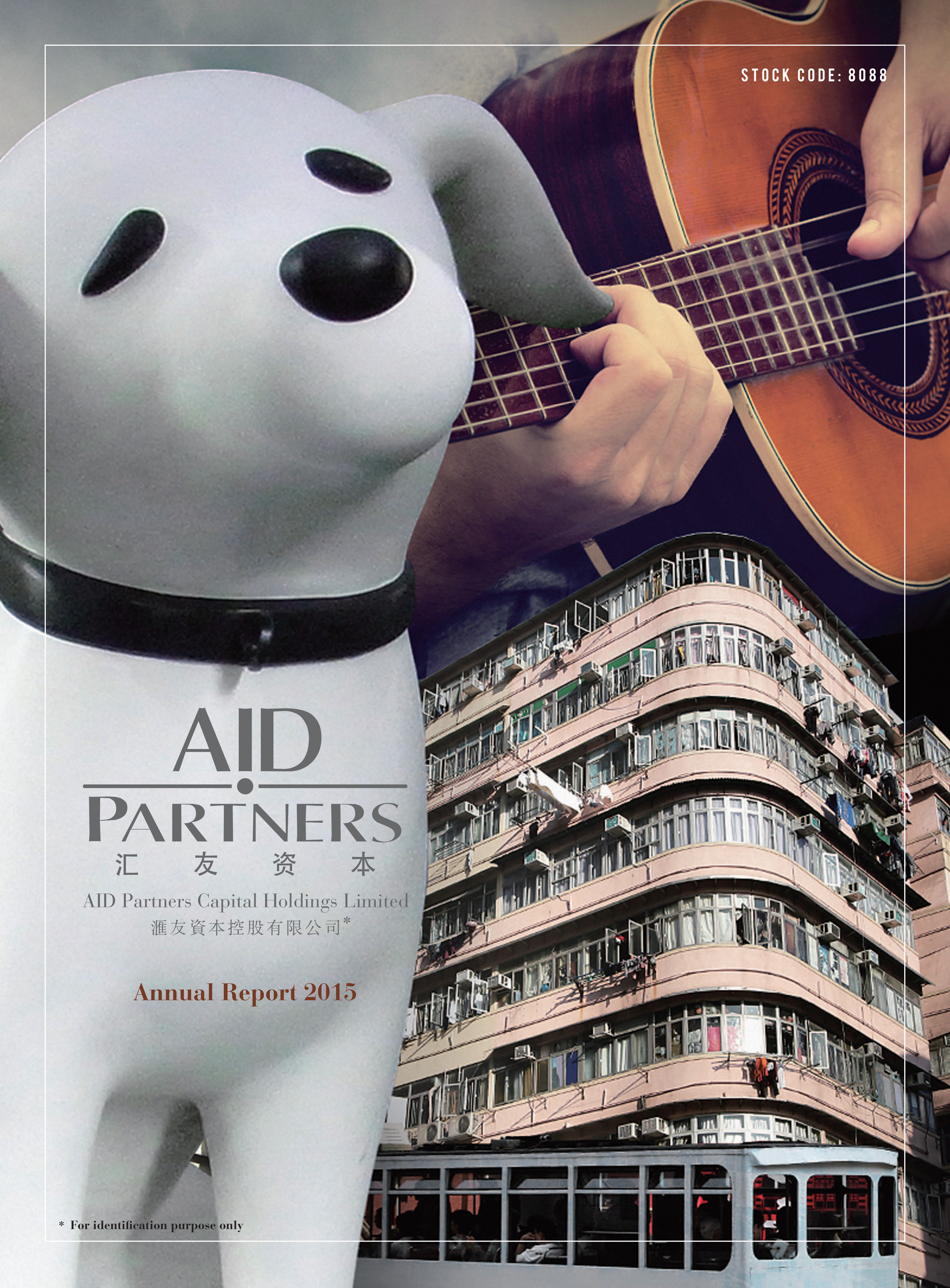

STOCK CODE: 8088

AID PARTNERS
汇友资本

AID Partners Capital Holdings Limited
滙友資本控股有限公司*

Annual Report 2015

* For identification purpose only

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

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the 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 GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on 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 GEM.

This report, for which the directors of the Company collectively and individually accept full responsibility, includes particulars given in compliance with 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 or deceptive; and (ii) there are no other matters the omission of which would make any statement in this report misleading.

Contents

Expressed in Hong Kong dollars ("HK$")

The Chinese version of this annual report is provided for reference only. In the event of any inconsistency between the Chinese and English versions, the English version shall prevail.

This annual report is printed on environmentally friendly paper

About
AID Partners Capital Holdings Limited

AID Partners Capital Holdings Limited ("AID Partners" or the "Company" and, together with its subsidiaries, the "Group") is an independent asset management group listed on the Hong Kong Stock Exchange's GEM board (HK GEM 8088).

The Group is engaged in the businesses of asset management and strategic investment.

Highlights

Revenue

Up 186% to HK$160.7 million

(2014: HK$56.1 million)

Gross profit

Up 144% to HK$72.9 million

(2014: HK$29.9 million)

Equity attributable to owners of the Company

HK$727.4 million

(2014: total equity of HK$0.2 million)

Management Discussion and Analysis

OVERVIEW

During the year under review, the Group has continued to expand in its asset management and strategic investment businesses. Through mergers and acquisitions, transactions and partnerships, the Group aims to identify businesses with promising growth and unlock their values. The Group has made various investments during the year under review, with a focus on online, entertainment and lifestyle sectors, and has been enhancing the values of its strategic investments by creating synergies and providing management expertise and business relationships, demonstrating its "Project Investment and Active Management" investment philosophy. The Group has also been preparing the expansion of its asset management business by establishing a team of professionals with an objective to enhance the value for the Group, hence maximising the return for the shareholders.

BUSINESS REVIEW

The Group has completed the acquisition (the "Acquisition") of the rights to use the intellectual properties associated with HMV as well as the relevant businesses in Hong Kong, People's Republic of China (the "PRC") and Singapore during the year. The Acquisition expanded the Group from operating one (1) HMV retail store in Central and the HMV e-commerce business in the beginning of year to operating an additional four (4) HMV retail stores in Hong Kong as well as the rights to use the trademark and domain name of "HMV" in the PRC and Singapore (together, the "HMV Business").

The Acquisition allows the Group to consolidate the market presence of "HMV" in Hong Kong, hence enhancing the brand value and gain immediate access to a well-established retail network in Hong Kong, a market in which the "HMV" brand has over twenty years of operating history, as well as the ability to expand into the PRC and Singapore. With the management expertise and business relationship, the Group would be able to enhance the value of the HMV Business by expanding and optimizing the operation of the businesses under the "HMV" brand name as well as exploring other forms of business in collaboration or in conjunction with other investments of the Group. This would allow the Group to maximise its value, hence the return for its shareholders as a whole.

In April 2015, the Group expanded its footprint into mobile-online games sector in the PRC by acquiring 70% equity interests in Honestway Global Group Limited and its subsidiaries (the "HGGL Group"). The HGGL Group is principally engaged in the development, distribution and operation of mobile games in the PRC. This acquisition is in line with the Group's strategy and can add value to existing investments of the Group, namely, the mobile game franchise "Star Girl" operates by Complete Star Limited and its subsidiaries (the "CSL Group").

During the year, the Group has enhanced its capital base and strengthened its financial position by issuing convertible bond and has completed the issue of new shares with an aggregate net proceeds of approximately HK$995 million, hence enabling the continuous expansion of the existing businesses of the Group as well as financing new strategic investments as and when they arise with the objective of generating attractive returns to its shareholders:

1. In July 2015, the Group issued convertible bond in the aggregate amount of HK$140 million to a subsidiary of HNA Group, Hong Kong HNA Holding Group Co. Limited (the "2015 Convertible Bond").

Management Discussion and Analysis

2. In August 2015, the Group has completed the placing of 4,005,392,000 new shares (the "Placing") at the Placing price of HK$0.22 per share and the total net proceeds from the Placing are approximately HK$855 million.

The proceeds from the 2015 Convertible Bond and the Placing were primarily used and will be used as (i) the development and investment capital for the strategic investment business of the Group and deploy for investment as and when the right opportunities arise; (ii) the development, investment and expansion of its asset management business and related financial platform; and (iii) general working capital of the Group.

The Group will continue to (i) monitor and develop its existing strategic investments and businesses and realize their value to maximise the return to the Company and its shareholders; (ii) identify new strategic investment opportunities; and (iii) develop, investment and expand its asset management business and related financial platform.

On 4 March 2016, the Group has completed the deemed disposal of 2,250 existing ordinary shares of HMV M&E Limited, representing approximately 18.37% equity interest of HMV M&E Limited for a cash consideration of US$9,000,000 (equivalent to approximately HK$70,200,000). On 14 March 2016, the Group proposed to further dispose 10,000 ordinary shares of HMV M&E Limited, representing approximately 81.63% of HMV M&E Limited for a consideration of HK$408,150,000 to be satisfied by the issue and allotment of an aggregate of 1,118,219,178 consideration shares of China 3D Digital Entertainment Limited (Stock code: 8078), the shares of which are listed on GEM. Details of both disposals are set out in Note 41 to the financial statements.

FINANCIAL REVIEW

Financial Results

Revenue in the year under review increased to HK$160.7 million from HK$56.1 million in last year. The increase in revenue was primarily driven by the continuous improvement in the operation of the HMV retail store in Central, the acquisition of four (4) HMV stores in December and the opening of HMV flagship store in late 2015, which generated more retail sales and food and beverage income this year. Together with the newly acquired businesses — the CSL Group in October 2014, the HGGL Group in April 2015 and the HMV business in December 2015 — which contributed HK$16.5 million in 2015, HK$65.2 million (post-acquisition) and HK$12.7 million (post-acquisition), respectively.

Total operating expenses (being selling and distribution expenses, administrative expenses and other operating expenses) in the year under review were HK$237.8 million as compared to HK$126.8 million in last year. To support the Group's strategy, the increase in total operating expenses was mainly due to (i) continuous expansion of existing business and operation of the Group as well as expenses arose from the newly acquired businesses, (ii) impairment loss provided for the goodwill arising from previous acquisition, (iii) pre-operating costs for the HMV flagship store opened in late 2015, (iv) increase in professional fees incurred, in particular, for the establishment of financial platforms to expand the asset management business, and (v) the increase in amortization expense relating to the intangible assets arose from the acquisitions of HMV, CSL and HGGL.

Management Discussion and Analysis

As a result, the Group reported a loss after tax of HK$230.4 million as compared to a loss of HK$103.8 million in last year. Excluding non-operating and one-off items (being expenses incurred for, among other things, share-based compensation expense, gain/loss on financial asset/liabilities at fair value through profit or loss, depreciation of fixed assets, amortisation of intangible assets and finance costs), adjusted EBITDA[1] of the Company for the year was a loss of HK$76.6 million (2014: loss of HK$50.9 million) as to support our acquisition and expansion strategy in the year under review.

We will continue to monitor our businesses and will focus our resources to achieve our strategy of maximizing the value of the Company, hence enhancing the return to its shareholders by (a) developing its existing strategic investments and achieve synergies with active management participation among such investments; (b) realizing the value of its existing strategic investments as and when such opportunity arises; (c) investing in strategic investment opportunities; and (d) developing, investing and expanding its asset management business and related financial platform.

Segment Results

The major reportable operating segments are asset management and strategic investment for the year under review. The segment result from asset management for the year under review was a loss of HK$3.0 million as compared with a loss of HK$7.4 million last year. The segment result from strategic investment for the year under review was a loss of HK$138.3 million as compared with a loss of HK$40.1 million last year, mainly due to expansion of management office and higher operating costs for portfolio companies. An analysis of the results by operating segments is provided in Note 5 to the financial statements.

Finance Costs

The finance costs were HK$22.9 million for the year under review compared to HK$12.3 million last year. This increase was mainly due to the notional effective interest expenses for the 2014 $175 million Convertible Bonds and the new 2015 $140 million Convertible Bonds issued in July 2015.

Non-controlling Interests

The non-controlling interests in the consolidated statement of profit or loss for the year under review of HK$2.7 million (2014: credit of HK$14.1 million) mainly represented 30% non-controlling shareholders' share of profits in the CSL Group and the HGGL Group for the year under review.

Financial Position and Resources

Significant Capital Assets and Investments

On 17 February 2015, the Group disposed its entire interest in Crosby Capital (Holdings) Limited ("CCHL") at a consideration of HK$37,000,000. CCHL's principal asset is the entire issued share capital of Crosby Capital (Hong Kong) Limited which in turn owns the office premises located at AXA Centre in Wanchai, Hong Kong (31 December 2014: HK$69.5 million). The disposal resulted in a loss of HK$512,000 during the year under review.

On 2 April 2015, the Group completed the acquisition of 70% issued share capital of HGGL at a consideration at fair value of RMB73,686,000 (equivalent to approximately HK$93,088,000). Intangible assets of HK$49,226,000 were acquired and details of the acquisition is in Note 36(c) to the financial statements.

On 30 November 2015, the Group completed the acquisition of HMV IP Rights and HMV Business at a final consideration of HK$105,737,000 in cash. The HMV IP Rights represents all the rights to use the name "HMV", the various HMV trade marks and trade mark applications and the HMV domain names for the purposes of conducting the retail business of "HMV" operating through the four (4) retail stores selling music, movies and television series related contents and products located in Hong Kong (the "HMV Business") and any other business to be conducted in the PRC, Hong Kong and Singapore. Details of the acquisition is in Note 36(d) to the financial statements.

1 EBITDA represents Earnings Before Interest, Taxes, Depreciation and Amortisation

Management Discussion and Analysis

Liquidity

As at 31 December 2015, the Group had cash and cash equivalents of HK$824.9 million (2014: HK$102.1 million) and net current assets of HK$776.5 million (2014: HK$22.6 million). The increase was mainly due to the issuance of the 2015 $140 million Convertible Bonds and the $855 million placing of shares during the year under review. Further details of the Group's current assets and current liabilities, risk management objectives and policies and exposure to liquidity risk are set out in Notes 18 to 25 and 37 to the financial statements.

Gearing

Tranche 1 and Tranche 2 Convertible Bonds (collectively "2010 Convertible Bonds")

In June 2010, the Company entered into a placing agreement with a placing agent pursuant to which the placing agent agreed to place new 5-year Zero Coupon Convertible Bonds with an aggregate principal amount of up to HK$250 million, comprising Tranche 1 of principal amount up to HK$160 million ("Tranche 1 Convertible Bonds") and Tranche 2 of principal amount up to HK$90 million ("Tranche 2 Convertible Bonds"), subject to certain conditions. In October 2010, with the fulfilment of all conditions required for Tranche 1 Convertible Bonds, the Company issued the Tranche 1 Convertible Bonds, HK$156 million of which was used to finance the repurchase of the convertible bonds previously issued in March 2006 as detailed in the Company's 2010 Annual Report. On 30 March 2011, with the fulfillment of all conditions required for Tranche 2 Convertible Bonds, the Company further issued the Tranche 2 Convertible Bonds, the proceeds of which was used to finance the purchase of the office premises together with the mortgage bank loan.

The terms and conditions of the Tranche 2 Convertible Bonds are the same as those of the Tranche 1 Convertible Bonds, which are also detailed in Note 24 (a) to the financial statements. In accordance with the terms and conditions thereof, the conversion price was reset on 4 April 2011, 4 October 2011, 4 April 2013 and 24 February 2014, the prevailing conversion price is HK$0.12 per share which was adjusted upon completion of bonus issue on 27 January 2015.

In January 2015, principal amount of HK$21,000,000 of the Tranche 1 Convertible Bonds was converted into 175,000,000 ordinary shares of the Company at the conversion price of HK$0.12 per share. The 2010 Convertible Bonds have been fully converted in the year under review.

2014 $175 million Convertible Bonds

In April 2014, the Company entered into a subscription agreement (the "Subscription Agreement") with Abundant Star Ventures Limited ("Abundant Star") and Vantage Edge Limited ("Vantage Edge"), pursuant to which Abundant Star and Vantage Edge agreed to subscribe the convertible bonds in principal amount of HK$100,000,000 and HK$75,000,000 respectively, bearing a compound interest rate of 5% per annum (the "2014 $175 million Convertible Bonds"). On 13 June 2014, with the fulfillment of all conditions required for the 2014 Convertible Bonds, the Company issued the 2014 $175 million Convertible Bonds, of which (i) approximately HK$5 million was used for the operation of the retail store in Central, (ii) approximately HK$5 million was used for the renovations to the retail store in Central, (iii) approximately HK$3 million was used for the anticipated music license rights fees that would be payable to music records companies in relation to the business that HMV Ideal Group operates, (iv) approximately HK$3 million for the operation of the online business, (v) approximately HK$3 million was used for marketing and public relations, (vi) approximately HK$36.9 million was used to settle the consideration payable and profit bonus in respect of the acquisition of 70% equity interest in CSL, (vii) approximately HK$30.3 million was used to settle the consideration and capital injection in respect of the acquisition of 70% equity interest in HGGL, (viii) approximately HK$1 million was used as professional fees in respect of the acquisition of equity interests in CSL and HGGL and (ix) approximately HK$27.4 million was used as general working capital of the Group.

The terms and conditions of the 2014 $175 million Convertible Bonds are detailed in Note 24(b) to the financial statements. In accordance with the terms and conditions thereof, the prevailing conversion price is HK$0.13 per share which was adjusted upon completion of bonus issue on 27 January 2015, and further adjusted to HK$0.11 per share upon completion of the placing of shares on 11 August 2015.

Management Discussion and Analysis

2015 $140 million Convertible Bond

In July 2015, the Company entered into a subscription agreement (the "HNA Subscription Agreement") with Hong Kong HNA Holding Group Co. Limited ("HNA") pursuant to which HNA agreed to subscribe the convertible bond in principal amount of HK$140,000,000, bearing a compound interest rate of 8% per annum (the "2015 $140 million Convertible Bond"). On 20 July 2015, all the conditions precedent set out in the HNA Subscription Agreement have been fulfilled and the 2015 $140 million Convertible Bond was issued which was intended to be applied as the investment capital for the strategic investment business of the Company as well as for the expansion of its asset management business and related financial platform and general working capital of the Group. The terms and conditions of the 2015 $140 million Convertible Bond are detailed in Note 24(c) to the financial statements.

The embedded derivatives in the 2010 Convertible Bonds and in the 2014 $175 million Convertible Bond are disclosed as financial liabilities at fair value through profit or loss as set out in Note 25 to the financial statements.

As at 31 December 2015, the Group had no other significant debt.

Details of the Group's financial risk management objectives and policies and exposure to capital risk are set out in Note 37 to the financial statements.

Charges

At 31 December 2015, there are no significant charges on the Group's investments and assets.

Commitments and Contingent Liabilities

At 31 December 2015, the Group had no significant commitments, other than those under operating leases for the rental of land and buildings and the capital commitments as set out in Note 31 to the financial statements. The Group had no material contingent liabilities as at 31 December 2015.

Equity Structure

An analysis of the movements in equity during the year under review is set out in the consolidated statement of changes in equity on page 43 of the financial statements.

As at 31 December 2015, the total issued share capital of the Company was 7,461,740,884 ordinary shares, increased from 473,173,057 ordinary shares as at 31 December 2014 due to (i) issue of bonus shares on the basis of five (5) bonus shares for every one (1) existing share in January 2015, (ii) placing of shares in August 2015, (iii) consideration shares issued for the acquisition of CSL and HGGL, (iv) conversion of Convertible Bonds and Redeemable Convertible Preference Shares ("RCPS") and (v) exercise of share options during the year under review. Details of the movement in total share capital are set out in Note 27 to the financial statements.

As at 31 December 2015, the total number of RCPS issued and outstanding was 7,019,790, decreased from 9,799,790 which was due to the conversion to ordinary shares during the year under review.

Management Discussion and Analysis

Details of the movements in RCPS, convertible bonds and share capital are set out in Notes 23, 24 and 27 to the financial statements, respectively.

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

At 31 December 2015, the Company had 25,934,165 options outstanding under the Company's 2002 Share Option Scheme of which were all exercisable.

At 31 December 2015, the Company had 122,552,000 options outstanding under the Company's 2014 Share Option Scheme of which were all exercisable. The Company can grant a further 597,687,923 options pursuant to the existing shareholder mandate limit.

Non-controlling Interests

The non-controlling interests in the consolidated statement of financial position as at 31 December 2015 represent 30% non-controlling interests in each of the CSL Group and the HGGL Group.

EMPLOYEE INFORMATION

As at 31 December 2015, the Group had 351 full-time employees (2014: 53). Employee remuneration (including Directors' remuneration) totaled HK$48.3 million (2014: HK$49.0 million). The remuneration packages of the Group's Directors and employees are kept at a competitive level to attract, retain and motivate Directors and employees of the quality required to run the Group successfully. In general, remuneration consists of a combination of a fixed salary paid in cash and a performance linked bonus paid in cash and options. A portion of the bonus may be deferred subject to the achievement of certain pre-determined targets and conditions. Options are either struck at or out-of the money. The Group's remuneration policies and practices are reviewed annually and benchmarked against a peer group of international financial institutions.

RETIREMENT BENEFIT SCHEMES

Details of the Group's retirement benefit schemes is set out in Note 3(q)(ii) to the financial statements.

FOREIGN CURRENCY EXPOSURE

Details of the Group's financial risk management objectives and policies and exposure to foreign currency risk are set out in Note 37 to the financial statements.

MATERIAL ACQUISITIONS AND DISPOSALS

During the year under review, other than the acquisition of the HGGL Group and the HMV IP Rights and HMV Business, and the disposal of Crosby Capital (Holdings) Limited and its subsidiaries as detailed in Notes 36 and 35 to the financial statements respectively, the Group made no significant acquisition or disposal of subsidiaries or affiliated companies.

Profiles of Directors

Mr. Wu King Shiu, Kelvin

Mr. Wu, aged 46, joined the Board in May 2014, and was appointed as the Chief Executive Officer and Executive Director. Mr. Wu was appointed as the Chairman of the Company and was re-designated from Chief Executive Officer to Chief Investment Officer on 16 March 2016. Mr. Wu is a member of the Remuneration Committee and the Nomination Committee of the Board. He also acts as director of certain subsidiaries of the Group. He is a member of the board of directors of Kabushiki Kaisha Hyakusen Renma, Japan and Brave Entertainment Co., Ltd., South Korea. He has over 18 years of experience in the finance and investment industries. He is the co-founder and the principal partner of AID Partners Capital Limited and the director of board of Shunwei Capital Partners. He was formerly the chief executive officer of Orange Sky Golden Harvest Entertainment (Holdings) Limited (Stock Code: 1132), a company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), one of the leading film entertainment companies in Asia, from 2009 to 2011 and the chief executive officer of Legendary East Ltd.. Prior to founding AID Partners Capital Limited, Mr. Wu was the president of Investec Asia Limited from 2005 to 2007, where he managed its direct investment business involving energy, consumer and finance related industries. Mr. Wu also worked for other investment banks, including as managing director of China Everbright Capital Ltd., head of corporate finance for Grand Cathay Securities (Hong Kong) Limited, director of corporate finance department of Core Pacific-Yamaichi Capital Limited and held senior position in BNP Prime Peregrine Capital Limited. Besides, Mr. Wu also served as chief operating officer of Sega.com Asia Networks Limited in year 2000. Mr. Wu currently is a member of the board of governors of Chu Hai College of Higher Education.

Mr. Wu received his bachelor degree majored in business administration from the Chinese University of Hong Kong. He also has a post graduate diploma from Osaka University of Foreign Studies (Renamed Osaka University), Japan.

Mr. Ho Gilbert Chi Hang

Mr. Ho, aged 39, joined the Board in May 2014, and was appointed as the Chief Investment Officer and Executive Director. Mr. Ho was re-designated from Chief Investment Officer to Chief Executive Officer on 16 March 2016. He also acts as director of certain subsidiaries of the Group. He is the managing partner of AID Partners Capital Limited. He has extensive experience in the area of corporate management, investments, corporate finance, merger and acquisition transactions and international brand and retail management. Prior to joining AID Partners Capital Limited, he was the vice president of ITC Corporation Limited (Stock Code: 372), a company listed on the Stock Exchange, the senior investment director of New World Development Company Limited (Stock Code: 17), a company listed on the Stock Exchange, an executive director of New World Strategic Investment Limited and a partner of an international law firm Fried, Frank, Harris, Shriver and Jacobson LLP. He is a committee member of the Chinese People's Political Consultative Conference of Shenyang, Liaoning Province (中國人民政治協商會議遼寧省瀋陽市委員會), a Standing Committee Member of the Youth Federation of Inner Mongolia (內蒙古自治區青年聯合會) and the Vice Chairman of Inner Mongolia & Hong Kong Youth Exchange Association (蒙港青年交流促進會). Mr. Ho holds a Bachelor of Commerce degree and a Bachelor of Laws degree from the University of Sydney, Australia and is a solicitor admitted in New South Wales, Australia and England and Wales and a solicitor and barrister admitted in the High Court of Australia.

Mr. Ho was a non-executive director of Renhe Commercial Holdings Company Limited (Stock Code: 1387), a non-executive director of Capital Environment Holdings Limited (Stock Code: 3989) and an independent non-executive director of Infinity Development Holdings Company Limited (Stock Code: 640) and is an independent non-executive director of Kam Hing International Holdings Limited (Stock Code: 2307) and Hailiang International Holdings Limited (Stock Code: 2336), all of the above-mentioned companies are listed on the Stock Exchange.

Profiles of Directors

Mr. Chang Tat Joel

Mr. Chang, aged 47, joined the Board in May 2014, and was appointed as an Executive Director. He also acts as director of certain subsidiaries of the Group. He has considerable strategic, financial and advisory experience. He is the co-founder of AID Partners Capital Limited and a founder of Genius Link Assets Management Limited. He is currently an investment committee member of AID Partners Capital Limited, and is responsible for its strategic investment planning. He is an independent non-executive director of Dragonite International Limited (Stock Code: 329), a non-executive director of Kong Sun Holdings Ltd. (Stock Code: 295), and is an independent non-executive director of Hailiang International Holdings Limited (Stock Code: 2336), all of the above-mentioned companies are listed on the Stock Exchange. He was formerly an independent non-executive director of Kingsoft Corporation Limited (Stock Code: 3888), and was an executive director and chief financial officer of Orange Sky Golden Harvest Entertainment (Holdings) Limited (Stock Code: 1132), both companies are listed on the Stock Exchange. He was an independent director of China Mobile Games and Entertainment Group Limited, a company previously listed on NASDAQ. Prior to founding AID Partners Capital Limited, he was the chief investment officer of Investec Asia Limited and a managing director of China Everbright Capital Limited and an executive director of BNP Prime Peregrine Capital Limited. He is also a member of the Australian Society of Certified Practising Accountants and the Hong Kong Institute of Certified Public Accountants. He obtained a bachelor's degree in Economics from Monash University in 1990.

Mr. Chinn Adam David

Mr. Chinn, aged 54, joined the Board in June 2015, and was appointed as an Independent Non-executive Director. Mr. Chinn is also a member of Audit Committee of the Board. He is the executive vice president of World Transaction Services of Sotheby's. He was a partner and Chief Operating Officer of Art Agency Partners LLC (''Art Agency''), an art advisory firm in New York advising collectors and foundations on all aspects of their art, from acquisitions and sales to museum involvement and long-term strategy. Art Agency was acquired by Sotheby's in January 2016. Prior to joining Art Agency, Mr. Chinn was a co-founder of Centerview Partners LLC (''Centerview''), a leading independent investment banking and advisory firm in the United States with offices in New York, London, San Francisco and Los Angeles, and was also a partner at the law firm of Wachtell, Lipton, Rosen & Katz in New York before his departure to Centerview in 2007.

Mr. Chinn currently serves as the Chairman of the Board of the Young People's Chorus of New York City and as a member of the Board of the On Course Foundation in the United States.

Mr. Chinn is a graduate of New York University School of Law and Oxford University.

Profiles of Directors

Professor Lee Chack Fan, GBS, SBS, JP

Professor Lee, aged 70, joined the Board in June 2015, and was appointed as an Independent Non-executive Director. Professor Lee is a member of Audit Committee and Remuneration Committee of the Board. He is also the chairman of Nomination Committee of the Board. He served at the University of Hong Kong for more than two decades, successively as chair professor of geotechnical engineering, pro-vice-chancellor (vice-president) and director of the School of Professional and Continuing Education. He is also an academician of Chinese Academy of Engineering. Professor Lee graduated from The University of Hong Kong in 1968 and subsequently received his master's degree from the University of Hong Kong in 1970 and a Ph.D. from the University of Western Ontario, Canada in 1972. Professor Lee is an internationally renowned expert in geotechnical engineering. He has served as a specialist consultant or an advisor to many international bodies such as the United Nations Development Plan, World Bank, Asian Development Bank, etc. on numerous energy and infrastructure projects in many parts of the world. Professor Lee's eminent achievement in civil engineering has been highly recognized; he was awarded the KY Lo Medal in 2000 by the Engineering Institute of Canada and was elected the academician of the Chinese Academy of Engineering in 2003 in recognition of his contributions to the engineering profession. He has been appointed as Justice of the Peace by the Hong Kong in July 2003, and he has been awarded the Silver Bauhinia Star and Gold Bauhinia Star in Hong Kong in July 2005 and July 2013, respectively.

Professor Lee is currently the Chairman of the Hong Kong Institute for Promotion of Chinese Culture, Chairman of the Jao Tsung-I Academy, Director of the Jao Tsung-I Petite Ecole, University of Hong Kong, President of the Fu Hui Charity Foundation, and a member of the Commission on Strategic Development. He previously served as a member of the board of the West Kowloon Cultural District Authority, and the Cultural and Heritage Commission. He is also an independent non-executive director of Louis XIII Holdings Limited (''Louis XIII'', Stock Code: 577) and Hui Xian Asset Management Limited, which is the manager of Hui Xian Real Estate Investment Trust (''Hui Xian'', Stock Code: 87001), both Louis XIII and Hui Xian are listed on The Stock Exchange of Hong Kong Limited.

Mr. Yuen Kwok On

Mr. Yuen, aged 50, joined the Board in July 2013, and was appointed as an Independent Non-executive Director. Mr. Yuen is also the chairman of the Audit Committee, the chairman of the Remuneration Committee and a member of the Nomination Committee of the Board. He has extensive experience in financial analysis, risk control and mergers and acquisitions. Prior to joining the Company, Mr. Yuen is the chief financial officer and company secretary of Orange Sky Golden Harvest Entertainment (Holdings) Limited ("OSGH"). He joined OSGH in October 1996 and has in-depth knowledge of operations of OSGH and its subsidiaries. OSGH's shares are listed on the Main Board of the Stock Exchange (1132.HK). He is an independent non-executive director of Mason Financial Holding Limited (Stock code: 273), which is listed on the Stock Exchange.

Mr. Yuen is a member of the CPA Australia and the Hong Kong Institute of Certified Public Accountants. He obtained a master's degree of business administration from Hong Kong Baptist University.

Directors' Report

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

PRINCIPAL ACTIVITIES

The principal activity of the Company is to act as the holding company of the Group. The Group is principally engaged in the businesses of asset management and strategic investment. The principal activities of the Company's principal subsidiaries as at 31 December 2015 are set out in Note 38 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2015 and the state of affairs of the Group and the Company at that date are set out in the financial statements on pages 38 to 156.

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

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in Note 27 to the financial statements.

RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in Note 28 financial statements.

DISTRIBUTABLE RESERVE

There is no reserve available for distribution to shareholders as at 31 December 2015 and 31 December 2014.

CONVERTIBLE BONDS

Details of the movements in convertible bonds of the Company during the year are set out in Note 24 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in Note 13 to the financial statements.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 157.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company has not redeemed any of its shares during the years ended 31 December 2015 and 31 December 2014. Neither the Company, nor any of its subsidiaries, has purchased or sold any of the Company's listed securities during the years ended 31 December 2015 and 31 December 2014.

SHARE OPTION SCHEMES

Details of the Share Option Schemes are set out in Note 29 to the financial statements.

Directors' Report

The Company's share option scheme which was adopted on 27 March 2002 (the "2002 Share Option Scheme") was expired and a new share option scheme (the "2014 Share Option Scheme") was adopted by an ordinary resolution passed by the shareholders at the extraordinary general meeting of the Company on 15 April 2014 (the "Adoption Date"). The 2014 Share Option Scheme constitutes a share option scheme governed by Chapter 23 of the GEM Listing Rules and will remain in force for 10 years from the Adoption Date.

Upon the expiry of the 2002 Share Option Scheme, no further option can be offered thereunder but any options granted prior to such expiry but not yet exercised shall continue to be valid and exercisable.

The Company operates both the 2002 Share Option Scheme and the 2014 Share Option Scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operation. Pursuant to the 2014 Share Option Scheme, the directors of the Company may grant options to eligible participants persons (as defined in the 2014 Share Option Scheme) to subscribe for shares in the Company subject to the terms and conditions stipulated therein.

Summary of the 2014 Share Option Scheme disclosed in accordance with the GEM Listing Rules is as follows:

Purpose of the scheme

To encourage the participants to perform their best in achieving the goals of the Group and at the same time allow the participants to enjoy the results of the Group attained through their efforts and contributions and to provide the participants with incentives and help the Group in retaining and recruiting talents.

Participants of the scheme

Eligible participant may be a person or an entity belonging to any of the following classes:

(a) any eligible employee (i.e. any employee of or any person who has accepted an offer of employment from (whether full time or part time employee, including any executive director but not any non-executive director) the Company, its subsidiaries and any entity in which the Group holds any equity interest (the "Invested Entity")) (the "Eligible Employee");

(b) any non-executive director (including independent non-executive directors) of the Company, any of its subsidiaries or any Invested Entity;

(c) any supplier of goods or services to any member of the Group or any Invested Entity;

(d) any customer of the Group or any Invested Entity;

	(e) any person or entity acting in their capacities as advisers or consultants to the Group or any Invested Entity; and (f) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity from time to time determined by the Directors having contributed or may contribute to the development and growth of the Group or any Invested Entity.
Total number of shares available for issue under the 2014 Share Option Scheme and percentage of issued share capital as at the date of this report	The Company has refreshed the scheme limit on 3 November 2015. As at the date of this report, the total number of shares available for allotment and issue under 2014 Share Option Scheme and previous share option scheme is 746,174,088, representing 10% of the Company's then total number of issued shares.
Maximum entitlement of each participant under the scheme	The total number of shares issued and which may fall to be issued upon exercise of the options granted under the 2014 Share Option Scheme (including both exercised and outstanding options) to each grantee in any 12–month period shall not exceed 1% of the issued share capital of the Company for the time being unless it is approved by shareholders at general meeting of the Company with such grantee and his associates abstaining from voting. Where any grant of share options to a substantial shareholder or an independent non-executive director or any of their respective associates, would result in the shares issued and to be allotted and issued upon exercise of all options already granted and to be granted (including options exercised, cancelled or outstanding) to such person in the 12–month period up to and including the date of such grant:(a) representing in aggregate over 0.1% of the shares in issue; and (b) having an aggregate value, based on the closing price of shares at the date of each grant, in excess of HK$5 million; such further grant of options must be approved by shareholders at general meeting of the Company.

Directors' Report

The period within which the shares must be taken up under an option	A period to be specified by the Directors and not to exceed 10 years from the date of grant of options.
The minimum period for which an option must be held before it can be exercised	Any period as determined by the Directors.
The amount payable on application or acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be repaid	HK$10.00 is payable within 28 days from the date of offer in relation to the grant of the options.
The basis of determining the exercise price	The exercise price is determined by the Directors which must be at least the higher of (i) the closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange on the date of grant, which must be a trading day; and (ii) the average closing price of the Shares as stated in the daily quotation sheets issued by the Stock Exchange for the five trading days immediately preceding the date of grant; and (iii) the nominal value of the Share.
The remaining life of the scheme	The 2014 Share Option Scheme shall be valid and effective for a period of 10 years from the date of adoption, i.e. 15 April 2014.

Directors' Report

DONATIONS

During the year, no donation has been made (2014: Nil).

DIRECTORS

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

Executive Directors:

Wu King Shiu, Kelvin (Chairman)	
Ho Gilbert Chi Hang	
Chang Tat Joel	
Huang Kenian	(resigned on 18 June 2015)
Wang Dayong	(resigned on 18 June 2015)

Non-Executive Director:

Stephen Shiu Junior	(resigned on 21 August 2015)

Independent Non-Executive Directors:

Chinn Adam David	(appointed on 30 June 2015)
Professor Lee Chack Fan, *GBS, SBS, JP*	(appointed on 30 June 2015)
Yuen Kwok On	
Shi Jinsheng	(resigned on 21 August 2015)
Sin Hendrick	(resigned on 21 August 2015)
Balme Didier Raymond Marie	(appointed on 30 June 2015 and passed away on 16 December 2015)

In accordance with article 86(3) of the Company's Articles of Association, Messrs. Chinn Adam David and Professor Lee Chack Fan, *GBS, SBS, JP* will hold office until the forthcoming annual general meeting (the "Annual General Meeting") and will be eligible for re-election.

Besides, Messrs. Chang Tat Joel and Yuen Kwok On retire by rotation and, being eligible, offer themselves for re-election at the Annual General Meeting in accordance with article 87 of the Company's Articles of Association.

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 Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("the GEM Listing Rules"). The Company considers all of the Independent Non-Executive Directors are independent.

Directors' Report

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' REMUNERATION

Details of the Company's Directors' remuneration are set out in Note 12(a) to the financial statements.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in the annual report, no contract of significance to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2015, the interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO")), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 to Rule 5.67 of the GEM Listing Rules relating to securities transactions by Directors, were as follows:

(i) Interests in the ordinary shares of the Company (the "Share(s)")

Name of Directors	Personal interest	Corporate interest	Family interest	Aggregate long position in Shares	Approximate percentage of the issued share capital of the Company %
Mr. Wu King Shiu, Kelvin ("Mr. Wu") (Notes 1 and 2)	14,400,000	454,544,000	165,600,000	634,544,000	8.50
Mr. Ho Gilbert Chi Hang ("Mr. Ho") (Note 1)	264,000	454,544,000	–	454,808,000	6.09
Mr. Chang Tat Joel ("Mr. Chang") (Note 1)	–	454,544,000	–	454,544,000	6.09
Mr. Yuen Kwok On	1,980,000	–	–	1,980,000	0.02

Directors' Report

Notes:

1. Mr. Wu, Mr. Ho and Mr. Chang own 14,400,000, 264,000 and nil Shares, respectively. Hero Sign Limited owns 454,544,000 Shares. Mr. Wu, Mr. Ho and Mr. Chang are deemed to have interest in 454,544,000 Shares of which Hero Sign Limited was deemed to be interested by virtue of the SFO since they indirectly own 56% through Billion Power Management Limited, 23% through Elite Honour Investments Limited and 21% through Genius Link Assets Management Limited, respectively, of the issued share capital of AID Partners GP2, Ltd.. AID Partners GP2, Ltd. is the general partner of AID Partners Capital II, L.P.. AID Partners Capital II, L.P. is interested in the entire issued share capital of Leader Fortune International Limited, which is interested in the entire issued share capital of Hero Sign Limited.

2. HMV Asia Limited owns 165,600,000 Shares. 62.50% of the issued share capital of HMV Asia Limited are held by Ms. Li Mau, the spouse of Mr. Wu. Accordingly, Mr. Wu is deemed to be interested in the Shares held by HMV Asia Limited.

(ii) Interests in the underlying Shares

(a) Outstanding share options

Name of Directors	Date of grant	Exercise price	Exercise period	Balance as at 1 January 2015	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	Adjusted upon the bonus issue (Note 2)	Balance as at 31 December 2015
		HK$							
	(dd/mm/yyyy)	(Note 1)	(dd/mm/yyyy)						
Mr. Wu	20/06/2014	0.16	20/06/2014 to 19/06/2024	4,576,000	–	–	–	22,308,000	26,884,000
Mr. Ho	15/05/2014	0.16	15/05/2014 to 14/05/2024	4,464,000	–	–	–	22,878,000	27,342,000
Mr. Chang	15/05/2014	0.16	15/05/2014 to 14/05/2024	4,464,000	–	–	–	22,878,000	27,342,000

Notes:

1. The exercise price was adjusted for the bonus issue of Shares made by the Company on 27 January 2015.

2. The aggregate number of Shares that can be subscribed for was adjusted for the bonus issue of Shares made by the Company on 27 January 2015.

Directors' Report

(b) **Outstanding 5% coupon convertible bonds**

Name of Directors	Conversion price	Aggregate long position in underlying Shares	Approximate percentage of the issued share capital of the Company
	HK$ (Note 2)		%
Mr. Wu (Note 1)	0.11	1,590,909,090	21.32
Mr. Ho (Note 1)	0.11	1,590,909,090	21.32
Mr. Chang (Note 1)	0.11	1,590,909,090	21.32

Notes:

1. Abundant Star Ventures Limited ("Abundant Star") and Vantage Edge Limited ("Vantage Edge") own 909,090,909 and 681,818,181 underlying Shares, which will be allotted and issued upon full conversion of the outstanding 5% coupon convertible bonds for a principal sum of HK$100,000,000 and HK$75,000,000, respectively, at the conversion price of HK$0.11 per Share (subject to adjustments). Mr. Wu, Mr. Ho and Mr. Chang are deemed to have interest in 1,590,909,090 underlying Shares of which Abundant Star and Vantage Edge were deemed to be interested by virtue of the SFO since they indirectly own 56% through Billion Power Management Limited, 23% through Elite Honour Investments Limited and 21% through Genius Link Assets Management Limited, respectively, of the issued share capital in AID Partners GP2, Ltd.. AID Partners GP2, Ltd. is the general partner of AID Partners Capital II, L.P.. AID Partners Capital II, L.P. is interested in the entire issued share capital of Leader Fortune International Limited, which is interested in the entire issued share capital of Abundant Star and Vantage Edge.

2. The conversion price was adjusted for the bonus issue of Shares made by the Company on 27 January 2015 and the Placing on 11 August 2015.

(iii) Short positions

None of the Directors held short positions in the shares and underlying shares of the Company or any Associated Corporation.

Save as disclosed above, as at 31 December 2015, none of the Directors or chief executive of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provision of the SFO), or which were recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 to Rule 5.67 of the GEM Listing Rules relating to securities transactions by Directors.

Directors' Report

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS

As at 31 December 2015, the following persons, other than the Directors or chief executive of the Company, had interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or is expected, directly or indirectly, to be 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 other member of the Group.

(i) Interests in the Shares and underlying Shares

Name	Aggregate long position in Shares	Aggregate long position in underlying Shares	Approximate percentage of the issued share capital of the Company %
Mr. Wu (Notes 1, 5 and 6)	634,544,000	1,617,793,090	30.18%
Li Mau (Notes 1, 5 and 6)	634,544,000	1,617,793,090	30.18%
Mr. Ho (Notes 2, 5 and 6)	454,808,000	1,618,251,090	27.78%
Mr. Chang (Notes 3, 5 and 6)	454,544,000	1,618,251,090	27.77%
Hong Kong HNA Holding Group Co. Limited (Note 4)	1,636,360,000	430,769,230	27.70%
AID Partners Capital II, L.P. (Notes 5 and 6)	454,544,000	1,590,909,090	27.41%
AID Partners GP 2, Ltd. (Notes 5 and 6)	454,544,000	1,590,909,090	27.41%
Billion Power Management Limited (Notes 5 and 6)	454,544,000	1,590,909,090	27.41%
Elite Honour Investments Limited (Notes 5 and 6)	454,544,000	1,590,909,090	27.41%
Genius Link Assets Management Limited (Note 5 and 6)	454,544,000	1,590,909,090	27.41%
Leader Fortune International Limited (Notes 5 and 6)	454,544,000	1,590,909,090	27.41%
Able Supreme Management Limited (Note 7)	–	1,081,095,600	14.48%
Billion Pine International Limited (Note 7)	–	1,081,095,600	14.48%
Hu Yin (Note 7)	–	1,081,095,600	14.48%
David Tin	909,088,000	–	12.18%
Abundant Star (Note 5)	–	909,090,909	12.18%
Yeung Wing Yee	748,408,256	–	10.02%
Vantage Edge (Note 5)	–	681,818,181	9.13%
Hero Sign Limited (Note 6)	454,544,000	–	6.09%
Sunfield Holdings Group Limited (Note 8)	454,544,000	–	6.09%
Huang Shiying (Note 8)	454,544,000	–	6.09%
Huang Tao (Note 8)	454,544,000	–	6.09%

Directors' Report

Notes:

1. Mr. Wu, the Chairman, the Chief Investment Officer and Executive Director of the Company, owns 14,400,000 Shares and HMV Asia Limited owns 165,600,000 Shares. 62.50% of the shares of HMV Asia Limited are held by Ms. Li Mau, the spouse of Mr. Wu. Accordingly, Mr. Wu is deemed to be interested in the Shares held by HMV Asia Limited. Mr. Wu is interested in 26,884,000 share options at an exercise price of HK$0.16 per Share to subscribe for Shares. Mr. Wu is deemed to have interest in 1,590,909,090 underlying Shares and 454,544,000 Shares as mentioned in note 5 and note 6 below, respectively. Ms. Li Mau, as the spouse of Mr. Wu, is deemed to be interested in these Shares and underlying Shares for the purpose of the SFO.

2. Mr. Ho, the Chief Executive Officer and Executive Director of the Company, owns 264,000 Shares and is interested in 27,342,000 share options at an exercise price of HK$0.16 per Share to subscribe for Shares. Mr. Ho is also deemed to have interest in 1,590,909,090 underlying Shares and 454,544,000 Shares as mentioned in note 5 and note 6 below, respectively.

3. Mr. Chang, an Executive Director, is interested in 27,342,000 share options at an exercise price of HK$0.16 per Share to subscribe for Shares. Mr. Chang is also deemed to have interest in 1,590,909,090 underlying Shares and 454,544,000 Shares as mentioned in note 5 and note 6 below, respectively.

4. Hong Kong HNA Holding Group Co. Limited is wholly-owned by Hisea International Co., Ltd.("Hisea"). Hisea is wholly-owned by HNA Group Holding Co., Ltd. ("HNA Holding"). HNA Holding is owned as to approximately 72% by HNA Group Company Limited ("HNA Group") and 28% by HNA Capital Group Co., Ltd ("HNA Capital"). HNA Capital is wholly-owned by HNA Group. HNA Group is owned as to approximately 70% by Hainan Traffic Administration Holdings Company Limited ("Hainan Traffic"). Hainan Traffic is owned as to approximately 50% by Sheng Tang Development (Yangpu) Company Limited ("Sheng Tang"). Sheng Tang is owned as to 65% by Hainan Province Cihang Foundation and 35% by Tang Dynasty Development Company Limited ("Tang Dynasty"). Tang Dynasty is owned as to approximately 98% by Pan-American Aviation Holding Company Limited, which is in turn 100% beneficially owned by Jun Guan.

5. Abundant Star and Vantage Edge own 909,090,909 and 681,818,181 underlying Shares, which will be allotted and issued upon full conversion of the outstanding 5% coupon convertible bonds for a principal sum of HK$100,000,000 and HK$75,000,000, respectively.

   Mr. Wu, Mr. Ho and Mr. Chang are deemed to have interest in 1,590,909,090 underlying Shares of which Abundant Star and Vantage Edge were deemed to be interested by virtue of the SFO since they indirectly own 56% through Billion Power Management Limited, 23% through Elite Honour Investments Limited and 21% through Genius Link Assets Management Limited, respectively, of the issued share capital in AID Partners GP2, Ltd.. AID Partners GP2, Ltd. is the general partner of AID Partners Capital II, L.P.. AID Partners Capital II, L.P. is a private equity fund interested in the entire issued share capital of Leader Fortune International Limited, which is interested in the entire issued share capital of Abundant Star and Vantage Edge.

6. Hero Sign Limited owns 454,544,000 Shares. Mr. Wu, Mr. Ho and Mr. Chang are deemed to have interest in 454,544,000 Shares of which Hero Sign Limited is interested by virtue of the SFO since they indirectly own 56% through Billion Power Management Limited, 23% through Elite Honour Investments Limited and 21% through Genius Link Assets Management Limited, respectively, of the issued share capital of AID Partners GP2, Ltd.. AID Partners GP2, Ltd. is the general partner of AID Partners Capital II, L.P.. AID Partners Capital II, L.P. is a private equity fund interested in the entire issued share capital of Leader Fortune International Limited, which is interested in the entire issued share capital of Hero Sign Limited.

7. Able Supreme Management Limited ("Able Supreme") owns 1,081,095,600 underlying Shares which will be allotted and issued upon full conversion of 6,930,100 RCPS at conversion price of HK$0.10 per Share (reset on 11 August 2015). The entire issued share capital of Able Supreme is held by Billion Pine International Limited, which in turn is beneficially wholly-owned by Mr. Hu Yin ("Mr. Hu"). Accordingly, Mr. Hu is interested in these underlying Shares through his 100% indirect interests in Able Supreme.

8. Sunfield Holdings Group Limited ("Sunfield") owns 454,544,000 Shares. Mr. Huang Tao and Mr. Huang Shiying own 60% and 40% equity interest in Sunfield, respectively. According, Mr. Huang Tao and Mr. Huang Shiying are interested in these Shares through their interests in Sunfield.

Directors' Report

(ii) **Short positions**

No person held short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

Save as disclosed above, as at 31 December 2015, the Directors of the Company were not aware of any other person who had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Save as disclosed above, as at 31 December 2015, no other person had interests which were recorded in the register required to be kept under section 336 of the SFO.

POTENTIAL COMPETITION FROM HMV HONG KONG LIMITED

HMV Hong Kong Limited ("HMV HK") is indirect wholly-owned by AID Partners Capital II, L.P.. AID Partners Capital II, L.P. is controlled by AID Partners GP2,Ltd., which is ultimately controlled by Mr. Wu and in which Mr. Ho and Mr. Chang are directors. HMV HK has been granted an exclusive license by HMV (IP) Limited, a third party independent of the Group, to use the well-known brand name "HMV" within the territory of the PRC, Hong Kong, Macau Special Administrative Region, Taiwan and Singapore. HMV HK also operates retail stores in Hong Kong selling music, movie and television series related contents and products.

The Directors do not consider that there is a material overlap of the Group's business of managing the HMV retail store in Central in Hong Kong and the business of HMV HK as set out above, except that the Group and/or HMV HK may benefit from any increase in popularity of the brand name "HMV", which may be contributed by the Group or HMV HK.

The Directors are of the view that any potential conflict of interest would be effectively mitigated given that the operations of the Group and HMV HK are operated separately and independently by the respective board of directors, performing their fiduciary duties and providing their oversight to safeguard the interests of their respective shareholders. In the event of any conflict of interests, Mr. Wu, Mr. Ho and Mr. Chang would be required to abstain from voting on the relevant resolution(s) at meetings of the Board and/or general meetings of the Company (as the case may be), in accordance with the articles of association of the Company, which complies with the GEM Listing Rules.

On 28 August 2015, HMV Marketing Limited (the "HMV Marketing"), an indirect wholly-owned subsidiary of the Company, and HMV HK entered into the sale and purchase agreement, pursuant to which HMV Marketing conditionally agreed to acquire, and HMV HK has conditionally agreed to sell, all rights to use the name "HMV", the various HMV trade marks and applications, and the HMV domain names for conducting the retail business of "HMV" operating through the four (4) retail stores selling music, movies and television series related contents and products located in Hong Kong and carried on by HMV HK (the "Target Business") and any other business to be conducted in the PRC, Hong Kong and Singapore (the "Territory") that is licensed to HMV HK on an exclusive, irrevocable, royalty-free and perpetual basis pursuant to the HMV trade mark licence agreement dated 27 February 2013 (the "HMV IP Rights") (the "HMV Acquisition").

Directors' Report

Upon completion of the HMV Acquisition (the "Completion"), the HMV IP Rights have been assigned by HMV HK to HMV Marketing; and HMV HK will only have the rights to use the name "HMV", the various HMV trade marks and applications, and the HMV domain names for conducting businesses in the Macau Special Administrative Region of the PRC and Taiwan. Consequently, upon Completion, as (a) the HMV Marketing has the rights to operate the Target Business and any other business to be conducted within the Territory; and (b) HMV HK only has the rights to conduct business within the Macau Special Administrative Region of the PRC and Taiwan, there is no overlapping of regions in which the HMV Marketing and HMV HK will operate their respective businesses. For the foregoing reasons, upon Completion, HMV HK does not have any competing business with those operated by the Group (including the Target Business). The HMV Acquisition was completed on 30 November 2015.

As at 31 December 2015, save as disclosed above and so far as the Directors were aware, none of the other Directors or their respective associates were interested in any business which competes or is likely to compete, whether directly or indirectly, with the business of the Group.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to the long-term sustainability of its businesses and the communities with which it engages. We pursue this business approach by managing our business prudently and executing management decisions with due care and attention. We will continue to update the requirements of the relevant environmental laws and regulations applicable to it to ensure compliance. During the year under review, the Group has complied with the relevant environmental laws and regulations applicable to it in all material respects.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group continues to update the requirement of the relevant laws and regulations in various countries, particularly in Hong Kong and the PRC, applicable to the Group to ensure compliance. Substantially a majority of the Group's assets and revenue are located in and derived from Hong Kong and the PRC. During the year under review, the Group complied with the relevant laws and regulations in various countries applicable to it in all material respects.

MAJOR CLIENTS AND SUPPLIERS

During the year, less than 30% of the Group's turnover and less than 30% of the Group's purchase were attributable to the Group's five largest customers and five largest supplier, respectively.

CONNECTED TRANSACTIONS

Non-exempted Continuing Connected Transactions up to 31 December 2015

On 9 October 2014, a subsidiary of the Company has entered into a Service Agreement with Outblaze Ventures Holdings Limited ("Outblaze") and an Advertising Service Agreement with Totally Apps Holdings Limited ("Totally Apps"), a wholly-owned subsidiary of Outblaze, pursuant to which (i) Outblaze agreed to arrange and provide at all times personnel to be seconded to Complete Star Limited ("Complete Star") and its subsidiary for an initial 2-year period from 1 October 2014 to 30 September 2016 under the Service Agreement and (ii) Complete Star agreed to appoint Totally Apps to provide advertising services to Complete Star and its subsidiary on a non-exclusive basis for an initial term from 1 October 2014 to 30 September 2016.

Directors' Report

On 30 November 2015, the Group completed the acquisition of the HMV IP Rights and HMV Business from HMV Hong Kong Limited ("HMV HK"). As the tenancy agreements for the two retail stores and an office were not able to be assigned to the Group, the Group will reimburse HMV HK in respect of the rentals, management fees, Government rates, promotional fees and other miscellaneous charges occurring after completion for the premises pursuant to the terms of the respective tenancy agreements.

Parties to the transactions

Service provider	Service recipient	Nature of transactions	Annual cap for the year ended 31 December 2015	Total amount for the year ended 31 December 2015
Outblaze	Complete Star	Total service fee charged	US$334,000 (equivalent to approximately HK$2,596,850)	US$303,600 (equivalent to approximately HK$2,368,080)
Totally Apps	Complete Star	Total advertising expense charged	US$2,650,000 (equivalent to approximately HK$20,603,750)	US$564,565 (equivalent to approximately HK$4,403,607)
Totally Apps	Complete Star	Total commission expense charged	US$665,000 (equivalent to approximately HK$5,170,375)	US$ nil
HMV HK	HMV Marketing	Rental expenses and related charges	HK$3,000,000	HK$2,588,317

During the year, the above continuing connected transactions were carried out within their respective annual caps. The Independent Non-Executive Directors have reviewed and confirmed that during the year, the above continuing connected transactions were conducted and entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) on normal commercial terms or better; and

(iii) according to the agreements governing it on terms that are fair and reasonable and in the interests of the Company's shareholders as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing its findings and conclusions in respect of the continuing connected transactions disclosed by the Group in this annual report in accordance with Rule 20.56 of the GEM Listing Rules. A copy of the auditor's letter has been provided by the Company to The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Directors' Report

Full details of the above connected transactions are set out in the announcements as aforesaid and are available in the Stock Exchange's website and the Company's website at www.aid8088.com.

Details of other related party transactions are set out in Note 30 to the consolidated financial statements.

FINANCIAL ASSISTANCE AND GUARANTEES TO AFFILIATED COMPANIES

As at 31 December 2015, the Group had no advances outstanding which were non-trading in nature and exceeded 8% of the total assets of the Group as at 31 December 2015 which was required to be disclosed under Rule 17.18 of the GEM Listing Rules.

FULL NAME AND QUALIFICATIONS OF COMPANY SECRETARY AND THE COMPLIANCE OFFICER

The Company Secretary of the Company is Chan Suet Ngan. She holds a bachelor's degree in commerce, major in accounting and finance. She is a member of CPA Australia and is also a member of the Hong Kong Institute of Certified Public Accountants.

The Compliance Officer of the Company is Ho Gilbert Chi Hang. He holds a Bachelor of Commence degree and a Bachelor of Laws degree from the University of Sydney, Australia and is a solicitor admitted in New South Wales, Australia and England and Wales and a solicitor and barrister admitted in the High Court of Australia.

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors are responsible for the preparation of these financial statements.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained sufficient public float throughout the year ended 31 December 2015.

OTHER MATTERS

Details of events after the reporting date are set out in Note 41 to the financial statements.

AUDITOR

The financial statements for the year ended 31 December 2015 were audited by BDO Limited who will retire from office and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting of the Company.

For and on behalf of the Board
Wu King Shiu, Kelvin
Chairman
22 March 2016

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

During the year ended 31 December 2015, the Company has complied with the code provisions ("Code Provisions") as set out in the Corporate Governance Code contained in Appendix 15 of the GEM Listing Rules, except for the following deviation:

Code Provision A.2.1

Code Provision A.2.1 provides that the roles of the Chairman and Chief Executive Officer ("CEO") should be separate and should not be performed by the same individual.

Following the step down of Mr. Clive Ng Cheang Neng from the office of Chairman and an Executive Director of the Company on 20 June 2014, the Company has not appointed Chairman, and the roles and functions of the Chairman have been performed by all the Executive Directors of the Company collectively.

Mr. Wu King Shiu, Kelvin has been appointed as the CEO of the Company with effect from 23 May 2014.

On 16 March 2016, Mr. Wu King Shiu, Kelvin was appointed as the Chairman and was re-designated from CEO to Chief Investment Officer. Mr. Ho Gilbert Chi Hang was re-designated from Chief Investment Officer to CEO.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules.

Having made specific enquiries of all Directors of the Company, the Company is satisfied that the Directors of the Company have complied with the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules, and with the Company's code of conduct regarding Directors' securities transactions.

BOARD OF DIRECTORS

Composition

The Board comprises six Directors, of which three are Independent Non-Executive Directors, as follows:

Executive Directors:
Wu King Shiu, Kelvin *(Chairman)*
Ho Gilbert Chi Hang
Chang Tat Joel

Independent Non-Executive Directors:
Chinn Adam David
Professor Lee Chack Fan, *GBS, SBS, JP*
Yuen Kwok On

The biographies of the Directors are set out under the "Profiles of Directors" on pages 10 to 12, and are posted on the Company's website (www.aid8088.com).

Corporate Governance Report

The principal role of the Board is to provide strategic leadership to the Group within a framework of prudent and effective controls, which enables risk to be assessed and managed. The Board sets the Group's strategic aims, oversees the allocation of financial and human resources and reviews management performance. The Board sets the Group's values and standards and ensures that its obligations to shareholders and others are met and understood. The Board meets at least quarterly to review and discuss the Group's performance, strategy and business opportunities available. The Board also reviews and approves the Quarterly, Interim and Annual Reports of the Company. The Board has delegated the day-to-day running of the Group to the Executive Directors/Chief Executive Officer and the Group's management team. However, the Board retains responsibility for:

- Approving annual operating and capital expenditure budgets and any material changes to them;
- Approving the remuneration of the Directors (based on the recommendations of the Remuneration Committee);
- Approving the appointment of Directors (based on recommendations of the Nomination Committee);
- Approving the Quarterly, Interim and Annual Reports (based on recommendations of the Audit Committee);
- Approving any decision to cease to operate all or any material part of the business;
- Approving any changes relating to the Group's capital structure, including the reduction of capital, share issues and share buy backs; and
- Approval of dividend policy and declaration of interim and final dividends.

The Company has complied with Rules 5.05(1) and (2) of the GEM Listing Rules relating to the appointment of sufficient number of Independent Non-Executive Directors. An Independent Non-Executive Director has appropriate professional qualifications, or accounting or related financial management expertise.

The Company considers that each of its Independent Non-Executive Directors are independent in accordance with the guidelines for assessing independence set out in Rule 5.09 of the GEM Listing Rules.

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 GEM Listing Rules. The Company considers all of the Independent Non-Executive Directors are independent.

Abundant Star and Vantage Edge own 909,090,909 and 681,818,181 underlying Shares, which will be allotted and issued upon full conversion of the outstanding convertible bonds for a principal sum of HK$100,000,000 and HK$75,000,000, respectively.

Corporate Governance Report

Mr. Wu, Mr. Ho and Mr. Chang are deemed to have interest in 1,590,909,090 underlying Shares of which Abundant Star and Vantage Edge were deemed to be interested by virtue of the SFO since they indirectly own 56% through Billion Power Management Limited, 23% through Elite Honour Investments Limited and 21% through Genius Link Assets Management Limited, respectively, of the issued share capital in AID Partners GP2, Ltd.. AID Partners GP2, Ltd. is the general partner of AID Partners Capital II, L.P.. AID Partners Capital II, L.P. is a private equity fund interested in the entire issued share capital of Leader Fortune International Limited, which is interested in the entire issued share capital of Abundant Star and Vantage Edge.

Hero Sign Limited owns 454,544,000 Shares. Mr. Wu, Mr. Ho and Mr. Chang are deemed to have interest in 454,544,000 Shares of which Hero Sign Limited is interested by virtue of the SFO since they indirectly own 56% through Billion Power Management Limited, 23% through Elite Honour Investments Limited and 21% through Genius Link Assets Management Limited, respectively, of the issued share capital of AID Partners GP2, Ltd.. AID Partners GP2, Ltd. is the general partner of AID Partners Capital II, L.P.. AID Partners Capital II, L.P. is a private equity fund interested in the entire issued share capital of Leader Fortune International Limited, which is interested in the entire issued share capital of Hero Sign Limited.

Save as disclosed herein, the Company considers that there is no relationship (including financial, business, family or other material/relevant relationship) among the members of the Board.

Term of Appointment and Re-election

The Non-Executive Directors were appointed for fixed terms of one year and thereafter are terminable on three month's written notice from either party. Every Director is subject to retirement by rotation at least once every three years. All Directors appointed to fill a casual vacancy are subject to election by shareholders at the first general meeting after their appointment.

Training and Support for Directors

All the Directors, including Non-Executive Directors and Independent Non-Executive Directors, are briefed on regular basis to have a proper understanding of their collective responsibilities as Directors and of the operations and business of the Group. The Group assists in arranging professional development training to all the Directors to develop and refresh the Directors' knowledge and skills, and continuously updates all the Directors on latest developments regarding the GEM Listing Rules and other applicable regulatory requirements to ensure compliance and to enhance their awareness of good corporate governance practices.

Corporate Governance Report

Board Meetings
There have been 18 meetings of the Board during the year.

Attendance of individual Directors at meetings of the Board held during the year was as follows:

	No. of board meetings attended
Wu King Shiu, Kelvin	17/18
Ho Gilbert Chi Hang	18/18
Chang Tat Joel	10/18
Huang Kenian (resigned on 18 June 2015)	7/7
Wang Dayong (resigned on 18 June 2015)	3/7
Stephen Shiu Junior (resigned on 21 August 2015)	3/10
Chinn Adam David (appointed on 30 June 2015)	9/10
Professor Lee Chack Fan, *GBS, SBS, JP* (appointed on 30 June 2015)	10/10
Yuen Kwok On	13/18
Balme Didier Raymond Marie (appointed on 30 June 2015 and passed away on 16 December 2015)	8/9
Shi Jinsheng (resigned on 21 August 2015)	9/10
Sin Hendrick (resigned on 21 August 2015)	6/10

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Up to the date of this report, Mr. Wu King Shiu, Kelvin was appointed as the Chairman and was re-designated from CEO to Chief Investment Officer. Mr. Ho Gilbert Chi Hang was re-designated from Chief Investment Officer to CEO.

REMUNERATION COMMITTEE AND REMUNERATION OF DIRECTORS

The Company established a Remuneration Committee on 11 August 2005. The Committee meets at least once a year. The terms of reference of the Remuneration Committee are posted on the Company's website (www.aid8088.com). The principal functions of the Remuneration Committee include: recommending to the Board the policy and structure for the remuneration of the Chairman, Executive Director and senior management (as determined by the Board), determining the specific remuneration packages of the Chairman, Executive Directors and senior management, reviewing and approving performance-based remuneration and compensation for loss or termination of office payable to Chairman, Executive Directors and senior management, ensuring no Director is involved in deciding his or her own remuneration, and approving the service contracts of Directors. The Remuneration Committee also fulfils the role of an Options Committee for the Share Option Scheme and its main duty in this context is to approve the grant of options to relevant eligible participants.

The Remuneration Committee comprised a majority of Independent Non-Executive Directors, is chaired by Mr. Yuen Kwok On, and its membership includes Messrs. Wu King Shiu, Kelvin and Professor Lee Chack Fan, *GBS, SBS, JP* .

There was 3 Remuneration Committee meetings during the year.

Corporate Governance Report

Attendance of individual members at meetings of the Remuneration Committee held during the year was as follows:

	No. of remuneration committee meetings attended
Yuen Kwok On	2/3
Wu King Shiu, Kelvin (appointed on 21 August 2015)	1/1
Professor Lee Chack Fan, *GBS, SBS, JP* (appointed on 30 June 2015)	1/1
Chinn Adam David (appointed on 30 June 2015, resigned on 21 August 2015)	0/0
Balme Didier Raymond (appointed on 30 June 2015, resigned on 21 August 2015)	0/0
Shi Jinsheng (resigned on 30 June 2015)	2/2
Sin Hendrick (resigned on 30 June 2015)	1/2

The Remuneration Committee determined the specific remuneration packages of all the Executive Directors and senior management.

NOMINATION COMMITTEE AND NOMINATION OF DIRECTORS

The Company established a Nomination Committee on 11 August 2005. The terms of reference of the Nomination Committee are posted on the Company's website (www.aid8088.com). The principal function of the Nomination Committee is the consideration and nomination of candidates to fill casual vacancies to the Board.

The Company acknowledges that the diversification of the members of the Board has positive effects on enhancing the Group's performance. The Company sees the diversification of the members of the Board as an important supporting factor for the Group to achieve its strategic goal and maintain sustainable growth. In deciding the composition of the Board, the Company will consider the Board diversity from various perspectives, including but not limited to sex, age, cultural and academic background, race, professional experience, skills, knowledge and terms of services. All of our Directors are appointed according to the principle of meritocracy while all candidates are being selected objectively, and the benefit of Board diversity will also be taken into full consideration.

The Nomination Committee comprised a majority of Independent Non-Executive Directors, is chaired by Professor Lee Chack Fan, *GBS, SBS, JP* and its membership includes Messrs. Wu King Shiu, Kelvin and Yuen Kwok On.

There was 3 Nomination Committee meetings during the year.

Corporate Governance Report

Attendance of individual members at meetings of the Nomination Committee held during the year was as follows:

	No. of nomination committee meetings attended
Professor Lee Chack Fan, *GBS, SBS, JP* (appointed on 30 June 2015)	2/2
Wu King Shiu, Kelvin (appointed on 21 August 2015)	1/1
Yuen Kwok On	2/3
Chinn Adam David (appointed on 30 June 2015, resigned on 21 August 2015)	0/1
Balme Didier Raymond (appointed on 30 June 2015, resigned on 21 August 2015)	1/1
Shi Jinsheng (resigned on 30 June 2015)	1/1
Sin Hendrick (resigned on 30 June 2015)	0/1

AUDIT COMMITTEE

The Company established an Audit Committee on 31 March 2000 with the written terms of reference. The terms of reference are available on the Company's website (www.aid8088.com). The Audit Committee comprises three Independent Non-Executive Directors, Messrs. Yuen Kwok On (Chairman), Chinn Adam David and Professor Lee Chack Fan, *GBS, SBS, JP*. The duties of the Audit Committee include: managing the relationship with the Group's external auditor, reviewing the financial information of the Company, and overseeing the Company's financial reporting process, risk management and internal control systems. The Audit Committee reports its work, findings and recommendations to the Board after each meeting.

The Audit Committee met 4 times during the year ended 31 December 2015.

Corporate Governance Report

Attendance of individual members at meetings of the Audit Committee during the year was as follows:

	No. of audit committee meetings attended
Yuen Kwok On	4/4
Chinn Adam David (appointed on 30 June 2015)	2/2
Professor Lee Chack Fan, *GBS, SBS, JP* (appointed on 30 June 2015 and resigned on 21 August 2015 and re-appointed on 28 December 2015)	1/2
Balme Didier Raymond (appointed on 30 June 2015 and passed away on 16 December 2015)	1/2
Shi Jinsheng (resigned on 30 June 2015)	2/2
Sin Hendrick (resigned on 30 June 2015)	2/2

The Audit Committee has met with the Auditor and the Financial Controller during the year to review the 2014 Annual Report and the Quarterly Report for the quarters ended 31 March 2015 and 30 September 2015, and the Interim Report for the six months ended 30 June 2015. The Audit Committee has also met to review these annual figures and was satisfied with the outcome of its review.

The composition of the Audit Committee meets the requirements of Rule 5.28 of the GEM Listing Rules.

AUDITOR'S REMUNERATION

Auditor's remuneration in respect of audit and non-audit services provided by external auditor for the year ended 31 December 2015 amounted to HK$1,015,000 (2014: HK$653,000) and HK$1,228,000 (2014: HK$175,000) respectively. The non-audit services included the review of the Quarterly and Interim Reports and the circulars of the Company during the year.

INTERNAL CONTROL

The Board is responsible for maintaining a strong system of internal control and risk management to safeguard shareholders' investments and the Group's assets. The definition of internal control applied by the Board is that, stated in "Internal Control – Integrated Framework", issued by the Committee of Sponsoring Organisations of the Treadway Commission ("COSCO") in the United States in 1992 as recommended by the Hong Kong Institute of Certified Public Accountants, of a process designed to provide reasonable assurance regarding the achievement of objectives in relation to the following:

(i) Effectiveness and efficiency of operations;

(ii) Reliability of financial reporting; and

(iii) Compliance with applicable laws and regulations.

The Group's system of internal control is designed to manage, rather than eliminate the risk of failure to achieve business objectives, and can only provide a reasonable, but not an absolute, assurance in this respect. In addition, it cannot guarantee against material misstatement or loss.

Corporate Governance Report

Through the Group's risk management framework, there is an on-going process for identifying, evaluating and managing the significant risks faced by the Group, including business, financial, compliance, legal and operating risks. As part of this process, the Company conducted a review of the effectiveness of its system of internal control during the year ended 31 December 2015. The Board, based on recommendations of the Audit Committee, has concluded that the internal control systems are effective and adequate, and that there are no significant areas of concern which may affect shareholders. The review covered all material controls including financial, operational and compliance controls, and risk management. The criteria the Board use to assess the effectiveness of the system of internal control included:

(i) The nature and extent of the risks facing the Group;

(ii) The extent and categories of risk that the Board regards as acceptable for the Group to bear;

(iii) The likelihood of the risks materialising and the financial impact of the risks;

(iv) The Group's ability to reduce the incidence and impact on the business of risks that do materialise; and

(v) The costs of operating particular controls relative to the benefit thereby obtained.

The Board will review the risk management framework and the effectiveness of internal control on at least on annual basis.

The Board, based on the recommendations of the Audit Committee, has considered the need for an Internal Audit function during the year and has decided, after taking into account of the size of the Group, the scale, diversity and complexity of its activities, the number of employees, the level of external oversight that companies within the Group receive from regulatory bodies, as well as cost/benefit considerations, that an Internal Audit function is not yet justified. This decision will be reviewed annually.

SHARE INTERESTS OF SENIOR MANAGEMENT

The number of shares held by senior management are set out in the Directors' Report on pages 18 to 19.

DIRECTORS' AND OFFICERS' INSURANCE

The Company arranges appropriate insurance cover in respect of potential legal actions against its Directors and Officers.

Corporate Governance Report

SHAREHOLDERS

The Board recognises its responsibility to represent the interest of all shareholders and to maximise shareholder value and this section of the Corporate Governance Report details the Group's policies and actions in this respect.

Pursuant to Article 58 of the Articles of Association of the Company, any one or more shareholders holding not less than one-tenth of the paid up share capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an Extraordinary General Meeting ("EGM") to be convened, stating the objects of the meeting, and deposited with our Company Secretary at Units 1&2, 29/F., The Hennessy, 256 Hennessy Road, Wanchai, Hong Kong. The meeting shall be held within two months after the deposit of such requisition.

The procedures for shareholders to put forward proposals at an Annual General Meeting ("AGM") or EGM require that a written notice of those proposals be submitted by the shareholders to the Company Secretary at Units 1&2, 29/F., The Hennessy, 256 Hennessy Road, Wanchai, Hong Kong. The detailed procedures vary according to whether the proposal constitutes an ordinary resolution or a special resolution.

Enquiries to be put to the Board should be made in writing and directed to the Company Secretary at Units 1&2, 29/F., The Hennessy, 256 Hennessy Road, Wanchai, Hong Kong.

CONSTITUTIONAL DOCUMENTS

During the year under review, there is no change in the Company's constitutional documents.

The most recent shareholders meetings were as follows:

A extraordinary general meeting held at 10:30 a.m. on 3 November 2015 at 16/F., Nexxus Building, 77 Des Voeux Road Central, Central, Hong Kong. The major items discussed were:

(i) Approval of the Sale and Purchase Agreement dated 28 August 2015 in relation to the acquisition of the HMV IP Rights and the Assets (as defined in the circular of the Company dated 16 October 2015).

(ii) Approval of Refreshment of General Mandate Limit.

(iii) Approval of Refreshment of Scheme Mandate Limit.

All the above resolutions received sufficient votes to be duly carried.

As at 31 December 2015, the public float capitalisation was approximately HK$1,076,984,000 and the number of issued shares on the public float, represents 47.32% of the outstanding issued share capital of the Company.

Independent Auditor's Report

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To the shareholders of AID Partners Capital Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of AID Partners Capital Holdings Limited ("the Company") and its subsidiaries (together "the Group") set out on pages 38 to 156, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of profit or loss, the consolidated statement of 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 International Financial Reporting Standards issued by the International Accounting Standards Board 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. This report is made solely to you, as a body, in accordance with the terms of our 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.

Independent Auditor's Report

OPINION

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

BDO Limited
Certified Public Accountants
Chiu Wing Cheung Ringo
Practising Certificate no. P04434

Hong Kong, 22 March 2016

Consolidated Statement of Profit or Loss

For the year ended 31 December 2015

	Notes	2015 HK$'000	2014 HK$'000
Revenue	6	**160,660**	56,115
Cost of sales		**(87,725)**	(26,225)
Gross profit		**72,935**	29,890
Gain on financial asset at fair value through profit or loss	17	**260**	–
Loss on financial liabilities at fair value through profit or loss	25	**(6,786)**	(6,009)
Other net (loss)/income	7	**(1,410)**	10,017
Selling and distribution expenses		**(38,481)**	(28,870)
Administrative expenses			
Depreciation of property, plant and equipment	13	**(18,490)**	(7,297)
Amortisation of intangible assets	15	**(47,573)**	(19,320)
Other administrative expenses		**(111,606)**	(65,695)
		(177,669)	(92,312)
Impairment of available-for-sale investments	14	**(818)**	–
Impairment of goodwill	15	**(41,305)**	–
Other operating expenses		**(21,632)**	(5,653)
Loss from operations		**(214,906)**	(92,937)
Finance costs	8	**(22,890)**	(12,272)
Share of losses of an associate		**(596)**	–
Loss before taxation	9	**(238,392)**	(105,209)
Taxation credit	10	**7,978**	1,423
Loss for the year		**(230,414)**	(103,786)
Attributable to:			
Owners of the Company		**(233,146)**	(89,666)
Non-controlling interests		**2,732**	(14,120)
Loss for the year		**(230,414)**	(103,786)
Loss per share attributable to owners of the Company during the year	11	**HK cents**	HK cents (restated)
Basic		**(4.52)**	(1.79)
Diluted		**N/A**	N/A

Consolidated Statement of Other Comprehensive Income

For the year ended 31 December 2015

	Notes	2015 HK$'000	2014 HK$'000
Loss for the year		**(230,414)**	(103,786)
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Change in fair value of available-for-sale investment	14	**(818)**	–
Reclassification adjustment on impairment of available-for-sale investment	14	**818**	–
Exchange differences on translating foreign operations of subsidiaries		**(1,693)**	–
Release of foreign exchange reserve upon deregistration of a subsidiary		**–**	(231)
Other comprehensive income for the year, net of tax		**(1,693)**	(231)
Total comprehensive income for the year, before and net of tax		**(232,107)**	(104,017)
Attributable to:			
Owners of the Company		**(234,839)**	(89,897)
Non-controlling interests		**2,732**	(14,120)
Total comprehensive income for the year, before and net of tax		**(232,107)**	(104,017)

Consolidated Statement of Financial Position

As at 31 December 2015

	Notes	As at 31 December 2015 HK$'000	As at 31 December 2014 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	13	**53,416**	82,677
Available-for-sale investments	14	**30,000**	818
Intangible assets	15	**262,002**	152,225
Interest in an associate	16	**3,603**	–
Investment in convertible bond	17	**11,622**	–
Financial asset at fair value through profit or loss	17	**11,008**	–
Deposits and other receivables	19	**30,376**	–
		402,027	235,720
Current assets			
Inventories	18	**39,903**	6,649
Trade and other receivables	19	**78,010**	24,925
Pledged bank deposits	20	**7,000**	–
Cash and cash equivalents	20	**817,867**	102,067
		942,780	133,641
Current liabilities			
Trade and other payables	21	**153,245**	68,666
Borrowings	22	**5,455**	10,125
Convertible bonds	24	**–**	23,313
Financial liabilities at fair value through profit or loss	25	**2,738**	7,164
Current tax liabilities		**4,847**	1,765
		166,285	111,033
Net current assets		**776,495**	22,608
Total assets less current liabilities		**1,178,522**	258,328

Consolidated Statement of Financial Position

As at 31 December 2015

	Notes	**As at 31 December 2015 HK$'000**	As at 31 December 2014 HK$'000
Non-current liabilities			
Other payables	21	**44,812**	24,089
Borrowings	22	**–**	30,327
Convertible bonds	24	**318,909**	160,018
Financial liabilities at fair value through profit or loss	25	**27,835**	21,021
Deferred tax liabilities	26	**31,370**	10,734
		422,926	246,189
Net assets		**755,596**	12,139
EQUITY			
Share capital	27	**582,016**	36,907
Reserves	28	**145,375**	(36,721)
Equity attributable to owners of the Company		**727,391**	186
Non-controlling interests		**28,205**	11,953
Total equity		**755,596**	12,139

The consolidated financial statements on pages 38 to 156 were approved and authorised for issue by the board of directors on 22 March 2016 and are signed on its behalf by :

Wu King Shiu, Kelvin
Director

Ho Gilbert Chi Hang
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2015

	Total equity attributable to owners of the Company									Non-controlling interests	Total equity
	Share capital	*Share premium	*Convertible bonds equity reserve	*Capital reserve	*Capital redemption reserve	*Employee share-based compensation reserve	*Foreign exchange reserve	*Accumulated losses	Total		
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2014	29,996	212,885	–	2,112	601	36,109	231	(274,731)	7,203	–	7,203
Share-based compensation	–	–	–	–	–	19,463	–	–	19,463	–	19,463
Issue of convertible bonds	–	–	8,061	–	–	–	–	–	8,061	–	8,061
Issue of consideration shares for acquisition of subsidiaries (Notes 27(a) and (b))	4,807	40,639	–	–	–	–	–	–	45,446	–	45,446
Issue of shares upon conversion of redeemable convertible preference shares (Note 27(d))	338	3,162	–	–	–	–	–	–	3,500	–	3,500
Issue of shares upon exercise of warrants (Note 27(e))	160	2,924	–	–	–	–	–	–	3,084	–	3,084
Issue of shares upon exercise of share options (Note 27(f))	272	5,854	–	–	–	(2,662)	–	–	3,464	–	3,464
Lapse of share options	–	–	–	–	–	(579)	–	579	–	–	–
Share issue expenses (Note 27(a))	–	(506)	–	–	–	–	–	–	(506)	–	(506)
Issue of shares upon conversion of convertible bonds(Note 27(c))	1,334	15,308	–	–	–	–	–	–	16,642	–	16,642
Non-controlling interests arising on business combination (Note 36)	–	–	–	–	–	–	–	–	–	24,667	24,667
Disposal of a subsidiary (Note 35)	–	–	–	–	–	–	–	–	–	79	79
Transactions with non-controlling interests (Note 36 (a))	–	–	–	–	–	–	–	(16,274)	(16,274)	1,327	(14,947)
Transactions with owners	6,911	67,381	8,061	–	–	16,222	–	(15,695)	82,880	26,073	108,953
Loss for the year	–	–	–	–	–	–	–	(89,666)	(89,666)	(14,120)	(103,786)
Other comprehensive income:											
Release of foreign exchange reserve upon deregistration of a subsidiary	–	–	–	–	–	–	(231)	–	(231)	–	(231)
Total comprehensive income for the year	–	–	–	–	–	–	(231)	(89,666)	(89,897)	(14,120)	(104,017)
At 31 December 2014	36,907	280,266	8,061	2,112	601	52,331	–	(380,092)	186	11,953	12,139

Consolidated Statement of Changes in Equity

For the year ended 31 December 2015

	Total equity attributable to owners of the Company											Non-controlling interests	Total equity
	Share capital HK$'000	*Share premium HK$'000	*Convertible bonds equity reserve HK$'000	*Capital reserve HK$'000	*Capital redemption reserve HK$'000	*Employee share-based compensation reserve HK$'000	*Investment revaluation reserve HK$'000	*Foreign exchange reserve HK$'000	*Statutory surplus reserve HK$'000	*Accumulated losses HK$'000	Total HK$'000	HK$'000	HK$'000
At 1 January 2015	36,907	280,266	8,061	2,112	601	52,331	-	-	-	(380,092)	186	11,953	12,139
Share-based compensation	-	-	-	-	-	638	-	-	-	-	638	-	638
Issue of convertible bonds	-	-	1,921	-	-	-	-	-	-	-	1,921	-	1,921
Issue of consideration shares for acquisition of subsidiaries (Notes 27(g) and (h))	6,030	21,653	-	-	-	-	-	-	-	-	27,683	-	27,683
Issue of shares upon conversion of redeemable convertible preference shares (Note 27(l))	26,021	18,369	-	-	-	-	-	-	-	-	44,390	-	44,390
Issue of shares upon exercise of share options (Note 27(m))	2,372	7,071	-	-	-	(3,623)	-	-	-	-	5,820	-	5,820
Issue of bonus shares (Note 27(i))	184,615	(184,615)	-	-	-	-	-	-	-	-	-	-	-
Placing of shares (Note 27(k))	312,421	542,330	-	-	-	-	-	-	-	-	854,751	-	854,751
Lapse of share options	-	-	-	-	-	(283)	-	-	-	283	-	-	-
Issue of shares upon conversion of convertible bonds (Note 27(j))	13,650	13,191	-	-	-	-	-	-	-	-	26,841	-	26,841
Non-controlling interests arising from business combination (Note 36(c))	-	-	-	-	-	-	-	-	-	-	-	13,520	13,520
Transfer to statutory reserve	-	-	-	-	-	-	-	-	3,331	(3,331)	-	-	-
Transactions with owners	545,109	417,999	1,921	-	-	(3,268)	-	-	3,331	(3,048)	962,044	13,520	975,564
Loss for the year	-	-	-	-	-	-	-	-	-	(233,146)	(233,146)	2,732	(230,414)
Other comprehensive income:													
Change in fair value of available-for-sale investments	-	-	-	-	-	-	(818)	-	-	-	(818)	-	(818)
Impairment of available-for-sale investments	-	-	-	-	-	-	818	-	-	-	818	-	818
Exchange differences on translating foreign operations of subsidiaries	-	-	-	-	-	-	-	(1,693)	-	-	(1,693)	-	(1,693)
Total comprehensive income for the year	-	-	-	-	-	-	-	(1,693)	-	(233,146)	(234,839)	2,732	(232,107)
At 31 December 2015	582,016	698,265	9,982	2,112	601	49,063	-	(1,693)	3,331	(616,286)	727,391	28,205	755,596

* As at 31 December 2015, the total of these reserves amounts to a surplus of HK$145,375,000 (31 December 2014: deficit of HK$36,721,000).

Consolidated Statement of Cash Flows

For the year ended 31 December 2015

	Notes	2015 HK$'000	2014 HK$'000
Cash flows from operating activities			
Cash outflow for operations	33	**(127,755)**	(62,129)
Tax paid		**(141)**	–
Net cash outflow from operating activities		**(127,896)**	(62,129)
Cash flows from investing activities			
Acquisition of HMV IP Rights and HMV Business	36	**(105,558)**	–
Bank interest income received		**1,005**	452
Investment in available-for-sale investments	14	**(30,000)**	(818)
Purchase of property, plant and equipment		**(41,952)**	(17,051)
Proceeds from disposals of property, plant and equipment		**3**	207
Repayment from note receivable		**–**	(6,472)
Disposal of subsidiaries, net of cash disposed	35(b)	**36,668**	(79)
Acquisition of subsidiaries, net of cash acquired	36	**(12,366)**	(21,137)
Acquisition of an associate	16	**(4,199)**	–
Investment in convertible bond	17	**(22,158)**	–
Increase in pledged bank deposits	20	**(7,000)**	–
Net cash outflow from investing activities		**(185,557)**	(44,898)
Cash flows from financing activities			
Issue of shares upon exercise of warrants		**–**	2,250
Issue of shares upon exercise of share options		**5,820**	3,464
Issue of shares upon conversion of redeemable convertible preference shares, net of expenses		**41,200**	2,753
Proceeds from issue of convertible bonds, net of expenses	24(c)	**139,500**	174,661
Proceeds from placing of shares	27(k)	**854,751**	–
Interest paid on bank loan		**(80)**	(497)
Interest paid on other loan		**–**	(369)
Repayment of bank loan		**(360)**	(2,197)
(Repayment)/Advance of other loan		**(11,600)**	11,600
New bank loan raised		**–**	10,000
Redemption of convertible bond		**–**	(11,351)
Net cash inflow from financing activities		**1,029,231**	190,314
Net increase in cash and cash equivalents		**715,778**	83,287
Cash and cash equivalents as at 1 January		**102,067**	18,694
Effect of exchange rate changes on cash and cash equivalents		**22**	86
Cash and cash equivalents as at 31 December	20	**817,867**	102,067

Notes to the Financial Statements

For the year ended 31 December 2015

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 21 February 2000 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company's registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and, its principal place of business is Units 1 & 2, 29/F., The Hennessy, 256 Hennessy Road, Wanchai, Hong Kong. The Company's shares have been listed on The Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 17 April 2000. The Company and its subsidiaries are together referred to as the Group hereinafter.

The Company acts as the holding company of the Group. The Group is principally engaged in the businesses of asset management and strategic investment.

The audited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") which collective term includes all applicable individual International Financial Reporting Standards and Interpretations approved by the International Accounting Standards Board (the "IASB") and all applicable individual International Accounting Standards and Interpretations as originated by the Board of the International Accounting Standards Committee and adopted by IASB. The financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM of the Stock Exchange ("GEM Listing Rules").

The financial statements for the year ended 31 December 2015 were approved by the board of directors (the "Directors") on 22 March 2016.

2. ADOPTION OF NEW OR REVISED IFRSs

In the current year, the Group has applied for the following new standards, amendments and interpretations (the "new IFRSs"), which are relevant to and effective for the consolidated financial statements for the annual period beginning on 1 January 2015.

(a) Adoption of new or revised IFRSs — effective from 1 January 2015

IFRSs (Amendments)	Annual improvements 2010–2012 Cycle
IFRSs (Amendments)	Annual improvements 2011–2013 Cycle

The adoption of the amendments has no material impact on the Group's financial statements.

Notes to the Financial Statements

For the year ended 31 December 2015

2. ADOPTION OF NEW OR REVISED IFRSs (continued)

(b) New or revised IFRSs that have been issued but are not yet effective

The following new or revised IFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group.

Amendments to IAS 1	Disclosure Initiative[1]
Amendments to IAS 27	Equity Method in Separate Financial Statements[1]
IFRS 9 (2014)	Financial Instruments[2]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[1]
IFRS 15	Revenue from Contracts with Customers[2]
IFRSs (Amendments)	Annual Improvements 2012–2014 Cycle[1]

1 Effective for annual periods beginning on or after 1 January 2016
2 Effective for annual periods beginning on or after 1 January 2018

Information on new or revised IFRSs that is potentially relevant to the Group's financial statements is as follows:

Amendments to IAS 1 — Disclosure Initiative
The amendments are designed to encourage entities to use judgement in the application of IAS 1 when considering the layout and content of their financial statements.

An entity's share of other comprehensive income from equity accounted interests in associates and joint ventures will be split between those items that will and will not be reclassified to profit or loss, and presented in aggregate as a single line item within those two groups.

Amendments to IAS 27 — Equity Method in Separate Financial Statements
The amendments allow an entity to apply the equity method in accounting for its investments in subsidiaries, joint ventures and associates in its separate financial statements.

IFRS 9 (2014) — Financial Instruments
IFRS 9 introduces new requirements for the classification and measurement of financial assets. Debt instruments that are held within a business model whose objective is to hold assets in order to collect contractual cash flows (the business model test) and that have contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (the contractual cash flow characteristics test) are generally measured at amortised cost. Debt instruments that meet the contractual cash flow characteristics test are measured at fair value through other comprehensive income ("FVTOCI") if the objective of the entity's business model is both to hold and collect the contractual cash flows and to sell the financial assets. Entities may make an irrevocable election at initial recognition to measure equity instruments that are not held for trading at FVTOCI. All other debt and equity instruments are measured at fair value through profit or loss ("FVTPL").

Notes to the Financial Statements

For the year ended 31 December 2015

2. ADOPTION OF NEW OR REVISED IFRSs (continued)

(b) New or revised IFRSs that have been issued but are not yet effective (continued)

IFRS 9 (2014) — Financial Instruments (Continued)

IFRS 9 includes a new expected loss impairment model for all financial assets not measured at FVTPL replacing the incurred loss model in IAS 39 and new general hedge accounting requirements to allow entities to better reflect their risk management activities in financial statements.

IFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from IAS 39, except for financial liabilities designated at FVTPL, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, IFRS 9 retains the requirements in IAS 39 for derecognition of financial assets and financial liabilities.

Amendments to IFRS 10 and IAS 28 — Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments clarify the extent of gains or losses to be recognised when an entity sells or contributes assets to its associate or joint venture. When the transaction involves a business the gain or loss is recognised in full, conversely when the transaction involves assets that do not constitute a business the gain or loss is recognised only to the extent of the unrelated investors' interests in the joint venture or associate.

IFRS 15 — Revenue from Contracts with Customers

The new standard establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. IFRS 15 supersedes existing revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

IFRS 15 requires the application of a 5-step approach to revenue recognition:

Step 1:	Identify the contract(s) with a customer
Step 2:	Identify the performance obligations in the contract
Step 3:	Determine the transaction price
Step 4:	Allocate the transaction price to each performance obligation
Step 5:	Recognise revenue when each performance obligation is satisfied

Notes to the Financial Statements

For the year ended 31 December 2015

2. ADOPTION OF NEW OR REVISED IFRSs (continued)

(b) New or revised IFRSs that have been issued but are not yet effective (continued)

IFRS 15 — Revenue from Contracts with Customers (Continued)

IFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under IFRS. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue.

Except for IFRS 9 (2014) which the Group is in the process of making an assessment of the impact, the Directors anticipated that the application of other new or revised IFRSs will have no material impact on the Group's financial statements.

(c) New Hong Kong Companies Ordinance provisions relating to the preparation of financial statements

The provisions of the new Hong Kong Companies Ordinance, Cap. 622, in relation to the preparation of financial statements apply to the Company in this financial year.

The Directors consider that there is no impact on the Group's financial position or performance, however the new Hong Kong Companies Ordinance, Cap. 622, impacts on the presentation and disclosures in the consolidated financial statements. For example, the statement of financial position of the Company is now presented in the notes to the financial statements rather than as a primary statement and related notes to the statement of financial position of the Company are generally no longer presented.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The significant accounting policies that have been used in the preparation of these financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated. The adoption of new or revised IFRSs and the impacts on the financial statements, if any, are disclosed in Note 2 to the financial statements.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are set out in Note 4 to the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Business combination and basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of other comprehensive income from the effective dates of acquisition or up to the effective dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Acquisition of subsidiaries or businesses is accounted for using acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interests that represent present ownership interests in the subsidiary either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by IFRSs. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interest and the non-controlling interest are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

Notes to the Financial Statements

For the year ended 31 December 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Business combination and basis of consolidation (continued)

When the Group loses control of a subsidiary, profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus such non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to such non-controlling interests even if this results in non-controlling interest having a deficit balance.

(c) Subsidiaries

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee, exposure, or rights, to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

(d) Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor a joint arrangement. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or joint control over those policies.

Associates are accounted for using equity method whereby they are initially recognised at cost and thereafter, their carrying amount are adjusted for the Group's share of the post-acquisition change in the associates' net assets except that losses in excess of the Group's interest in the associate are not recognised unless there is an obligation to make good those losses.

Profits and losses arising on transactions between the Group and its associates are recognised only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profit and loss resulting from these transactions is eliminated against the carrying value of the associate. Where unrealised losses provide evidence of impairment of the asset transferred they are recognised immediately in profit or loss.

Any premium paid for an associate above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the associate. Where there is objective evidence that the investment in an associate has been impaired, the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

Notes to the Financial Statements

For the year ended 31 December 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Property, plant and equipment

(i) Measurement bases

Leasehold land and buildings

Land and building elements of a lease of land and buildings are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment.

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to the working condition and location for its intended use. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other costs, such as repairs and maintenance, are charged to profit or loss during the financial period in which they are incurred.

Gain or loss arising from retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the assets, and is recognised in profit or loss.

(ii) Depreciation

Depreciation is provided to write off the costs less their estimated residual values over their estimated useful lives, using straight-line method, at the following rates per annum:

Leasehold land and buildings	2% or over the terms of the lease, whichever is shorter
Computer hardware and software	33 $^{1}/_{3}$%
Furniture and fixtures	20%
Leasehold improvements	20% or over the terms of the lease, whichever is shorter
Office equipment	33 $^{1}/_{3}$%

The assets' estimated residual values, depreciation method and estimated useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Notes to the Financial Statements

For the year ended 31 December 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) The Group as lessee

Where the Group has the rights to use of assets held under operating leases, payments made under the leases are charged to profit or loss on a straight-line method over the lease terms except where an alternative basis is more representative of the time pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in the statement of profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(iii) The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line method over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging and operating lease are added to the carrying amount of the leased asset and recognised as an expense on the straight-line basis over the lease term.

(g) Foreign currencies

The financial statements are presented in HK$ and all balances are expressed in thousands, which is also the functional currency of the Company.

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognised in profit or loss.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

Notes to the Financial Statements

For the year ended 31 December 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Foreign currencies (continued)

In the consolidated financial statements, all individual financial statements of foreign operations originally presented in a currency different from the Group's presentation currency, have been converted into HK$. Assets and liabilities have been translated into HK$ at the closing rates at the reporting date. Income and expenses have been converted into the HK$ at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been recognised in other comprehensive income and accumulated separately in the foreign exchange reserve in equity. Goodwill and fair value adjustments arising on the acquisition of a foreign operation have been treated as assets and liabilities of the foreign operation and translated into HK$ at the closing rates.

When a foreign operation is sold, such exchange differences are reclassified from equity to profit or loss as part of the gain or loss on sale.

(h) Financial instruments

Financial assets and financial liabilities are recognised when, and only when, the Group 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) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

(i) Financial assets

The Group classifies its financial assets other than hedging instruments into one of the following categories: financial assets at fair value through profit or loss, available-for-sale investments and loans and receivables. Regular way purchases or sales of financial assets are recognised on trade date. Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date. The accounting policies adopted for each category are set out below.

Financial assets at fair value through profit or loss

These include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term, or it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts.

Notes to the Financial Statements

For the year ended 31 December 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Financial instruments (continued)

(i) Financial assets (continued)

Financial assets at fair value through profit or loss (continued)

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial assets may be designated at initial recognition as at fair value through profit or loss if the following criteria are met:

– the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; or

– the assets are part of a group of financial assets which are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management strategy and information about the group of financial assets is provided internally on that basis to the key management personnel; or

– the financial asset contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, financial assets in this category are measured at fair value with changes in fair value recognised in profit or loss. Fair value is determined by reference to active market transactions or using a valuation technique where no active market exists. Fair value gain or loss does not include any dividend or interest earned on these financial assets. Dividend and interest income is recognised in accordance with the Group's policies in Note 3(o) to the financial statements.

Available-for-sale investments

These include non-derivative financial assets that do not qualify for inclusion in any of the other categories of financial assets. All financial assets within this category are subsequently measured at fair value. Gain or loss arising from a change in fair value, excluding any dividend and interest income, is recognised in other comprehensive income and accumulated separately in investment revaluation reserve in equity, except for impairment loss and foreign exchange gain and loss on monetary assets, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is reclassified from equity to profit or loss. Interest calculated using effective interest method is recognised in profit or loss.

Notes to the Financial Statements

For the year ended 31 December 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Financial instruments (continued)

(i) Financial assets (continued)

Available-for-sale investments (continued)

The fair value of available-for-sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the reporting date. Change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in profit or loss, and other changes are recognised in other comprehensive income.

When a decline in the fair value has been recognised in other comprehensive income and accumulated in equity and there is objective evidence that the asset is impaired, an amount is removed from equity and recognised in profit or loss as an impairment loss. That amount is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Reversals of impairment losses in respect of investments in equity instruments classified as available-for-sale and stated at fair value are not recognised in profit or loss. The subsequent increase in fair value is recognised in the other comprehensive income.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each reporting date subsequent to initial recognition. Such impairment loss will not reverse in subsequent periods.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

Derivative component in convertible bond

Derivative component in convertible bond is initially recognised at fair value and is classified separately into respective items on initial recognition. This is subsequently remeasured at fair value at the end of the reporting period with resulting gain or loss recognised in profit or loss immediately.

Notes to the Financial Statements

For the year ended 31 December 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Financial instruments (continued)

(i) Financial assets (continued)

Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost using effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

Impairment losses on loans and receivables are provided for when objective evidence is received that the Group will not be able to collect amounts due to it in accordance with the original terms of the receivables. The amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, excluding future credit losses that have not been incurred, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of loss is recognised in profit or loss for the period in which impairment occurs.

Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of the Group about one or more of the following loss events:

– Significant financial difficulty of the debtor;

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

– It becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and

– Significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

Loss events in respect of a group of financial assets include observable data indicating that there is a measurable decrease in the estimated future cash flows from the group of financial assets. Such observable data includes but not limited to adverse changes in the payment status of debtors in the group and, national or local economic conditions that correlate with defaults on the assets in the group.

If, in subsequent period, the amount of 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 to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss in the period in which the reversal occurs.

Notes to the Financial Statements

For the year ended 31 December 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Financial instruments (continued)

(ii) Financial liabilities and equity

These instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities at fair value through profit or loss

These include embedded derivatives which have been separated from their host contracts and financial liabilities that are designated by the Group to be carried at FVTPL upon initial recognition.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated at initial recognition as at fair value through profit or loss if the following criteria are met:

– the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; or

– the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or

– the financial liability contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, financial liabilities in this category are measured at fair value with changes in fair value recognised in profit or loss. Financial liabilities originally designated as financial liabilities at fair value through profit or loss may not subsequently be reclassified.

Notes to the Financial Statements

For the year ended 31 December 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Financial instruments (continued)

(ii) Financial liabilities and equity (continued)

Convertible bonds

Convertible bonds contain liability and conversion option derivative

Convertible bonds issued by the Group that contain both liability and conversion option components are classified separately into their respective items on initial recognition. Conversion option that will be settled other than 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 a conversion option derivative. At the date of issue, the conversion option derivative is recognised at fair value. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as liability.

In subsequent periods, the liability component of convertible bonds is carried at amortised cost using effective interest method, until extinguished on conversion or maturity. The conversion option derivative is measured at fair value with changes in fair value recognised in profit or loss.

When the bonds are converted, the carrying amount of the liability portion together with the fair value of the conversion derivative at the time of conversion are transferred to share capital and share premium as consideration for the shares issued. When the bonds are redeemed, the difference between the redemption amount and the carrying amounts of both components is recognised in profit or loss.

Convertible bonds contain liability and equity components

Convertible bonds issued by the Group that contain both the liability and conversion option components are classified separately into their respective items on initial recognition. 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 classified as an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the proceeds of the issue of the convertible loan notes and the fair value assigned to the liability component, representing the conversion option for the holder to convert the loan notes into equity, is included in convertible bonds equity reserve.

Notes to the Financial Statements

For the year ended 31 December 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Financial instruments (continued)

(ii) Financial liabilities and equity (continued)

Convertible bonds (continued)

Convertible bonds contain liability and equity components (continued)

In subsequent periods, the liability component of the convertible loan notes is carried at amortised cost using the effective interest method. The equity component, represented by the option to convert the liability component into ordinary shares of the Company, will remain in convertible bonds equity reserve until the embedded option is exercised (in which case the balance stated in convertible bonds equity reserve will be transferred to share capital and share premium. Where the option remains unexercised at the expiry dates, the balance stated in convertible bonds equity reserve will be released to the accumulated losses. No gain or loss is recognised upon conversion or expiration of the option.

Transaction costs that relate to the issue of the bonds are allocated amongst the liability component and the equity/conversion option derivative in proportion to the allocation of the proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the bonds using effective interest method. Transaction costs relating to the conversion option derivative are expensed as incurred.

Borrowings

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

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

Redeemable convertible preference shares

Redeemable convertible preference shares issued by the Group that contain both liability and conversion option components are classified separately into their respective items on initial recognition. Conversion option that will be settled other than 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 a conversion option derivative. At the date of issue, the conversion option derivative is recognised at fair value. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as liability.

Preference shares, which are redeemable on a specific date or at the option of the shareholders, are classified as liabilities.

Notes to the Financial Statements

For the year ended 31 December 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Financial instruments (continued)

(ii) Financial liabilities and equity (continued)

Redeemable convertible preference shares (continued)

In subsequent periods, the liability component is carried at amortised cost using effective interest method, until extinguished on conversion or maturity. The conversion option derivative is measured at fair value with changes in fair value recognised in profit or loss.

When the preference shares are converted, the carrying amount of the liability portion together with the fair value of the conversion derivative at the time of conversion are transferred to share capital and share premium as consideration for the shares issued. When the preference shares are redeemed, the difference between the redemption amount and the carrying amounts of both components is recognised in profit or loss.

Transaction costs that relate to the issue of the redeemable convertible preference shares are allocated to the liability and conversion option components in proportion to the allocation of proceeds. Transaction costs relating to the conversion option derivative is recognised in profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the preference shares using effective interest method.

Other financial liabilities

Other financial liabilities include trade and other payables, accrued charges and advances from a director and are recognised initially at fair value and subsequently measured at amortised cost, using effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Financial guarantee contracts

This is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 "Revenue".

Notes to the Financial Statements

For the year ended 31 December 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Financial instruments (continued)

(iii) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with IAS 39.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

Where the Group issues its own equity instruments to a creditor to settle a financial liability in whole or in part as a result of renegotiating the terms of that liability, the equity instruments issued are the consideration paid and are recognised initially and measured at their fair value on the date the financial liability or part thereof is extinguished. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments are measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability or part thereof extinguished and the consideration paid is recognised in profit or loss for the year.

(i) Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost is determined on the actual basis and comprises invoiced value of purchases, freight and other costs incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

(j) Cash and cash equivalents

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

For the purpose of the statement of financial position, cash and cash equivalents comprise cash in hand and at banks, including short-term bank deposits, and assets similar in nature to cash, which are not restricted as to use.

Notes to the Financial Statements

For the year ended 31 December 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Intangible assets

(i) Goodwill

Goodwill is initially recognised at cost being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests in the acquiree and the acquisition date fair value of the acquirer's previously held equity interest in the acquiree over the fair value of identifiable assets and liabilities acquired.

Where the fair value of identifiable assets and liabilities exceed the fair value of consideration paid, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of the acquirer's previously held equity interest in the acquiree, the excess is recognised in profit or loss on the acquisition date, after re-assessment.

Goodwill is measured at cost less impairment losses. For the purpose of impairment testing, goodwill arising from acquisition is allocated to each of the relevant cash-generating units ("CGUs") that are expected to benefit from the synergies of the acquisition. A CGU is the smallest identifiable group of asset that generates cash flows that are largely independent of the cash inflows from other assets or groups of assets. A CGU to which goodwill has been allocated is tested for impairment annually, by comparing its carrying amount with its recoverable amount (see Note 3(l)) and whenever there is an indication that the unit may be impaired.

For goodwill arising from an acquisition in a financial year, the CGU to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the CGU is less than the carrying amount of the unit, impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount to each asset in the unit. However, the loss allocated to each asset will not reduce the individual asset's carrying amount to below its fair value less cost of disposal (if measurable) or its value in use (if determinable), whichever is the higher. Any impairment loss for goodwill is recognised in profit or loss and is not reversed in subsequent periods.

Notes to the Financial Statements

For the year ended 31 December 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Intangible assets (continued)

(ii) Acquired intangible assets

Intangible assets acquired separately are initially recognised at cost. The cost of intangible assets acquired in a business combination is fair value at the date of acquisition. Subsequently, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any impairment losses.

Amortisation is recognised in profit or loss and is provided on straight-line method over their estimated useful lives as follows. Non-compete agreements are amortised on a straight-line basis over the respective terms of agreements. Intangible assets with indefinite useful lives are carried at cost less any impairment losses.

Trademarks	20 years
Trademark licence	5 years
Platform	2 years
Content agreement	2 years
Intellectual property	5 years
Mobile games	2 years
Distribution network	3 years
Non-compete agreements	5 years

(iii) Impairment

Intangible assets with finite lives are tested for impairment when there is an indication that an asset may be impaired. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, irrespective of whether there is any indication that they may be impaired. Intangible assets are tested for impairment by comparing their carrying amounts with their recoverable amounts (see Note 3(l)).

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount; however, the carrying amount should not be increased above the lower of its recoverable amount and the carrying amount that would have resulted had no impairment loss been recognised for the asset in prior years. All reversals are recognised in profit or loss immediately.

Notes to the Financial Statements

For the year ended 31 December 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Impairment of assets (other non-financial assets)

At the end of each reporting period, the Group reviews the carrying amounts of its property, plant and equipment, interests in subsidiaries and associate to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased.

If the recoverable amount (i.e. the greater of the fair value less costs to disposal and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent 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 in prior years. A reversal of an impairment loss is recognised as income immediately.

Value in use is based on the estimated future cash flows expected to be derived from the asset or CGU (see Note 3(k)(i)), 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 or CGU.

(m) Income taxes

Income tax for the year comprises current tax and deferred tax.

Current tax is based on profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of reporting period.

Notes to the Financial Statements

For the year ended 31 December 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Income taxes (continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in foreseeable future.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income or when they relate to items recognised directly in equity in which case the taxes are also recognised directly in equity.

(n) Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued. Any transaction costs associated with the issuing of shares are deducted from share premium (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

(o) Revenue recognition

Revenue, which is the fair value of consideration received or receivable, is recognised when it is probable that economic benefits will flow to the Group, when the revenue and costs, if applicable, can be measured reliably, on the following bases:

– Revenue from sales of goods is recognised, net of discounts and returns, on transfer of risks and rewards of ownership, which is at the time of delivery and the title is passed to customers.

– Revenue from sales of food and beverage is recognised, net of discounts, in profit or loss at the point of sale to customers.

– Revenue from sales of in-app purchase items is recognised on individual transaction basis upon the successful download of the in-app purchase items.

– Advertising and marketing income is recognised when services are rendered or substantially performed in accordance with the terms of the contract.

Notes to the Financial Statements

For the year ended 31 December 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Revenue recognition (continued)

– Revenue from game publishing services is recognised as follows:

The Group engages in the provision of mobile game publishing services through cooperation with upstream game developers, downstream platforms and third party payment vendors to paying players. The Group publishes third party developers' games on its own and third party platforms.

The Group's game publishing service income is pre-determined according to the relevant terms entered into between the Group and the licensor of the game. The games published on the platforms are hosted, maintained and updated by the licensor of the game, and the Group mainly provides access to the platforms and after-sale basic technical support to the paying players. The Group has evaluated and determined it is not the primary obligors in the services rendered to the paying players. Accordingly, the Group records its revenue, net of portion of sharing of revenues with the game developers when the paying players purchase in-game virtual items from the relevant mobile games.

– Concession stores income is accrued as earned on the basis of the terms of relevant concession agreements, which is on the basis of a minimum payment and a variable amount based on turnover.

– Fund management fee income is recognised in accordance with the substance of the relevant agreements.

– Interest income from financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount can be measured reliably. Interest income is accrued on time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

– Dividend income is recognised when the right to receive payment is established.

(p) Borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Employee benefits

(i) Employee leave entitlements

Employee entitlements to long service payment and annual leave are recognised when they accrue to employees. Provision is made for the estimated liabilities for long service payment and annual leave as a result of services rendered by employees up to the reporting date.

Non-accumulating compensated absences are not recognised until the time of leave.

(ii) Retirement benefit schemes

The Group participates in the following retirement benefit schemes and pays contributions to independently administered funds on a mandatory or contractual basis. Assets of these schemes are held separately from those of the Group in independently administered funds. The retirement benefit schemes are generally funded by payments from employees and by the relevant Group companies. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense on accrual basis.

All eligible employees have participated in the Mandatory Provident Fund Scheme ("MPF Scheme") in Hong Kong. Under the MPF Scheme, contributions are made based on a 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. There is no voluntary contribution from the Group nor the employees and there are no other legal or constructive obligations to the Group.

The employees of the Group's subsidiaries which operate in the People's Republic of China (the "PRC") are required to participate in a central pension scheme operated by the local municipal government. The subsidiaries are required to contribute a 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.

(iii) Share-based employee compensation

All share-based payment arrangements granted are recognised in the financial statements. The Group operates equity-settled share-based compensation plans to remunerate its employees and directors.

All employee services received in exchange for the grant of any share-based compensation are measured at their fair values. These are indirectly determined by reference to the fair value of the share options awarded. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions.

Notes to the Financial Statements

For the year ended 31 December 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Employee benefits (continued)

(iii) Share-based employee compensation (continued)

All share-based compensation is ultimately recognised as an expense in profit or loss unless it qualifies for recognition as asset, with a corresponding credit to employee share-based compensation reserve in equity. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that number of share options expected to vest differs from previous estimates. No adjustment to expense recognised in prior periods is made if fewer share options ultimately are exercised than vested.

Upon exercise of share options, the proceeds received net of any directly attributable transaction costs up to the nominal value of the shares issued are allocated to share capital and the amount previously recognised in employee share-based compensation reserve is transferred out with any excess being recorded as share premium.

When the share options have vested and then lapsed, the amount previously recognised in the employee share-based compensation reserve is transferred to the accumulated losses.

(iv) Short term employee benefits

These are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Short term employee benefits are recognised in the year when the employees render the related service.

(v) Bonus plans

The Group recognises a liability and an expense for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

(vi) Termination benefits

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

Notes to the Financial Statements

For the year ended 31 December 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future uncertain events not wholly within control of the Group are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(s) Related parties

(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 key management personnel of the Group or the Company's parent.

(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 the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.

Notes to the Financial Statements

For the year ended 31 December 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Related parties (continued)

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

(vi) The entity is controlled or jointly controlled by a person identified in (a).

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

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

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 the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

(t) Segment information

In identifying the Group's operating segments, management generally follows the Group's service lines which represent the main service lines provided by the Group.

The Group has identified the following reportable operating segments:

(i) Asset Management – provision of fund management and asset management.

(ii) Strategic Investment – acquiring stakes in companies engaging in among others O2O (Online to Offline) lifestyle and e-commerce business.

Each of these operating segments is managed separately as each of them requires different resources. All inter-segment transfers are carried out at arm's length prices.

The chief operating decision makers, which are collectively the three Executive Directors of the Company, assess the performance of the operating segments based on a measure of operating profit. The measurement policies used by the Group for reporting segment results under IFRS 8 are the same as those used in its financial statements prepared under IFRSs, except that:

- (loss)/gain on disposal of subsidiaries;
- gain on financial asset at fair value through profit or loss;
- loss on financial liabilities at fair value through profit or loss;
- impairment of available-for-sale investments;
- depreciation of property, plant and equipment;
- finance costs;
- share of losses of an associate;
- taxation credit; and
- certain other unallocated income and expenses.

are not included in arriving at the operating results of the operating segment.

Notes to the Financial Statements

For the year ended 31 December 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Segment information (continued)

Segment assets include all assets but exclude interest in an associate, financial asset at fair value through profit or loss, available-for-sale investments, investment in convertible bond as well as corporate assets unrelated to the business activities of any operating segment.

Segment liabilities include all liabilities but exclude convertible bonds, borrowings, financial liabilities at fair value through profit or loss, deferred tax liabilities and corporate liabilities unrelated to the business activities of any operating segment.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

(i) Critical accounting estimates and assumptions

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

Valuation of intangible assets and estimated useful lives

The Group has made estimations and assumptions in relation to the potential future cash flows of identifiable intangible assets acquired as part of business combinations. This assessment involves estimations and assumptions relating to potential future revenues, appropriate discount rates and the estimated useful lives of such assets. These estimations and assumptions impact the statement of profit or loss over the estimated useful life of the intangible asset.

Impairment of goodwill and intangible assets

Determining whether goodwill and intangible assets are impaired requires an estimation of the value in use of the CGUs to which goodwill and the intangible assets have been allocated. Value in use calculation requires the Group to estimate the present value of the future cash flows expected to arise from the CGUs containing goodwill and the intangible assets using suitable discount rates. Where the expected future cash flows arising from the relevant CGUs differ from the original estimation, an impairment loss may arise. Details of the recoverable amount calculation and the impairment loss made for the year are disclosed in Note 15.

Notes to the Financial Statements

For the year ended 31 December 2015

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(i) Critical accounting estimates and assumptions (continued)

Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on current market conditions and the historical experience of selling products of similar nature. Management reassesses the estimation at each reporting period end.

Fair values of financial instruments

Financial instruments such as available-for-sale investments, financial asset and liabilities at fair value through profit or loss, redeemable convertible preference shares and convertible bonds are initially measured at fair value. Certain financial instruments as described in Note 3(h) to the financial statements are remeasured at fair value at subsequent reporting dates. The best evidence of fair value is quoted prices in an active market. Where quoted prices are not available for a particular financial instrument, the Group uses the values determined by the internal or external valuation techniques to estimate the fair value. The use of methodologies, models and assumptions in pricing and valuing these financial assets and liabilities requires varying degrees of judgement by management, which may result in different fair values and results. The assumptions with regard to the fair value of available-for-sale investments, financial asset at fair value through profit or loss, redeemable convertible preference shares, convertible bonds and financial liabilities at fair value through profit or loss, detailed in Notes 14, 17, 23, 24 and 25 to the financial statements respectively, might cause a material adjustments to the carrying amounts of assets and liabilities within the next accounting year.

Valuations of share options granted

The fair value of share options granted was calculated using the Binomial Option Pricing Model which requires the input of highly subjective assumptions, including the volatility of the share price. Because changes in subjective input assumptions can materially affect the fair value estimate, in the opinion of the Directors of the Company, the existing model will not always necessarily provide a reliable single measure of the fair value of the share options. Details of the inputs are set out in Note 29 to the financial statements.

Impairment of assets

The Group conducts impairment reviews of assets when events or changes in circumstances indicate that their carrying amounts may not be recoverable annually in accordance with relevant accounting standards. Impairment loss is recognised when the carrying amount of an asset is lower than the greater of its net selling price or the value in use. In determining the value in use, management assesses the present value of the estimated future cash flows expected to arise from the continuing use of the asset and from its disposal at the end of its useful life. Estimates and judgements are applied in determining these future cash flows and the discount rate.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(i) Critical accounting estimates and assumptions (continued)

Impairment of trade and other receivables

Management determines impairment of trade and other receivables on a regular basis. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each debtor. If the financial conditions of its debtors were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment may be required. Further information on the impairment of trade and other receivables is included in Note 19 to the financial statements.

Current taxation and deferred taxation

The Group is subject to income taxes in various jurisdictions. Significant judgement is required in determining the amount of the provision for taxation and the timing of payment of the related taxation. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the periods in which the final tax outcome is determined.

Deferred tax assets relating to certain tax losses will be recognised when management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such difference will impact, where applicable and appropriate, the recognition of deferred tax assets and taxation in the periods in which such estimate is changed.

Deferred tax liabilities arise when the carrying amounts of the identifiable assets acquired in a business combination are recognised at their fair values at the acquisition date but the tax bases of the assets remain at cost to the previous owner, therefore a taxable temporary difference arises.

Contingent considerations

As part of the consideration in business combinations as set out in Notes 36(b) and (c), contingent consideration is valued at fair value at the acquisition date with the best estimates of the future outcome of the future events, such as earn-outs arrangement. Where the contingent consideration meets the definition of a financial liability, it is subsequently remeasured to fair value at the end of each reporting period. The determination of the fair value is based on the expected adjustment on consideration shares to be issued. The key assumptions have taken into consideration the probability of meeting each profit target.

Notes to the Financial Statements

For the year ended 31 December 2015

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(ii) Critical judgements in applying the Group's accounting policies

Provision for store reinstatement costs

The Group estimates the cost of store reinstatement based primarily on the latest quotation. Management carries out review at the end of each reporting period and reassess the adequacy of the provision.

Control over a subsidiary

During the year ended 31 December 2015, the Group has expanded its business in the development, distribution and operating of mobile games ("mobile games"), which is considered to be value-added telecommunications services, a sector where foreign investment is subject to significant restrictions under the PRC laws and regulations. Accordingly, the wholly foreign-owned enterprise within the Group cannot acquire equity interest in the PRC entity, which hold certain licenses and permits required for the operation of mobile games business. As a result, the Group acquired 70% equity interest in Honestway Global Group Limited ("HGGL"), a limited liability company incorporated in the British Virgins Islands, which indirectly owned a wholly foreign-owned enterprise, 深圳八零八八科技有限公司 (Shenzhen 8088 Technology Co., Ltd.* or "SZ8088"), and SZ8088 entered into contractual arrangements ("Contractual Arrangements") with a company with limited liability established in the PRC, 上海威搜游科技有限公司 (Shanghai VSOYOU Technology Co., Ltd.* or "VSOYOU"), and its respective registered shareholders in order to conduct the mobile games business in the PRC and to assert management control over the operation of, and enjoy all economic benefits of VSOYOU.

SZ8088 has entered into a series of Contractual Arrangements between VSOYOU and its respective registered shareholders which enable SZ8088 to:

— exercise effective financial and operating control over VSOYOU;

— exercise equity holders' voting rights of VSOYOU under the proxy agreement;

— receive substantially all of the economic interest returns generated by VSOYOU in consideration for the technology services, marketing services and other services provided by SZ8088 under the exclusive consultancy agreement;

— obtain irrecoverable and exclusive option right to purchase the entire equity interest in VSOYOU from the respective registered shareholders at a minimum purchase price permitted by PRC laws and regulations. SZ8088 may exercise such options at any time until it has acquired all equity interests of VSOYOU;

— obtain a pledge over the entire equity interest of VSOYOU from its respective registered shareholders as collateral security for all of VSOYOU's payments due to SZ8088 and to secure the performance of VSOYOU's obligations under the Contractual Arrangements;

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(ii) Critical judgements in applying the Group's accounting policies (continued)

Control over a subsidiary (continued)

— provide interest-free loan facilities of up to an amount to be agreed to the respective registered shareholder who shall only contribute the loan to the registered capital of VSOYOU for the development of the business of VSOYOU under the loan agreement. The loan shall be repaid by way of transfer of the equity interest in VSOYOU held by the respective registered shareholder to SZ8088 or its nominee(s); and

— purchase copyrights in respect of software for the games owned by VSOYOU at a consideration to be determined and settled in cash under the asset purchasing agreement.

The Group does not have any equity interest in VSOYOU. However, as a result of the effective execution of Contractual Arrangements, the Group has rights to variable returns from its involvement with VSOYOU and has the ability to affect those returns through its power over VSOYOU and is considered to control VSOYOU indirectly through SZ8088. Consequently, the Company regards VSOYOU as its indirect non-wholly owned subsidiary and the Group has consolidated the financial position and performance of VSOYOU in the consolidated financial statements since the date of acquisition. Significant judgments have been exercised by management in assessing and concluding VSOYOU as a subsidiary of the Group.

Further details of the Contractual Arrangements are set out in the Company's announcement dated 1 December 2014 and the circular dated 2 March 2015.

* The English translation of Chinese name of the PRC entities, if any, is included for identification only and should not be regarded as their official English translation.

Power to exercise significant influence

Management has assessed the level of influence that the Group has on Brave Entertainment Co., Ltd. and determined that the Group has significant influence even though the shareholding is below 20% because the Group is able to appoint two out of five directors of the company under the shareholders' agreement. Consequently, this investment has been classified as an associate.

In August 2015, the Group invested in 40% equity interest in Glory Kingdom Group Limited ("Glory Kingdom"), a company incorporated in British Virgin Islands with limited liability. As at and during the year ended 31 December 2015, management has assessed that the Group had no intention to and did not control, jointly control nor exercise significant influence over this company as the Group did not participate in the financial and operating decisions of the company during the year ended 31 December 2015. Accordingly the Directors of the Company are in the opinion that Glory Kingdom is not deemed to be an associate and the interest in Glory Kingdom is accounted for as an available-for-sale investment.

Notes to the Financial Statements

For the year ended 31 December 2015

5. SEGMENT INFORMATION

Revenue generated, losses incurred from operations, total assets and liabilities by each of the Group's operating segments are summarised as follows:

	Asset management		Strategic investment		Total	
	2015	2014	**2015**	2014	**2015**	2014
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Revenue from external customers	**–**	3,736	**160,660**	52,379	**160,660**	56,115
Total segment loss from operations	**(2,965)**	(7,446)	**(138,293)**	(40,090)	**(141,258)**	(47,536)
Other net (loss)/income not allocated					**(1,410)**	758
Gain on financial asset at fair value through profit or loss					**260**	–
Loss on financial liabilities at fair value through profit or loss					**(6,786)**	(6,009)
(Loss)/gain on disposal of subsidiaries					**(512)**	8,684
Depreciation of property, plant and equipment					**(885)**	(3,734)
Impairment of available-for-sale investments					**(818)**	–
Unallocated corporate expenses					**(63,497)**	(45,100)
Loss from operations					**(214,906)**	(92,937)
Finance costs					**(22,890)**	(12,272)
Share of losses of an associate					**(596)**	–
Loss before taxation					**(238,392)**	(105,209)
Taxation credit					**7,978**	1,423
Loss for the year					**(230,414)**	(103,786)

The segment of strategic investment mainly comprises investments in HMV retail business and mobile game business.

Unallocated corporate expenses mainly comprise legal and professional fees, rent and rates and salaries and allowances.

Notes to the Financial Statements

For the year ended 31 December 2015

5. SEGMENT INFORMATION (continued)

	Asset management		Strategic investment		Total	
	2015	2014	**2015**	2014	**2015**	2014
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment assets	**2,376**	1,497	**493,761**	196,316	**496,137**	197,813
Unallocated property, plant and equipment					**752**	70,634
Available-for-sale investments					**30,000**	818
Interest in an associate					**3,603**	–
Investment in convertible bond					**11,622**	–
Financial asset at fair value through profit or loss					**11,008**	–
Unallocated corporate assets					**791,685**	100,096
Total assets					**1,344,807**	369,361

All assets are allocated to reportable segments other than unallocated assets (mainly comprising interest in an associate, financial asset at fair value through profit or loss, available-for-sale investments, investment in convertible bond, certain other receivables and cash and cash equivalents).

	Asset management		Strategic investment		Total	
	2015	2014	**2015**	2014	**2015**	2014
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment liabilities	**644**	38	**92,604**	24,095	**93,248**	24,133
Financial liabilities at fair value through profit or loss					**27,835**	28,185
Convertible bonds					**318,909**	183,331
Borrowings					**–**	40,452
Deferred tax liabilities					**31,370**	10,734
Unallocated corporate liabilities					**117,849**	70,387
Total liabilities					**589,211**	357,222

All liabilities are allocated to operating segments other than unallocated liabilities (mainly comprising borrowings, convertible bonds, financial liabilities at fair value through profit or loss, deferred tax liabilities and contingent consideration payables as set out in Note 21(a).

Notes to the Financial Statements

For the year ended 31 December 2015

5. SEGMENT INFORMATION (continued)

	Asset management		Strategic investment		Total	
	2015	2014	**2015**	2014	**2015**	2014
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Other segment information						
Additions to non-current assets	**–**	–	**104,316**	15,502	**104,316**	15,502
Depreciation of property, plant and equipment	**–**	51	**17,605**	3,512	**17,605**	3,563
Share-based payment	**–**	–	**–**	128	**–**	128
Income tax expense	**–**	–	**490**	1,765	**490**	1,765

Geographic information

The following table provides an analysis of the Group's revenue from external customers and non-current assets other than financial instruments ("Specified non-current assets").

	Revenue from external customers		Specified non-current assets	
	2015	2014	**2015**	2014
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong (place of domicile)	**95,424**	52,379	**371,225**	234,902
The PRC	**65,236**	–	**802**	–
Other countries	**–**	3,736	**–**	–
	160,660	56,115	**372,027**	234,902

No one single customer contributed more than 10% of the Group's total revenue during the years ended 31 December 2015 and 2014.

Notes to the Financial Statements

For the year ended 31 December 2015

6. REVENUE

Revenue, which is also the Group's turnover, represents the (i) net invoiced value of goods and food and beverage sold, net of discounts and returns, (ii) net receipts from sales of in-app purchases items, (iii) advertising income earned, (iv) game publishing service income, (v) concession stores income and (vi) fund management fee income. An analysis of revenue is as follows:

	2015 HK$'000	2014 HK$'000
Sales of goods	**74,986**	34,411
Sales of food and beverage	**3,785**	1,100
Sales of in-app purchase items	**14,680**	10,027
Advertising income	**8,161**	6,841
Game publishing service income	**58,786**	–
Concession stores income	**262**	–
Fund management fee income	**–**	3,736
	160,660	56,115

7. OTHER NET (LOSS)/INCOME

	2015 HK$'000	2014 HK$'000
Bank interest income	**934**	452
Effective interest income on investment in convertible bond (Note 17)	**283**	–
Rental income	**646**	275
Foreign exchange gains, net	**354**	25
Gain on disposal of property, plant and equipment (Note 33)	**2**	5
Gain on deregistration of a subsidiary	**–**	231
Gain on disposal of subsidiaries (Note 35(a))	**–**	8,684
Loss on remeasurement of contingent consideration payables, net (Note 21(a))	**(4,735)**	–
Marketing income	**790**	271
Others	**316**	74
	(1,410)	10,017

Notes to the Financial Statements

For the year ended 31 December 2015

8. FINANCE COSTS

	2015	2014
	HK$'000	HK$'000
Effective interest expense on convertible bonds		
– wholly repayable within five years (Note 24)	**21,497**	11,044
Interest on bank loan – not wholly repayable within five years	**80**	497
Effective interest expense on redeemable convertible preference shares (Note 23)	**87**	88
Effective interest expense on contingent consideration payables		
– wholly repayable within five years	**1,226**	274
Other interest expense		
– wholly repayable within five years	**–**	369
	22,890	12,272

Notes to the Financial Statements

For the year ended 31 December 2015

9. LOSS BEFORE TAXATION

	2015 HK$'000	2014 HK$'000
Loss before taxation is arrived at after charging:		
Auditor's remuneration:		
– audit services	**1,015**	653
– review services	**282**	–
– other services	**946**	175
Cost of inventories recognised as expense	**47,806**	21,219
Depreciation of property, plant and equipment (Notes 13 and 33)	**18,490**	7,297
Amortisation of intangible assets (included in administrative expenses) (Notes 15 and 33)	**47,573**	19,320
Employee benefit expense (including directors' remuneration and share-based compensation expense) (Note 12(d))	**48,300**	49,003
Share-based payment	**–**	128
Impairment of inventories (Note 18)	**2,199**	356
Operating leases charges in respect of leased premises	**25,302**	16,270
Impairment of deposit paid (Note 19(c))	**5,850**	–
Impairment of available-for-sale investments (Note 14)	**818**	–
Impairment of goodwill (Notes 15 and 33)	**41,305**	–
Loss on disposal of subsidiaries (Note 35(b))	**512**	–
Write-off of property, plant and equipment (Notes 13 and 33)	**–**	1,415
After crediting:		
Foreign exchange gains, net	**354**	25
Gain on disposal of property, plant and equipment	**2**	5
Gain on disposal of subsidiaries (Notes 7 and 35(a))	**–**	8,684

10. TAXATION CREDIT

	2015 HK$'000	2014 HK$'000
Hong Kong		
– Current year	**490**	1,765
Deferred tax credit (Note 26)	**(8,468)**	(3,188)
Taxation credit	**(7,978)**	(1,423)

Notes to the Financial Statements

For the year ended 31 December 2015

10. TAXATION CREDIT (Continued)

Hong Kong profits tax is calculated at 16.5% on the estimated assessable profits arising in Hong Kong for the years ended 31 December 2015 and 2014. The Group's major operating subsidiary, Shanghai VSOYOU Technology Co., Ltd., was established in the PRC and carries on business in the PRC as a software enterprise. This subsidiary has, pursuant to the relevant laws and regulations in the PRC, obtained exemption from PRC Enterprise Income Tax for two years starting from their first profit-making year, followed by a 50% reduction for the next three years (the "Tax Exemption"). The PRC subsidiary which are currently entitled to the Tax Exemption from 1 January 2015 would continue to enjoy such treatments until the Tax Exemptions period expires, but not beyond 31 December 2019. Taxes on profits assessable elsewhere have been calculated at the rates prevailing in the relevant jurisdictions during the year.

Reconciliation between taxation credit and accounting loss at applicable tax rates is as follows:

	2015 **HK$'000**	2014 HK$'000
Loss before taxation	**(238,392)**	(105,209)
Tax at the domestic income tax rates	**(39,335)**	(17,359)
Tax effect of different tax rates of subsidiaries operating in other jurisdictions	**2,161**	–
Tax effect of share of losses of an associate	**98**	–
Tax effect of non-taxable income	**(3,680)**	(1,984)
Tax effect of non-deductible expenses	**23,176**	7,538
Tax effect of unrecognised temporary differences	**8,290**	547
Tax effect of unrecognised tax losses	**8,292**	10,170
Tax effect of tax exemption granted to PRC subsidiaries	**(6,980)**	–
Tax effect of prior year's tax losses utilised this year	**–**	(335)
Taxation credit	**(7,978)**	(1,423)

Notes to the Financial Statements

For the year ended 31 December 2015

11. LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

(a) Basic loss per share

Basic loss per share is calculated by dividing consolidated loss attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

	2015	(Restated) 2014
(HK$'000)		
Consolidated loss attributable to owners of the Company	**(233,146)**	(89,666)
(Number)		
Weighted average number of ordinary shares for the purpose of calculating basic loss per share	**5,160,031,924**	5,019,909,916

	2015 HK cents	(Restated) 2014 HK cents
Basic loss per share	**(4.52)**	(1.79)

On 27 January 2015, the Company completed the issue of bonus shares to the qualifying shareholders of the Company on the basis of five (5) bonus shares for every one (1) existing share of the Company held on the record date, i.e. 16 January 2015 (the "Bonus Issue") and a total of 2,366,865,285 new shares of the Company were allotted and issued under the Bonus Issue.

Details of the Bonus Issue were set out in the Company's announcements date 10 December 2014 and 27 January 2015 and circular dated 19 December 2014.

The comparative figures for the basic loss per share for the ended 31 December 2014 are restated to take into account of the effect of the Company's Bonus Issue completed during the year retrospectively as if they had taken place since the beginning of the respective comparative periods.

On 11 August 2015, the Group completed the placing of 4,005,392,000 new shares (the "Placing") at the placing price of HK$0.22 per share and the total net proceeds from the Placing are approximately HK$855 million. The placing price of HK$0.22 per share was lower than the market price of HK$0.26 on 11 August 2015, the inherent bonus element was taken into account in the calculation of basic loss per share for the years ended 31 December 2015 and 2014. Details of the Placing were set out in the Company's announcements dated 7 June 2015 and 11 August 2015.

Notes to the Financial Statements

For the year ended 31 December 2015

11. LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY (Continued)

(b) Diluted loss per share

No diluted loss per share for the years ended 31 December 2015 and 2014 was presented as the exercise of share options and conversion of convertible bonds and redeemable convertible preference shares would result in a reduction in loss per share and these financial instruments are anti-dilutive or have no dilutive effect.

12. DIRECTORS' REMUNERATION AND EMPLOYEES' EMOLUMENTS

(a) Directors' remuneration

	Fees HK$'000	Salaries and allowances HK$'000	Retirement fund contributions HK$'000	Share-based compensation expense* HK$'000	Total HK$'000
2015					
Executive Directors:					
Wu King Shiu, Kelvin	–	6,313	18	–	6,331
Chang Tat Joel	–	2,067	18	–	2,085
Ho Gilbert Chi Hang	–	6,313	18	–	6,331
Huang Kenian (resigned on 18 June 2015)	–	168	–	–	168
Wang Dayong (resigned on 18 June 2015)	–	168	–	–	168
Non-Executive Director:					
Stephen Shiu Junior (resigned on 21 August 2015)	64	–	–	–	64
Independent Non-Executive Directors:					
Shi Jinsheng (resigned on 21 August 2015)	65	–	–	–	65
Sin Hendrick (resigned on 21 August 2015)	64	–	–	–	64
Yuen Kwok On	100	–	–	–	100
Balme Didier Raymond Marie (appointed on 30 June 2015 and passed away on 16 December 2015)	241	–	–	–	241
Chinn Adam David (appointed on 30 June 2015)	241	–	–	–	241
Professor Lee Chack Fan, *GBS, SBS, JP* (appointed on 30 June 2015)	241	–	–	–	241
	1,016	15,029	54	–	16,099

12. DIRECTORS' REMUNERATION AND EMPLOYEES' EMOLUMENTS (continued)

(a) Directors' remuneration (continued)

	Fees HK$'000	Salaries and allowances HK$'000	Retirement fund contributions HK$'000	Share-based compensation expense* HK$'000	Total HK$'000
2014					
Executive Directors:					
Wu King Shiu, Kelvin (appointed on 23 May 2014)	–	1,093	12	3,497	4,602
Chang Tat Joel (appointed on 23 May 2014)	–	1,093	12	3,718	4,823
Ho Gilbert Chi Hang (appointed on 23 May 2014)	–	1,093	12	3,718	4,823
Huang Kenian (appointed on 31 October 2014)	–	–	–	–	–
Wang Dayong (appointed on 31 October 2014)	–	–	–	–	–
Clive Ng Cheang Neng (resigned on 20 June 2014)	–	–	–	–	–
Liu Guanghe (resigned on 31 October 2014)	119	–	–	–	119
Nelson Tong Naiyi (resigned on 31 October 2014)	119	–	–	–	119
Non-Executive Director:					
Stephen Shiu Junior (redesignated on 1 June 2014)	50	–	–	382	432
Independent Non-Executive Directors:					
Shi Jinsheng	100	–	–	344	444
Sin Hendrick	100	–	–	344	444
Yuen Kwok On	100	–	–	344	444
	588	3,279	36	12,347	16,250

* These amounts represent the estimated value of share options granted to the Directors under the Company's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payments as set out in Note 3(q)(iii) to the financial statements. Particulars of share options granted to the Directors under the Company's share option scheme are set out in Note 29 to the financial statements.

There was no arrangement under which a director waived or agreed to waive any remuneration during the years ended 31 December 2015 and 2014.

Notes to the Financial Statements

For the year ended 31 December 2015

12. DIRECTORS' REMUNERATION AND EMPLOYEES' EMOLUMENTS (continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included three Directors (2014: three Directors) whose emoluments are reflected in the analysis presented above. Emoluments payable to the remaining two (2014: two) individuals during the year are as follows:

	2015	2014
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**2,408**	2,022
Contractual and discretionary bonuses	**1,205**	160
Retirement fund contributions	**34**	14
Share-based compensation expense	**108**	2,292
	3,755	4,488

The emoluments fell within the following bands:

	Number of individuals	
	2015	2014
Emolument bands		
Nil to HK$1,000,000	**–**	–
HK$1,000,001 to HK$1,500,000	**–**	–
HK$1,500,001 to HK$2,000,000	**2**	–
HK$2,000,001 to HK$2,500,000	**1**	2
HK$2,500,001 to HK$3,000,000	**–**	–
HK$3,000,001 to HK$3,500,000	**–**	–
HK$3,500,001 to HK$4,000,000	**–**	–
HK$4,000,001 to HK$4,500,000	**–**	–
HK$4,500,001 to HK$5,000,000	**–**	3
HK$5,000,001 to HK$5,500,000	**–**	–
HK$5,500,001 to HK$6,000,000	**–**	–
HK$6,000,001 to HK$6,500,000	**2**	–

Except as disclosed above, no emoluments were paid by the Group to the Directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the years ended 31 December 2015 and 2014.

Notes to the Financial Statements

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12. DIRECTORS' REMUNERATION AND EMPLOYEES' EMOLUMENTS (continued)

(c) Senior management

Members of senior management during the year were the Directors whose remuneration as set out in Note 12(a) above. The emoluments fell within the following bands:

	Number of individuals	
	2015	2014
Emolument bands		
Nil to HK$1,000,000	**9**	6
HK$1,000,001 to HK$1,500,000	**–**	–
HK$1,500,001 to HK$2,000,000	**–**	–
HK$2,000,001 to HK$2,500,000	**1**	–
HK$2,500,001 to HK$3,000,000	**–**	–
HK$3,000,001 to HK$3,500,000	**–**	–
HK$3,500,001 to HK$4,000,000	**–**	–
HK$4,000,001 to HK$4,500,000	**–**	–
HK$4,500,001 to HK$5,000,000	**–**	3
HK$5,000,001 to HK$5,500,000	**–**	–
HK$5,500,001 to HK$6,000,000	**–**	–
HK$6,000,001 to HK$6,500,000	**2**	–

(d) Employee benefit expense (including directors' remuneration)

	2015	2014
	HK$'000	HK$'000
Fees	**1,016**	588
Salaries, allowances and benefits in kind	**34,845**	27,872
Bonus paid and payable	**10,564**	779
Retirement fund contributions *	**1,237**	301
Share-based compensation expense (Note 29)	**638**	19,463
Total	**48,300**	49,003

* There was no significant amount of forfeited contributions available to reduce future contributions payable by the Group as at 31 December 2015 and 2014.

Notes to the Financial Statements

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13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK$'000	Computer hardware and software HK$'000	Furniture and fixtures HK$'000	Leasehold improvements HK$'000	Office equipment HK$'000	Total HK$'000
At 1 January 2014						
Cost	77,338	1,845	1,929	3,559	921	85,592
Accumulated depreciation	(5,702)	(1,675)	(832)	(2,244)	(761)	(11,214)
Carrying amount	71,636	170	1,097	1,315	160	74,378
Year ended 31 December 2014						
Opening carrying amount	71,636	170	1,097	1,315	160	74,378
Additions	–	1,247	1,991	11,733	2,080	17,051
Acquisition of subsidiaries (Note 36(a))	–	124	38	–	–	162
Disposals	–	(69)	(129)	–	(4)	(202)
Write-off (Note 9)	–	(23)	(600)	(752)	(40)	(1,415)
Depreciation	(2,139)	(453)	(578)	(3,599)	(528)	(7,297)
Closing carrying amount	69,497	996	1,819	8,697	1,668	82,677
At 31 December 2014						
Cost	77,338	1,310	2,050	11,733	2,080	94,511
Accumulated depreciation	(7,841)	(314)	(231)	(3,036)	(412)	(11,834)
Carrying amount	69,497	996	1,819	8,697	1,668	82,677
Year ended 31 December 2015						
Opening carrying amount	**69,497**	**996**	**1,819**	**8,697**	**1,668**	**82,677**
Additions	**–**	**4,007**	**1,605**	**40,972**	**5,574**	**52,158**
Acquisition of subsidiaries (Note 36(c))	**–**	**23**	**170**	**244**	**–**	**437**
Acquisition of HMV Business (Note 36(d))	**–**	**324**	**756**	**4,610**	**109**	**5,799**
Disposals	**–**	**(1)**	**–**	**–**	**–**	**(1)**
Disposal of subsidiaries (Note 35(b))	**(69,141)**	**–**	**–**	**–**	**–**	**(69,141)**
Depreciation	**(356)**	**(1,045)**	**(2,227)**	**(12,771)**	**(2,091)**	**(18,490)**
Exchange alignment	**–**	**(2)**	**(8)**	**(13)**	**–**	**(23)**
Closing carrying amount	**–**	**4,302**	**2,115**	**41,739**	**5,260**	**53,416**
At 31 December 2015						
Cost	**–**	**5,651**	**4,572**	**57,544**	**7,763**	**75,530**
Accumulated depreciation	**–**	**(1,349)**	**(2,457)**	**(15,805)**	**(2,503)**	**(22,114)**
Carrying amount	**–**	**4,302**	**2,115**	**41,739**	**5,260**	**53,416**

During the year ended 31 December 2015, the management has reassessed the estimated useful lives of certain property, plant and equipment of the Group's retail stores. Based on the re-assessment, the Group has fully depreciated property, plant and equipment of approximately HK$5,561,000 in the consolidated statement of profit or loss in the current year. The re-assessment is not expected to have impact in future reporting periods.

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13. PROPERTY, PLANT AND EQUIPMENT (continued)

As at 31 December 2014, the Group's leasehold land and buildings were situated in Hong Kong, which was held under long-term lease. On 17 February 2015, the Group disposed of the leasehold land and buildings with net carrying amount of approximately HK$69,141,000 in respect of the disposal of all the entire interest in Crosby Capital (Holdings) Limited and its subsidiaries (Note 35(b)).

As at 31 December 2014, property, plant and equipment of the Group included leasehold land and buildings with total carrying amount of HK$69,497,000 were pledged to a bank to secure mortgage loans granted to a wholly owned subsidiary of the Company (Note 22(i)).

14. AVAILABLE-FOR-SALE INVESTMENTS

	2015	2014
	HK$'000	HK$'000
Unlisted investments, at cost		
Equity securities	**30,818**	818
Less: Impairment losses	**(818)**	–
Total	**30,000**	818

Movements in available-for-sale investments during the year are as follows:

	2015	2014
	HK$'000	HK$'000
As at 1 January	**818**	10,000
Additions	**30,000**	818
Transfer to investment in a subsidiary (Note 36(a))	**–**	(10,000)
Less: Change in fair value recognised directly in other comprehensive income	**(818)**	–
As at 31 December	**30,000**	818

As at 1 January 2014, the balance of HK$10,000,000 represented an investment of 11.36% in HMV Ideal Limited (formerly known as Billion Merit Investments Limited) ("HMV Ideal") acquired in December 2013.

In February 2014, the Group further acquired approximately 53.18% interest in HMV Ideal which has been disclosed in the acquisition of subsidiaries (Note 36(a)) and accordingly, the Group reclassified its investment in HMV Ideal from available-for-sale investments to investment in subsidiaries.

Notes to the Financial Statements

For the year ended 31 December 2015

14. AVAILABLE-FOR-SALE INVESTMENTS (continued)

In August 2015, the Group acquired 40% interest in Glory Kingdom Group Limited, a company incorporated in British Virgin Islands with limited liability and has a subsidiary engages in movie production business, at a consideration of HK$30,000,000 in cash. As at and during the year ended 31 December 2015, the Group had no intention to and did not control, jointly control nor exercise significant influence over this company as the Group did not participate in the financial and operating decisions of the company during the year ended 31 December 2015. Accordingly, the interest in Glory Kingdom Group Limited is accounted for as an available-for-sale investment. The fair value of this unlisted investment was not disclosed as there was no open market on the unlisted investment and the fair value cannot be measured reliably.

During the year ended 31 December 2015, a fair value loss of HK$818,000 in respect of an investment brought forward from the year ended 31 December 2014 has been fully recognised in the investment revaluation reserve in equity. Due to the significant decline in anticipated future cash flows of such investment, the same amount of fair value loss recognised in equity has been transferred out of the investment revaluation reserve and recognised in profit or loss as an impairment loss in the current year.

15. INTANGIBLE ASSETS

	Goodwill HK$'000 (Note (a))	**Trademarks** HK$'000 (Note (b))	**Trademark licence** HK$'000 (Note (c))	**Platform** HK$'000 (Note (c))	**Content agreement** HK$'000 (Note (c))	**Intellectual property** HK$'000 (Note (d))	**Mobile games** HK$'000 (Note (e))	**Distribution network** HK$'000 (Note (e))	**Non-compete agreements** HK$'000 (Note (f))	**Total** HK$'000
Carrying amount at 31 December 2013 and 1 January 2014	–	–	–	–	–	–	–	–	–	–
Acquisition of subsidiaries (Notes 36(a) and (b))	92,009	–	14,400	27,400	9,000	38,822	–	–	–	181,631
Amortisation	–	–	(2,400)	(11,417)	(3,750)	(1,753)	–	–	–	(19,320)
Disposal of subsidiaries (Note 35(a))	(4,836)	–	–	–	(5,250)	–	–	–	–	(10,086)
Carrying amount at 31 December 2014	87,173	–	12,000	15,983	–	37,069	–	–	–	152,225
Carrying amount at 31 December 2014 and 1 January 2015	**87,173**	**–**	**12,000**	**15,983**	**–**	**37,069**	**–**	**–**	**–**	**152,225**
Acquisition of subsidiaries (Note 36(c))	**61,539**	**–**	**–**	**–**	**–**	**–**	**14,850**	**7,766**	**26,610**	**110,765**
Acquisition of HMV IP Rights and HMV Business (Note 36(d))	**10,256**	**77,634**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**87,890**
Amortisation	**–**	**(323)**	**(12,000)**	**(15,983)**	**–**	**(7,764)**	**(5,569)**	**(1,942)**	**(3,992)**	**(47,573)**
Impairment	**(41,305)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(41,305)**
Carrying amount at 31 December 2015	**117,663**	**77,311**	**–**	**–**	**–**	**29,305**	**9,281**	**5,824**	**22,618**	**262,002**

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For the year ended 31 December 2015

15. INTANGIBLE ASSETS (continued)

Notes:

(a) Goodwill acquired through acquisition of subsidiaries during the year ended 31 December 2015 (Notes 36(c) and (d)) and is allocated to the Group's CGU. A summary of goodwill allocation is presented below:

	2015 **HK$'000**	2014 HK$'000
HMV	**31,407**	21,151
CSL	**24,717**	66,022
HGGL	**61,539**	–
As at 31 December	**117,663**	87,173

The recoverable amount of CSL and HGGL to which the goodwill relates has been determined based on a value in use calculation. The calculation is based on financial budgets covering a five-year period approved by management and followed by an extrapolation of expected cash flows with 3% growth rate for HGGL and nil for CSL. Key assumptions are based on past performance, management estimation on market development and general inflation based on the growth rates which did not exceed the long-term average growth rates for the business in which the CGU operates. The discount rate used for value in use calculations are pre-tax and reflect specific risks relating to the relevant CGU.

The key assumptions used for value in use calculations are as follows:

	HMV		**HGGL**		**CSL**	
	2015	2014	**2015**	2014	**2015**	2014
Growth rate	**N/A**	3%	**5%**	N/A	**7%**	4%
Discount rate	**N/A**	30–33%	**32.1%**	N/A	**26.7%**	19%

Apart from the considerations described above in determining the value in use of the CGUs, management is not aware of any other probable changes that would necessitate changes in the key assumptions.

The recoverable amount of HMV to which the goodwill relates has been determined by the independent professional valuer, Grant Sherman Appraisal Limited, based on market approach using the Guideline Merger and Acquisition method (the "GMA Method"). Under the GMA Method, the fair market value is based on the comparable transaction prices at which assets similar to that of the assets of HMV. The GMA Method provides an indication of value by comparing the prices at which similar assets have exchanged between willing buyers and sellers. When GMA Method is used, an indication of the value of a specific item of the asset is obtained by referring to considerations for acquisition of comparable assets. The market approach is preferred over value in use calculations as it refers to actual market transactions or market value benchmark of comparable assets. In addition, as HMV has not recorded net profit or a positive EBITDA in the year ended 31 December 2015, market approach by way of comparing earnings multiples is impractical. As a result, upon considering the characteristics of various approach and the practicability of such methods in valuing the recoverable amount of HMV to which the goodwill relates, the GMA Method under the market approach was adopted.

During the year ended 31 December 2015, the Group recognised in profit or loss an impairment of HK$41,305,000 in relation to goodwill arising from the acquisition of CSL due to unfavourable change in market condition of mobile game business subsequent to acquisition. The Directors of the Company determined that other CGUs containing goodwill does not suffer any impairment.

Notes to the Financial Statements

For the year ended 31 December 2015

15. INTANGIBLE ASSETS (continued)

Notes: (continued)

(b) Trademarks arose from the acquisition of HMV IP Rights and HMV Business on 30 November 2015 (Note 36(d)). Trademarks represent the rights to use the name "HMV", the various HMV trade marks and trade mark applications, and the HMV domain names for the purposes of conducting the retail business of "HMV" operating through the four (4) retail stores selling music, movies and television series related contents and products located in Hong Kong and any other business to be conducted in the PRC, Hong Kong and Singapore.

Trademarks were valued as of the date of acquisition by the independent professional valuer, Grant Sherman Appraisal Limited, based on market approach using the GMA Method.

(c) Trademark licence, platform and content agreement arose from further acquisition of 53.18% equity interest in HMV Ideal, which increased the Group's ownership to 64.54%, on 24 February 2014 (Note 36(a)). Trademark licence represents the rights to operate the Central Retail store using the brand name "HMV" and the exclusive use of the domain www.hmv.com.hk to conduct the e-commerce business of retailing music, films, games and portable digital technology products in Hong Kong through the use of the name of "HMV", the licensed marks and the domain names.

Platform represents a form of data-processing-related intangible asset under domain name www.vissible.com, http://viss.me and mobile application "VISS" on iOS and Android operated smartphones to provide technology and online platforms for its users to share information of fashion and lifestyle products.

Content agreement refers to a content hosting services and provider sell-through agreement entered into between VS Media Limited, an indirect wholly-owned subsidiary of HMV Ideal at the time of signing the agreement, and Google Ireland Limited, which enables VS Media Limited to publish its video contents through the Google platform (YouTube) and share the advertising revenue with Google.

All of the intangible assets were valued as of the date of acquisition by LCH (Asia-Pacific) Surveyors Limited, a firm of professional valuers, on the following basis:

Trademark licence:	The Relief from Royalty method under the Income Approach
Platform:	The Multi-period Excess Earnings method under the Income Approach
Content agreement:	The Multi-period Excess Earnings method under the Income Approach

On 30 November 2015, the Group completed the acquisition of HMV IP Rights and HMV Business (Note 36(d)) and therefore the Trademark licence arose from the acquisition of HMV Ideal in 2014 was written-off and its net carrying amount of HK$9,360,000 as at 30 November 2015 was fully amortised in December 2015.

During the year ended 31 December 2015, the Group fully amortised the platform with net carrying amount of HK$2,283,000 as if full amortisation had not been taken place as at 31 December due to unfavourable change in operation of the platform during the year.

(d) Intellectual property represents a series of interactive role-playing game Apps available on the three major global digital distribution platforms, namely Apple's App Store, Google's Play Store and Amazon's App Store which arose from the acquisition of CSL on 9 October 2014 (Note 36(b)).

The intellectual property was valued as of the date of acquisition by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, a firm of professional valuers, using the Relief from Royalty method under the Income Approach.

Notes to the Financial Statements

For the year ended 31 December 2015

15. INTANGIBLE ASSETS (continued)

Notes: (continued)

(e) Mobile games, distribution network and non-compete agreement arose from acquisition of 70% equity interest in HGGL, in April 2015 (Note 36(c)). Mobile games represent self-developed games to be launched to the mobile game market.

Distribution network represents the mobile application which provides download access to users of the mobile application to download mobile games in the PRC.

(f) Non-compete agreements refers to the restrictive covenants included in employment contracts of certain key management personnel of VSOYOU who agreed not to enter into or start a similar profession or trade in competition against VSOYOU's business.

The mobile games, distribution networks and non-compete agreements were valued as of the date of acquisition by Grant Sherman Appraisal Limited, a firm of independent professional valuers, using the Relief from Royalty method under the Income Approach.

16. INTEREST IN AN ASSOCIATE

	Notes	2015 HK$'000	2014 HK$'000
Share of net liabilities other than goodwill	(a)	**(560)**	–
Goodwill		**4,163**	–
		3,603	–

(a) Particulars of the associate as at 31 December 2015 is as follows:

Name	Place of incorporation/ operation	Issued and fully paid share capital HK$'000	Percentage of ownership interests 2015	Principal activities
Brave Entertainment Co., Ltd. ("Brave Entertainment")	South Korea	21,000	17.12%	Production and distribution of music contents, scouting and promoting artists

Although the Group's ownership interest in Brave Entertainment is below 20%, the shareholders' agreement of Brave Entertainment allows the Group to appoint two out of five directors of the company. In the opinion of the Directors, the Group is able to exercise significant influence on its financial and operating policies and accordingly, the interest in Brave Entertainment is accounted for as an associate.

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For the year ended 31 December 2015

16. INTEREST IN AN ASSOCIATE (continued)

(b) The recoverable amount of the interest in Brave Entertainment was calculated based on the cash flow projections based on financial budgets approved by management covering a period of 5 years. The key assumptions for the value-in-use calculations were those regarding the discount rates and growth rates. Cash flows beyond the projection period are extrapolated using an estimated growth rate of 1.6%. The pre-tax rate used to discount the forecast cash flows is 17.1%. The value in use figure determined as at 31 December 2015 was higher than the carrying value of the interest in the associate and accordingly, no impairment was considered necessary.

(c) Summarised financial information in relation to the associate is presented below:

	2015 HK$'000
Non-current assets	7,439
Current assets	25,905
Current liabilities	(36,615)
Net liabilities, excluding goodwill	(3,271)
Reconciliation to the Group's interest in the associate:	
Proportion of the Group's ownership	17.12%
Group's share of net liabilities of the associate, excluding goodwill	(560)
Goodwill on acquisition	4,163
Carrying amount of the investment	3,603
Revenue	211
Loss for the year	(3,484)
Total comprehensive income for the year	(3,484)

Notes to the Financial Statements

For the year ended 31 December 2015

17. INVESTMENT IN CONVERTIBLE BOND/FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

In December 2015, Shiny Diamond Limited ("Shiny Diamond"), an indirect wholly-owned subsidiary of the Company, entered into a subscription agreement (the "Subscription Agreement") with Brave Entertainment pursuant to which the Company agreed to subscribe a convertible bond with principal amount of HK$22,158,000, bearing an interest rate of 4% per annum receivable quarterly in arrears. On 3 December 2015, all the conditions precedent set out in the Subscription Agreement had been fulfilled and that the subscription of the convertible bond was completed.

The convertible bond is convertible at the option of Shiny Diamond at any time during the period commencing from the date after the date of subscription up to and including the date immediately preceding the third anniversary of the date of subscription of the convertible bond (the "Maturity Date") at a price of HK$387 per share. The convertible bond is transferable with prior notification to Brave Entertainment. Shiny Diamond may, having given not less than thirty days' notice to the issuer, redeem all or some of the convertible bonds then outstanding on the date which is 18 months after the date of issue and every subsequent 3 months thereafter prior to the Maturity Date.

The embedded derivatives (i.e. the early redemption and conversion option) of the convertible bond are separated from the host contract because its economic characteristics and risk are not closely related to those of the host contract and is accounted for as financial asset at fair value through profit or loss.

The convertible bond was recognised as follows:

	Debt component HK$'000	Derivative component HK$'000	Total HK$'000
On 3 December 2015 (the date of subscription)	11,410	10,748	22,158
Effective interest income (Note 7)	283	–	283
Interest received	(71)	–	(71)
Change in fair value recognised in profit or loss	–	260	260
As at 31 December 2015	11,622	11,008	22,630

Notes to the Financial Statements

For the year ended 31 December 2015

17. INVESTMENT IN CONVERTIBLE BOND/FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

The methods and assumptions applied for the valuation of the convertible bond are as follows:

(i) Valuation of receivable component

Receivable component is initially recognised at fair value and is subsequently measured at amortised cost.

Interest income of the debt component for the year ended 31 December 2015 is calculated using effective interest method by applying an effective interest rate of 31.9% per annum (2014: nil) to the receivable component.

(ii) Valuation of derivative component

Derivative component is measured at fair value by a firm of independent professional valuers, Grant Sherman Appraisal Limited, using the Binomial Option Pricing model, at initial recognition and at the end of the reporting period. The inputs into the model as at date of subscription and at 31 December 2015, was as follows:

	31 December 2015	3 December 2015 (date of subscription)
Expected volatility	**44.6%**	**45.3%**
Expected life	**2.92 years**	**3 years**
Risk-free rate	**1.187%**	**1.163%**
Expected dividend yield	**0%**	**0%**

As at 31 December 2015, the convertible bond is neither past due nor impaired. The Directors of the Company are of the opinion that no impairment allowance is necessary in respect of the balance as there has not been a significant change in credit quality and the balance is considered to be fully recoverable. The Group does not hold any collateral or other credit enhancements over the convertible bond.

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18. INVENTORIES

	2015 HK$'000	2014 HK$'000
Finished goods for resale	**39,903**	6,649

During the year, the Group wrote down the carrying values of inventories of HK$2,199,000 (2014: HK$356,000).

19. TRADE AND OTHER RECEIVABLES

	Notes	2015 HK$'000	2014 HK$'000
Trade receivables	(a)	**42,188**	380
Other receivables	(b)	**28,958**	18,912
Deposits and prepayments	(c)	**37,240**	5,633
Total		**108,386**	24,925
Categorised as:			
Current portion		**78,010**	24,925
Non-current portion		**30,376**	–
		108,386	24,925

The fair value of trade and other receivables is considered by the Directors not to be materially different from carrying amounts.

Notes:

(a) At 31 December 2015, the ageing analysis of trade receivables based on invoice date and net of impairment losses is as follows:

	2015 HK$'000	2014 HK$'000
0–30 days	**39,462**	244
31–60 days	**2,099**	95
61–90 days	**2**	41
Over 90 days	**625**	–
	42,188	380

Notes to the Financial Statements

For the year ended 31 December 2015

19. TRADE AND OTHER RECEIVABLES (continued)

Notes: (continued)

(a) (continued)

Sales of goods and food and beverage are normally made on a cash basis. Credit card receivables from financial institutions in respect of those sales are aged within 45 days (2014: 45 days).

Game publishing service income are receivables from mobile network operates and channel owners and are aged within 30 to 60 days (2014: Nil).

Ageing analysis of trade receivables, based on due date, which are past due but not impaired is as follows:

	2015	2014
	HK$'000	HK$'000
Less than 60 days past due	**2,248**	339
Over 60 days past due	**627**	41
	2,875	380

Trade receivables of HK$2,875,000 (2014: HK$380,000) that were past due but not impaired that had a good track record of credit with the Group. Based on past credit history, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered to be fully recoverable. The Group did not hold any collateral in respect of these balances.

There was no provision made for the years ended 31 December 2015 and 2014 on trade receivables.

(b) All other receivables under current portion as at 31 December 2015 and 2014 were aged less than 30 days past due, based on the due date.

The other receivables under non-current portion as at 31 December 2015 was a loan with principal amount of approximately HK$12,519,000 to a shareholder of the Company's associate company on 3 December 2015. The loan is interest bearing at 5% per annum, payable semi-annually in arrears. The maturity date, on which the principal amount shall be due for repayment, will be 2 December 2017. The loan is secured by two properties and shares of the Company's associate company held by the borrower.

(c) As at 31 December 2015, included in deposits and prepayments was (i) a deposit of HK$5,850,000 (2014: nil) for an investment in the production of a popular American television series in the PRC. The investment is subject to various conditions precedent, which, up to 14 August 2015, have not been satisfied. According to the agreement, the Group is entitled to recover the full amount of the deposit and the Group is in the legal process of doing so. However, the Group considered that the chance of such deposit's recoverability was remote as at 31 December 2015, therefore an impairment of HK$5,850,000 (2014: nil) has been provided and included in other operating expenses; (ii) deposits of HK$16,810,000 for certain HMV stores' rental and renovation deposits and (iii) deposit of HK$1,047,000 for the purchase of a property located in Japan for own use at a consideration of HK$10,787,000 (Note 31(b)).

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20. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

Cash at banks earns interest at floating rates based on daily bank deposit rates.

At the end of the reporting period, cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$14,990,000 (2014: Nil). RMB is not freely convertible into other currencies. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through the banks which are authorised to conduct foreign exchange business.

As at 31 December 2015, the Group had pledged bank deposits of HK$7,000,000 (2014: Nil) to a bank to secure banking facilities granted to a subsidiary of the Group in relation to performance bonds in respect of tenancy agreements of certain retail stores and supplier payments.

	2015	2014
	HK$'000	HK$'000
Cash and cash equivalents	**817,867**	102,067
Pledged bank deposits	**7,000**	–
Total cash and bank balances	**824,867**	102,067

21. TRADE AND OTHER PAYABLES

	2015	2014
	HK$'000	HK$'000
Trade payables	**48,253**	9,237
Other payables (Note (a))	**110,512**	64,198
Accrued charges (Note (b))	**39,292**	7,720
Advances from a director (Note (c))	**–**	11,600
	198,057	92,755
Categorised as:		
Current portion	**153,245**	68,666
Non-current portion	**44,812**	24,089
	198,057	92,755

Notes to the Financial Statements

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21. TRADE AND OTHER PAYABLES (continued)

Details of the trade and other payables including the ageing analysis of trade payables based on invoice date are as follows:

	2015 HK$'000	2014 HK$'000
0–30 days	22,616	–
31–60 days	14,820	3,305
61–90 days	6,808	5,616
90–120 days	4,009	316
	48,253	9,237

Notes:

(a) The balance included the aggregate contingent consideration payable by the Group of HK$95,908,000 (2014: HK$64,198,000) for (i) the acquisition of 70% equity interest in CSL of HK$4,184,000 payable during the year ending 31 December 2016 (2014: HK$40,809,000 payable during the year ended 31 December 2015 and HK$23,389,000 payable during the year ending 31 December 2016) and (ii) the acquisition of 70% equity interest in HGGL to be paid in three instalments comprising HK$55,462,000 payable during the year ending 31 December 2016 and HK$36,262,000 payable during the year ending 31 December 2017. Movement of the balance during the year included fair value change arose from remeasurement of contingent consideration payables of CSL at a gain of HK$20,431,000 setting off by a loss of HK$25,166,000 of HGGL (Note 7).

(b) The balance included the provision for store reinstatement costs of HK$10,206,000 (2014: HK$700,000) which the Group is presently obligated to make under non-cancellable operating lease contracts.

Movements in the provision for store reinstatement costs during the year are as follows:

	2015 HK$'000	2014 HK$'000
As at 1 January	700	–
Addition	9,506	700
As at 31 December	10,206	700
Categorised as:		
Current portion	1,654	–
Non-current portion	8,552	700
Total	10,206	700

(c) As at 31 December 2014, the advances were in the principal amounts of HK$1,600,000, HK$2,500,000 and HK$7,500,000, and were unsecured, non-interest bearing, and repayable on 24 March 2015, 27 April 2015 and 28 May 2015 respectively. During the year ended 31 December 2015, the advances were fully repaid (Note 30(c)).

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22. BORROWINGS

	2015 HK$'000	2014 HK$'000
Current liabilities		
Bank loans — secured (Note (i))	–	2,623
Redeemable convertible preference shares (Note 23)	**5,455**	7,502
	5,455	10,125
Non-current liabilities		
Bank loans — secured (Note (i))	–	30,327
Total	**5,455**	40,452

	2015 HK$'000	2014 HK$'000
Borrowings are repayable as follows:		
Within one year	**5,455**	10,125
In the second year	–	2,510
In the third to fifth years	–	7,793
After the fifth year	–	20,024
Total	**5,455**	40,452

Notes:

(i) Bank loans

Bank property instalment loans totaling HK$30,000,000 and HK$10,000,000 were raised in 2011 and 2014 which are interest-bearing at 1.25% over 1-month HIBOR per annum and 2.25% over 1-month HIBOR per annum respectively and are repayable by 180 monthly instalments. The maturity date, on which the last instalment shall be due for repayment, will be 31 March 2026 and 29 May 2029 respectively.

As at 31 December 2014, the bank loans were secured by (a) mortgage over leasehold land and building of the Group situated in Hong Kong with a net carrying amount of HK$69,497,000 (Note 13); and (b) corporate guarantee of unlimited amount given by the Company as at 31 December 2014.

The loans were disposed of upon the disposal of the entire interest in Crosby Capital (Holdings) Limited and the corporate guarantee of unlimited amount given by the Company was released on 15 June 2015.

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23. REDEEMABLE CONVERTIBLE PREFERENCE SHARES

On 14 September 2011 ("issue date"), the Company issued 10,019,790 redeemable convertible preference shares ("RCPS") of par value of US$0.10 each (before the capital reduction with effect from 31 May 2012) at subscription price of US$2.00 per RCPS, of which US$0.10 per RCPS was paid on subscription and the remaining balance of US$1.90 per RCPS will be paid immediately prior to the conversion of the RCPS into ordinary shares of the Company.

Each holder of the RCPS has the option to convert the RCPS into shares at an initial conversion price of HK$1.23 per share, subject to the conversion price reset scheme. At the end of 6-month period from the issue date and at the end of every 6-month period thereafter, the conversion price shall be adjusted to 110% of the one-month volume weighted average price of the ordinary shares of the Company. The conversion price shall not be lower than the par value of the ordinary shares of the Company. The RCPS mature five years from the issue date at an amount equals to the initial RCPS subscription price of the RCPS redeemed or can be convertible into shares on and after the issue date up to 7 September 2016 at the holder's option upon the payment of the remaining balance of US$1.90 per share. The RCPS holders may request the Company to redeem the RCPS (in whole or in part) on or after the third anniversary of the issue date of the RCPS. The RCPS are not entitled to any dividend and may be redeemed by the Company after the issue date at the early redemption amount provided that the closing market price of the ordinary shares of the Company is at least 150% of the conversion price for 30 consecutive trading days.

In accordance with the terms and conditions thereof, the conversion price was reset on 14 March 2012, 14 March 2013, 14 September 2013, 14 March 2014, 27 January 2015, 20 July 2015 and 11 August 2015, the prevailing conversion price is HK$0.10 per share as reset upon the completion of Placing as set out in Note 27(k) on 11 August 2015.

The residual amount of the proceeds of the RCPS over the fair value of the embedded derivatives, estimated at the date of issuance using Binomial Option Pricing Model, is assigned as the liability component and is included in borrowings.

The carrying value of the liability component of the RCPS recognised in the statement of financial position at the end of the reporting period are as follows:

	2015 **HK$'000**	2014 HK$'000
Net carrying amount at 1 January	**7,502**	7,581
Exercise of redeemable convertible preferences shares	**(2,134)**	(167)
Effective interest expense for the year (Note 8)	**87**	88
Net carrying amount at 31 December (Note 22)	**5,455**	7,502

Interest expense on the RCPS is calculated using effective interest method by applying the effective interest rate of 1.14% (2014: 1.14%) per annum.

Notes to the Financial Statements

For the year ended 31 December 2015

24. CONVERTIBLE BONDS

(a) Tranche 1 and Tranche 2 Convertible Bonds

In June 2010, the Company entered into a placing agreement with a placing agent pursuant to which the placing agent agreed to place 5-year Zero Coupon Convertible Bonds with an aggregate principal amount of up to HK$250,000,000, comprising Tranche 1 of principal amount up to HK$160,000,000 ("Tranche 1 Convertible Bonds") and Tranche 2 of principal amount of up to HK$90,000,000 ("Tranche 2 Convertible Bonds"), subject to certain conditions. In October 2010, with the fulfilment of all conditions required for Tranche 1 Convertible Bonds, the Company issued the Tranche 1 Convertible Bonds, HK$156,000,000 of which was used to finance the repurchase of the convertible bonds previously issued in March 2006 as detailed in the Company's 2010 Annual Report. On 30 March 2011, with the fulfilment of all conditions required for Tranche 2 Convertible Bonds, the Company further issued the Tranche 2 Convertible Bonds, the proceeds of which was used to finance the purchase of the office premises together with the bank loan (Note 22).

Tranche 1 and Tranche 2 Convertible Bonds are denominated in Hong Kong dollars and are convertible at the option of the bondholder(s) at any time after the date of issuance up to and including the date which is seven days prior to the maturity date of 4 October 2015, into new shares of the Company at a price of HK$0.18 per share initially, subject to the conversion price reset where at the end to 6-month period from the date of issuance and at the end of every 6-month period thereafter, the conversion price shall be adjusted to 110% of the one-month volume weighted average price with a floor of HK$0.78 per share and provided that the conversion price shall not in any event be higher than the lower of HK$1.80 per share and the previous adjusted conversion price reset. Tranche 1 and Tranche 2 Convertible Bonds are transferable without restriction and may be redeemed by the Company after the date of issuance at the early redemption amount, which shall result in an annual yield equal to 3.5% per annum compound on a semi-annual basis, provided that the closing market price of the shares is at least 150% of the conversion price for 30 consecutive trading days. The bondholder(s) of Tranche 1 and Tranche 2 Convertible Bonds may request the Company to redeem at the aforesaid early redemption amount on or after the third anniversary of 4 October 2010.

In accordance with the terms and conditions thereof, the conversion price was reset on 4 April 2011, 4 October 2011, 4 April 2013, 24 February 2014 and 27 January 2015.

The Tranche 1 and Tranche 2 Convertible Bonds had been fully converted in January 2015 and July 2014, respectively.

(b) 2014 Convertible Bonds

In April 2014, the Company entered into a subscription agreement (the "Subscription Agreement") with Abundant Star Ventures Limited ("Abundant Star") and Vantage Edge Limited ("Vantage Edge") pursuant to which Abundant Star and Vantage Edge agreed to subscribe the convertible bonds in principal amount of HK$100,000,000 and HK$75,000,000, respectively, bearing a compound interest rate of 5% per annum (the "2014 Convertible Bonds"). On 13 June 2014, all the conditions precedent set out in the Subscription Agreement were fulfilled and that the issue of the 2014 Convertible Bonds was completed.

Notes to the Financial Statements

For the year ended 31 December 2015

24. CONVERTIBLE BONDS (continued)

(b) 2014 Convertible Bonds (continued)

The 2014 Convertible Bonds are convertible at the option of the bondholders at any time during the period commencing from the date of issue of the convertible bonds up to and including the date falling seven days prior to the third anniversary of the date of issue of the 2014 Convertible Bonds (the "Maturity Date") at a price of HK$0.80 per share initially. The prevailing conversion price is HK$0.13 per share which was adjusted upon the completion of bonus issue on 27 January 2015 and further adjusted to HK$0.11 per share upon completion of the Placing of shares on 11 August 2015. The 2014 Convertible Bonds are only transferable with prior notification to the Company and may be transferred in integral multiples of HK$1,000,000. The Company may, having given not less than thirty days' notice to the bondholders, redeem the 2014 Convertible Bonds then outstanding, at a premium of 10% above the outstanding principal amount of the 2014 Convertible Bonds, in integral multiples of HK$1,000,000 at any time prior to the Maturity Date and subject to bondholder's agreement. The bondholders may also by written notice to the Maturity Date elect to extend the term of the 2014 Convertible Bonds then outstanding, in whole or in part, for a term of one year and thereafter for a further one year.

The conversion option embedded in the 2014 Convertible Bonds meets the definition of equity instrument of the Company, and is classified as equity and presented separately from the 2014 Convertible Bonds liability component. Other embedded derivative (i.e. the call option of the Company and the 2014 Convertible Bonds holder's extension option) is separated from the host debt because its economic characteristics and risks are not closely related to those of the host debt and is accounted for as financial liabilities at fair value through profit or loss.

The 2014 Convertible Bonds liability component was initially recognised at its fair value and was subsequently measured at amortised cost. The 2014 Convertible Bonds recognised in the statement of financial position at the date of issuance on 13 June 2014 were calculated as follows:

	2014 Convertible Bonds HK$'000
Fair value of the 2014 Convertible Bonds issued	175,000
Transaction costs	(339)
Net proceeds	174,661
Equity component (Note 28)	(8,061)
	166,600
Financial liabilities at fair value through profit or loss (Note 25)	(14,718)
Liability component on initial recognition upon issuance of the 2014 Convertible Bonds	151,882

Notes to the Financial Statements

For the year ended 31 December 2015

24. CONVERTIBLE BONDS (continued)

(c) 2015 $140 million Convertible Bonds

In July 2015, the Company entered into a subscription agreement (the "Subscription Agreement") with Hong Kong HNA Holding Group Co. Limited ("HNA") pursuant to which HNA agreed to subscribe the convertible bonds in principal amount of HK$140,000,000, bearing a compound interest rate of 8% per annum (the "2015 $140 million Convertible Bonds"). On 20 July 2015, all the conditions precedent set out in the Subscription Agreement have been fulfilled and that the issue of the 2015 $140 million Convertible Bonds has been completed.

The 2015 $140 million Convertible Bonds is convertible at the option of the bondholder at any time during the period commencing from the date falling on the first anniversary of the issue date up to and including the date falling seven days prior to the fifth anniversary of the date of issue of the 2015 $140 million Convertible Bonds (the "Maturity Date") at a price of HK$0.325 per share initially. The 2015 $140 million Convertible Bonds is only transferrable with prior notification to the Company and may be transferred in integral multiples of HK$1,000,000. The Company may, having given not less than thirty days' notice to the bondholder, redeem the 2015 $140 million Convertible Bonds then outstanding, at a premium of 10% above the outstanding principal amount of the 2015 $140 million Convertible Bonds, in integral multiples of HK$1,000,000 at any time prior to the Maturity Date and subject to bondholder's agreement.

The conversion option embedded in the 2015 $140 million Convertible Bonds meets the definition of equity instrument of the Company, and is classified as equity and presented separately from the 2015 $140 million Convertible Bonds liability component.

The 2015 $140 million Convertible Bonds liability component is initially recognised at its fair value and is subsequently measured at amortised cost. The 2015 $140 million Convertible Bonds recognised in the statement of financial position at the date of issuance on 20 July 2015 are calculated as follows:

	2015 $140 million Convertible Bonds HK$'000
Face value of the 2015 $140 million Convertible Bonds issued	**140,000**
Transaction costs	**(500)**
Net proceeds	**139,500**
Equity component (Note 28)	**(1,921)**
Liability component on initial recognition upon issuance of the 2015 $140 million Convertible Bonds	**137,579**

Notes to the Financial Statements

For the year ended 31 December 2015

24. CONVERTIBLE BONDS (continued)

(d) The carrying values of the liability component of the convertible bonds recognised in the statement of financial position at the end of the reporting period are as follows:

	2015 HK$'000	2014 HK$'000
Net carrying amounts at 1 January	**183,331**	44,511
Effective interest expense for the year (Note 8)	**21,497**	11,044
Conversion of Tranche 1 and Tranche 2 Convertible Bonds	**(23,498)**	(13,581)
Redemption of Tranche 1 Convertible Bonds	**–**	(10,525)
Issue of 2014 Convertible Bonds	**–**	151,882
Issue of 2015 $140 million Convertible Bonds	**137,579**	–
Net carrying amounts at 31 December	**318,909**	183,331

	2015 HK$'000	2014 HK$'000
Categorised as:		
Current liabilities	**–**	23,313
Non-current liabilities	**318,909**	160,018
	318,909	183,331

During the year ended 31 December 2015, principal amount of HK$21,000,000 of Tranche 1 (2014: HK$13,000,000 of Tranche 1 and Tranche 2) of the convertible bonds was converted into 175,000,000 (2014: 17,105,262) ordinary shares of the Company (Note 27) at the conversion price of HK$0.12 (2014: HK$0.76) per share, with the carrying value of the liability component of the convertible bonds of HK$23,498,000 (2014: HK$13,581,000) at the date of conversion.

Interest expenses of the 2015 $140 million Convertible Bonds, 2014 Convertible Bonds, the Tranche 1 and Tranche 2 Convertible Bonds for the year ended 31 December 2015 are calculated using effective interest method by applying effective interest rates of 8.3% (2014: Nil), 10.08% (2014: 10.08%) and 9.43% (2014: 9.43%) per annum to the liability components, respectively.

Notes to the Financial Statements

For the year ended 31 December 2015

25. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	2015 **HK$'000**	2014 HK$'000
Derivatives embedded in the redeemable convertible preference shares issued:		
Balance at 1 January	**3,821**	825
Exercise of redeemable convertible preference shares	**(1,055)**	(74)
(Gain)/loss on financial liabilities at fair value through profit or loss	**(28)**	3,070
Balance at 31 December	**2,738**	3,821
Derivatives embedded in the convertible bonds issued:		
Balance at 1 January	**24,364**	11,053
Conversion of bonds	**(3,343)**	(3,061)
Redemption of bonds	**–**	(826)
Issue of bonds (Note 24)	**–**	14,718
Loss on financial liabilities at fair value through profit or loss	**6,814**	2,480
Balance at 31 December	**27,835**	24,364
Derivatives embedded in the warrants issued:		
Balance at 1 January	**–**	375
Exercise of warrants	**–**	(834)
Loss on financial liabilities at fair value through profit or loss	**–**	459
Balance at 31 December	**–**	–
Total net balance	**30,573**	28,185

Notes to the Financial Statements

For the year ended 31 December 2015

25. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

	2015	2014
	HK$'000	HK$'000
Categorised as:		
Current liabilities	**2,738**	7,164
Non-current liabilities	**27,835**	21,021
Total net balance	**30,573**	28,185
Net losses recognised in profit or loss relating to financial instruments held by the Group	**6,786**	6,009

In October 2010, the Company repurchased the convertible bonds previously issued in March 2006 at a consideration comprising cash of HK$156,000,000 financed by the issue of Tranche 1 Convertible Bonds (Note 24) and an aggregate of 60,000,000 warrants issued. The fair values of warrants issued were valued by an independent professional valuer upon initial recognition.

During the year ended 31 December 2014, warrants with an amount of HK$2,250,000 were exercised at the exercise price of HK$1.096 per share and 2,052,919 ordinary shares of the Company were allotted and issued (Note 27(e)), with fair value of derivatives embedded therein of HK$834,000 at the date of exercise, as calculated using the Binomial Option Pricing Model.

During the year ended 31 December 2014, 4,344,301 ordinary shares of the Company were allotted and issued upon exercise of redeemable convertible preference shares for a total amount of HK$3,432,000 at the exercise price of HK$0.79 per share, with fair value of derivatives embedded therein of HK$74,000 at the date of exercise, as calculated using the Binomial Option Pricing Model.

During the year ended 31 December 2015, principal amount of HK$21,000,000 of Tranche 1 (2014: HK$13,000,000 of Tranche 1 and Tranche 2) of convertible bonds was converted into 175,000,000 (2014: 17,105,262) ordinary shares of the Company (Note 27(j)) at the conversion price of HK$0.12 (2014: HK$0.76) per share, with fair value of derivatives embedded therein of HK$3,343,000 (2014: HK$3,061,000) at the dates of conversion, as calculated using the Binomial Option Pricing Model.

Notes to the Financial Statements

For the year ended 31 December 2015

25. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

The fair values at 31 December 2015 and 2014 are calculated using the Binomial Option Pricing Model for the derivatives embedded in the convertible bonds issued and subscribed, and the RCPS issued, respectively. The inputs into the model are as follows:

	Derivatives embedded in the Tranche 1 and Tranche 2 Convertible Bonds issued		Derivatives embedded in the redeemable convertible preference shares issued		Derivatives embedded in the 2014 Convertible Bonds issued	
	2015	2014	**2015**	2014	**2015**	2014
Expected volatility	**–**	64.92%	**112.94%**	61.05%	**84.52%**	68%
Expected life	**–**	0.76 year	**0.7 years**	1.70 years	**1.45 years**	2.45 years
Risk-free rate	**–**	0.101%	**0.10%**	0.44%	**0.84%**	1.37%
Spot price of the Company	**–**	HK$2.48	**HK$0.305**	HK$2.48	**HK$0.305**	HK$2.48
Expected dividend yield	**–**	0%	**0%**	0%	**0%**	0%

The Binomial Option Pricing Model requires the input of highly subjective assumptions, including the volatility of share price, therefore the changes in subjective input assumptions can materially affect the fair value estimates.

Increased volatility by 6.5% would increase the fair value of embedded derivatives in convertible bonds by approximately HK$2,450,000. Lower volatility by 6.5% would decrease the fair value of embedded derivatives in convertible bonds by approximately HK$1,643,000. Increased or decreased volatility by 6.5% would not increase or decrease the value of the embedded derivatives in redeemable convertible preference shares.

26. DEFERRED TAX LIABILITIES

Deferred taxation is calculated on temporary differences under liability method using the rates of taxation prevailing in the countries in which the Group's subsidiaries operate.

The following are the major deferred tax liabilities recognised and movements thereon during the current and prior years:

	Fair value adjustments arising from the acquisition of subsidiaries and business	
	2015	2014
	HK$'000	HK$'000
At 1 January	**10,734**	–
Acquisition of subsidiaries (Note 36(c))	**12,306**	14,788
Acquisition of HMV IP Rights and HMV Business (Note 36(d))	**16,798**	–
Credited to profit or loss (Note 10)	**(8,468)**	(3,188)
Disposal of subsidiaries (Note 35(a))	**–**	(866)
At 31 December	**31,370**	10,734

The amount credited to profit or loss relating to the amortisation of intangible assets.

Notes to the Financial Statements

For the year ended 31 December 2015

26. DEFERRED TAX LIABILITIES (continued)

The major deferred tax assets/(liabilities) not recognised in the consolidated statement of financial position are as follows:

	Unutilised tax losses* HK$'000	Accelerated tax depreciation HK$'000	Total HK$'000
At 31 December 2015	**86,808**	**(17,202)**	**69,606**
At 31 December 2014	78,516	(8,912)	69,604

* The tax losses can be carried forward indefinitely if certain criteria can be met under the respective tax jurisdictions.

No recognition of potential deferred tax assets relating to tax losses of the Group has been made as the recoverability of the potential deferred tax assets is uncertain.

Pursuant to the PRC Enterprise Income Tax Law and its implementation regulations, dividends receivable by non-PRC corporate residents from PRC enterprises are subject to withholding tax at a rate of 10%, unless reduced by tax treaties or arrangements. The applicable tax rate for the Group is 10%.

As at 31 December 2015 and 2014, no deferred tax liability has been recognised on temporary difference in relation to the undistributed earnings of approximately HK$1,209,000 (2014: Nil) of subsidiaries in the PRC because the Group is in a position to control the timing of the reversal of the temporary difference and it is probable that such difference will not reverse in foreseeable future.

Notes to the Financial Statements

For the year ended 31 December 2015

27. SHARE CAPITAL

	Number of ordinary shares	Number of redeemable convertible preference shares	Nominal value US$'000	Equivalent nominal value HK$'000
Authorised				
At 1 January 2014, 31 December 2014, 1 January 2015 and 31 December 2015 (par value of US$0.01 each)	19,000,000,000	1,000,000,000	200,000	1,560,000
Issued and fully paid				
At 1 January 2014 (par value of US$0.01 each)	384,561,967	10,019,790	3,846	29,996
Consideration shares issued for the acquisition of HMV Ideal (Note (a))	60,000,000	–	600	4,680
Consideration shares issued for the acquisition of CSL (Note (b))	1,627,795	–	16	127
Conversion of convertible bonds (Note (c))	17,105,262	–	171	1,334
Exercise of redeemable convertible preference shares (Note (d))	4,344,301	(220,000)	43	338
Exercise of warrants (Note (e))	2,052,919	–	21	160
Exercise of share options (Note (f))	3,480,813	–	35	272
At 31 December 2014 and 1 January 2015 (par value of US$0.01 each)	**473,173,057**	**9,799,790**	**4,732**	**36,907**
Consideration shares issued for the acquisition of CSL (Note (g))	**71,404,338**	**–**	**714**	**5,570**
Consideration shares issued for the acquisition of HGGL (Note (h))	**5,903,271**	**–**	**59**	**460**
Issued bonus shares (Note (i))	**2,366,865,285**	**–**	**23,668**	**184,615**
Conversion of convertible bonds (Note (j))	**175,000,000**	**–**	**1,750**	**13,650**
Placing of shares (Note (k))	**4,005,392,000**	**–**	**40,054**	**312,421**
Conversion of redeemable convertible preference shares (Note (l))	**333,600,000**	**(2,780,000)**	**3,336**	**26,021**
Exercise of share options (Note (m))	**30,402,933**	**–**	**304**	**2,372**
At 31 December 2015 (par value of US$0.01 each)	**7,461,740,884**	**7,019,790**	**74,617**	**582,016**

Notes to the Financial Statements

For the year ended 31 December 2015

27. SHARE CAPITAL (continued)

Notes:

(a) On 24 February 2014, the Company's issued share capital was increased by HK$46,800,000 through the issue of 60,000,000 shares as part of the consideration to acquire HMV Ideal as set out in Note 36(a). The fair value of the consideration shares as determined by the closing market price of HK$0.72 per share on 24 February 2014 (being date of issue of shares) was HK$43,200,000. The premium on the issue of new shares amounting to HK$38,520,000 has been credited to the share premium account and direct issued costs was HK$506,000.

(b) On 9 October 2014, the Company's issued share capital was increased by HK$127,000 through the issue of 1,627,795 shares as part of the consideration to acquire CSL as set out in Note 36(b). The fair value of the consideration shares as determined by the closing market price of HK$1.38 per share on 9 October 2014 (being the date of issue of shares) was HK$2,246,000. The premium on the issue of new shares amounting to HK$2,119,000 has been credited to the share premium account.

(c) On 5 May 2014, principal amount of HK$9,000,000 of Tranche 1 Convertible Bonds were converted into 11,842,105 ordinary shares at the conversion price of HK$0.76 per share.

On 6 June 2014, principal amount of HK$1,000,000 of Tranche 2 Convertible Bonds were converted into 1,315,789 ordinary shares at the conversion price of HK$0.76 per share.

On 4 July 2014, principal amount of HK$3,000,000 of Tranche 2 Convertible Bonds were converted into 3,947,368 ordinary shares at the conversion price of HK$0.76 per share.

(d) On 23 July 2014, 394,936 ordinary shares were allotted and issued upon exercise of redeemable convertible preference shares for a total amount of HK$312,000 at the exercise price of HK$0.79 per share.

On 31 July 2014, 987,341 ordinary shares were allotted and issued upon exercise of redeemable convertible preference shares for a total amount of HK$780,000 at the exercise price of HK$0.79 per share.

On 7 August 2014, 592,405 ordinary shares were allotted and issued upon exercise of redeemable convertible preference shares for a total amount of HK$468,000 at the exercise price of HK$0.79 per share.

On 15 August 2014, 592,405 ordinary shares were allotted and issued upon exercise of redeemable convertible preference shares for a total amount of HK$468,000 at the exercise price of HK$0.79 per share.

On 18 August 2014, 1,757,468 ordinary shares were allotted and issued upon exercise of redeemable convertible preference shares for a total amount of HK$1,388,400 at the exercise price of HK$0.79 per share.

On 13 October 2014, 19,746 ordinary shares were allotted and issued upon exercise of redeemable convertible preference shares for a total amount of HK$15,600 at the exercise price of HK$0.79 per share.

(e) On 9 July 2014, 2,052,919 ordinary shares were allotted and issued upon exercise of 2,052,919 warrants for a total amount of HK$2,250,000 at the exercise price of HK$1.096 per share.

(f) On 3 September 2014, 148,000 ordinary shares were allotted and issued upon exercise of share options for a total amount of HK$139,120 at the exercise price of HK$0.94 per share.

On 23 September 2014, 446,000 ordinary shares were allotted and issued upon exercise of share options for a total amount of HK$419,240 at the exercise price of HK$0.94 per share.

Notes to the Financial Statements

For the year ended 31 December 2015

27. SHARE CAPITAL (continued)

Notes: (continued)

(f) (continued)

On 23 September 2014, 700,000 ordinary shares were allotted and issued upon exercise of share options for a total amount of HK$686,000 at the exercise price of HK$0.98 per share.

On 17 November 2014, 548,000 ordinary shares were allotted and issued upon exercise of share options for a total amount of HK$515,120 at the exercise price of HK$0.94 per share.

On 3 December 2014, 620,813 ordinary shares were allotted and issued upon exercise of share options for a total amount of HK$726,972 at the exercise price of HK$1.171 per share.

On 12 December 2014, 496,000 ordinary shares were allotted and issued upon exercise of share options for a total amount of HK$486,080 at the exercise price of HK$0.98 per share.

On 12 December 2014, 522,000 ordinary shares were allotted and issued upon exercise of share options for a total amount of HK$490,680 at the exercise price of HK$0.94 per share.

(g) On 30 April 2015, (i) 41,564,729 shares were issued to Outblaze Ventures Holdings Limited ("Outblaze") in respect of the second instalment of consideration for the acquisition of 70% equity interest in CSL and (ii) 29,839,609 shares were also issued to Outblaze to settle the profit bonus payment.

(h) On 24 August 2015, 5,903,271 shares were issued to Vendor of HGGL in respect of the second instalment of consideration for the acquisition of 70% equity interest in HGGL.

(i) On 27 January 2015, the Company completed the issue of bonus shares to the qualifying shareholders of the Company on the basis of five (5) bonus shares for every one (1) existing share of the Company held on the record date, i.e. 16 January 2015 (the "Bonus Issue") and a total of 2,366,865,285 new shares of the Company were allotted and issued under the Bonus Issue.

(j) On 29 January 2015, principal amount of HK$21,000,000 of Tranche 1 Convertible Bonds were converted into 175,000,000 ordinary shares at the conversion price of HK$0.12 per share.

(k) On 11 August 2015, pursuant to the placing agreement between the Company and a placing agent, the Company issued in aggregate 4,005,392,000 new ordinary shares at a price of HK$0.22 per share to independent third parties for a total cash consideration of HK$854,751,000 after issue expenses of HK$26,435,240, of which HK$312,421,000 and HK$542,330,000 were credited to share capital and share premium account respectively.

(l) On 5 February 2015, 152,700,000 ordinary shares were allotted and issued upon exercise of redeemable convertible preference shares for total amount of HK$19,851,000 at the exercise price of HK$0.13 per share.

On 21 April 2015, 84,000 ordinary shares were allotted and issued upon exercise of redeemable convertible preference shares for total amount of HK$11,000 at the exercise price of HK$0.13 per share.

On 27 May 2015, 73,308,000 ordinary shares were allotted and issued upon exercise of redeemable convertible preference shares for total amount of HK$9,530,000 at the exercise price of HK$0.13 per share.

On 6 July 2015, 107,508,000 ordinary shares were allotted and issued upon exercise of redeemable convertible preference shares for total amount of HK$13,976,000 at the exercise price of HK$0.13 per share.

Notes to the Financial Statements

For the year ended 31 December 2015

27. SHARE CAPITAL (continued)

Notes: (continued)

(m) On 5 January 2015, 200,000 ordinary shares were allotted and issued upon exercise of share options for total amount of HK$196,000 at the exercise price of HK$0.98 per share.

On 29 January 2015, 3,016,180 and 818,336 ordinary shares were allotted and issued upon exercise of share options for total amount of approximately HK$783,000 at the exercise price of HK$0.20 per share and HK$0.22 per share respectively.

On 1 April 2015, 4,682,680 ordinary shares were allotted and issued upon exercise of share options for total amount of approximately HK$937,000 at the exercise price of HK$0.20 per share.

On 18 May 2015, 410,040 ordinary shares were allotted and issued upon exercise of share options for total amount of approximately HK$82,000 at the exercise price of HK$0.20 per share.

On 11 June 2015, 4,799,750 ordinary shares were allotted and issued upon exercise of share options for total amount of approximately HK$768,000 at the exercise price of HK$0.16 per share.

On 24 June 2015, 10,448,322 ordinary shares were allotted and issued upon exercise of share options for total amount of approximately HK$2,090,000 at the exercise price of HK$0.20 per share.

On 24 June 2015, 6,027,625 ordinary shares were allotted and issued upon exercise of share options for total amount of approximately HK$964,000 at the exercise price of HK$0.16 per share.

28. RESERVES

Group

	Notes	**2015 HK$'000**	2014 HK$'000
Share premium	(a)	**698,265**	280,266
Convertible bonds equity reserve (Note 24)	(b)	**9,982**	8,061
Capital reserve	(c)	**2,112**	2,112
Capital redemption reserve	(d)	**601**	601
Employee share-based compensation reserve	(e)	**49,063**	52,331
Foreign exchange reserve	(f)	**(1,693)**	–
Statutory surplus reserve	(g)	**3,331**	–
Investment revaluation reserve	(h)	**–**	–
Accumulated losses		**(616,286)**	(380,092)
		145,375	(36,721)

Details of the movements in the above reserves during the year are set out in the consolidated statement of changes in equity on pages 42 to 43. Nature and purpose of the reserves is as follows:

(a) **Share premium**

Share premium is the excess of the proceeds received over the nominal value of the shares of the Company issued at a premium, less the amount of expenses incurred in connection with the issue of the shares.

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28. RESERVES (continued)

Group (continued)

(b) Convertible bonds equity reserve

This represents the amount allocated to the unexercised equity component of convertible bonds issued by the Company recognised in accordance with the accounting policy adopted for convertible bonds in Note 3(h)(ii).

(c) Capital reserve

This represents a capital reserve arose from the acquisition of a subsidiary in 2000.

(d) Capital redemption reserve

This represents the repurchase of shares of the Company listed on the Stock Exchange. These repurchased shares were cancelled upon repurchase and, accordingly, the nominal value of the cancelled shares was credited to capital redemption reserve and the aggregate consideration paid was debited to the accumulated losses and share premium accounts.

(e) Employee share-based compensation reserve

This relates to share options granted to employees and directors under the Company's Share Option Scheme. Further information about share-based payments to directors and employees is set out in Note 29.

(f) Foreign exchange reserve

Exchange differences arising from the translation of the net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency (i.e. HK$) are recognised directly in other comprehensive income and accumulated in the foreign exchange reserve. The reserve is dealt with in accordance with the accounting policy of foreign currencies set out in Note 3(g).

(g) Statutory surplus reserve

In accordance with the PRC Companies Law, the Company's PRC subsidiaries are required to transfer 10% of their profit after tax, as determined in accordance with accounting standards and regulations of the PRC, to statutory surplus reserve. Such reserve may be used to reduce any loss incurred by the subsidiary or be capitalised as paid-up capital of the subsidiary. The statutory surplus reserve is non-distributable.

(h) Investment revaluation reserve

The investment revaluation reserve represents accumulated gains and losses arising on the revaluation of available-for-sale financial assets that have been recognised in other comprehensive income, net of amounts reclassified to profit or loss when those investments have been disposed of or are determined to be impaired.

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28. RESERVES (continued)

Company

	Share premium HK$'000	Convertible bonds equity reserve HK$'000	Capital reserve HK$'000	Capital redemption reserve HK$'000	Employee share-based compensation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 31 December 2013 and at 1 January 2014	212,885	–	2,112	601	36,698	(336,044)	(83,748)
Share-based compensation	–	–	–	–	18,241	–	18,241
Issue of convertible bonds	–	8,061	–	–	–	–	8,061
Issue of consideration shares for acquisition of subsidiaries	40,639	–	–	–	–	–	40,639
Share issue expenses	(506)	–	–	–	–	–	(506)
Issue of shares upon conversion of convertible bonds	15,308	–	–	–	–	–	15,308
Issue of shares upon conversion of redeemable convertible preference shares	3,162	–	–	–	–	–	3,162
Issue of shares upon exercise of warrants	2,924	–	–	–	–	–	2,924
Issue of shares upon exercise of share options	5,854	–	–	–	(1,440)	–	4,414
Lapse of share options	–	–	–	–	(644)	–	(644)
Loss for the year	–	–	–	–	–	(48,697)	(48,697)
At 31 December 2014 and at 1 January 2015	**280,266**	**8,061**	**2,112**	**601**	**52,855**	**(384,741)**	**(40,846)**
Share-based compensation	**–**	**–**	**–**	**–**	**638**	**–**	**638**
Issue of convertible bonds	**–**	**1,921**	**–**	**–**	**–**	**–**	**1,921**
Issue of consideration shares for acquisition of subsidiaries	**21,653**	**–**	**–**	**–**	**–**	**–**	**21,653**
Issue of shares upon conversion of redeemable convertible preference shares	**18,369**	**–**	**–**	**–**	**–**	**–**	**18,369**
Issue of shares upon exercise of share options	**7,071**	**–**	**–**	**–**	**(3,623)**	**–**	**3,448**
Issue of bonus share	**(184,615)**	**–**	**–**	**–**	**–**	**–**	**(184,615)**
Placing of shares	**542,330**	**–**	**–**	**–**	**–**	**–**	**542,330**
Issue of shares upon conversion of convertible bonds	**13,191**	**–**	**–**	**–**	**–**	**–**	**13,191**
Lapse of share options	**–**	**–**	**–**	**–**	**(283)**	**283**	**–**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**(31,079)**	**(31,079)**
At 31 December 2015	**698,265**	**9,982**	**2,112**	**601**	**49,587**	**(415,537)**	**345,010**

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For the year ended 31 December 2015

29. SHARE OPTION SCHEME

The Company's share option scheme which was adopted on 27 March 2002 (the "2002 Share Option Scheme") was expired and a new share option scheme (the "2014 Share Option Scheme") was adopted by an ordinary resolution passed by the shareholders at the extraordinary general meeting of the Company on 15 April 2014 (the "Adoption Date"). The 2014 Share Option Scheme constitutes a share option scheme governed by Chapter 23 of the GEM Listing Rules and will remain in force for 10 years from the Adoption Date.

Upon the expiry of the 2002 Share Option Scheme, no further option can be offered thereunder but any options granted prior to such expiry but not yet exercised shall continue to be valid and exercisable.

The Company operates both the 2002 Share Option Scheme and the 2014 Share Option Scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operation. Pursuant to the 2014 Share Option Scheme, the Directors of the Company may grant options to eligible participants persons (as defined in the 2014 Share Option Scheme) to subscribe for shares in the Company subject to the terms and conditions stipulated therein.

2002 Share Option Scheme

The remaining share options granted under the 2002 Share Option Scheme are for other eligible participants and are exercisable as follows:

(a) the first 30% of the options between the first and tenth anniversary of the date of grant;

(b) the next 30% of the options between the second and tenth anniversary of the date of grant; and

(c) the remaining options between the third and tenth anniversary of the date of grant.

Notes to the Financial Statements

For the year ended 31 December 2015

29. SHARE OPTION SCHEME (continued)

2002 Share Option Scheme (continued)

The following table sets out information relating to the 2002 Share Option Scheme during the year:

			Number of share options						
Date of grant (dd/mm/yyyy)	Exercise price (Note 1) HK$	Exercise period (dd/mm/yyyy)	Balance as at 1 January 2015	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	Adjusted upon the bonus issue (Note 2)	Balance as at 31 December 2015	Options exercisable as at 31 December 2015
24/03/2006	9.51	24/03/2007 to 23/03/2016	269,916	–	–	–	1,349,409	1,619,325	1,619,325
26/04/2006	9.51	26/04/2007 to 25/04/2016	809,756	–	–	–	4,048,269	4,858,025	4,858,025
29/01/2007	4.51	29/01/2008 to 28/01/2017	134,956	–	–	–	674,331	809,287	809,287
11/02/2008	2.22	11/02/2009 to 10/02/2018	708,543	–	–	–	3,548,140	4,256,683	4,256,683
29/12/2008	0.22	29/12/2009 to 28/12/2018	269,916	–	(818,336)	–	1,366,756	818,336	818,336
07/10/2010	0.20	07/10/2011 to 06/10/2020	985,203	–	(3,397,802)	–	4,783,160	2,370,561	2,370,561
16/03/2012	0.20	16/03/2013 to 15/03/2022	3,400,000	–	(15,159,420)	–	17,102,000	5,342,580	5,342,580
14/05/2012	0.19	14/05/2013 to13/05/2022	980,000	–	–	–	4,879,368	5,859,368	5,859,368
			7,558,290	–	(19,375,558)	–	37,751,433	25,934,165	25,934,165

The following table discloses movements in the outstanding options granted by the Company under the 2002 Share Option Scheme during the year:

					Number of share options					
Year	Date of grant (dd/mm/yyyy)	Grantees	Exercise period	Exercise price (Note 1) HK$	Balance as at 1 January 2015	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	Adjusted upon the bonus issue (Note 2)	Balance as at 31 December 2015
2015	24/03/2006	Former directors and former employees	24/03/2007 to 23/03/2016	9.51	269,916	–	–	–	1,349,409	1,619,325
	26/04/2006	Former directors and former employees	26/04/2007 to 25/04/2016	9.51	809,756	–	–	–	4,048,269	4,858,025
	29/01/2007	Former directors and former employees	29/01/2008 to 28/01/2017	4.51	134,956	–	–	–	674,331	809,287
	11/02/2008	Former directors and former employees	11/02/2009 to 10/02/2018	2.22	708,543	–	–	–	3,548,140	4,256,683
	29/12/2008	Former directors and former employees	29/12/2009 to 28/12/2018	0.22	269,916	–	(818,336)	–	1,366,756	818,336
	07/10/2010	Former directors and former employees	07/10/2011 to 06/10/2020	0.20	985,203	–	(3,397,802)	–	4,783,160	2,370,561
	16/03/2012	Former directors and former employees	16/03/2013 to 15/03/2022	0.20	3,400,000	–	(15,159,420)	–	17,102,000	5,342,580
	14/05/2012	Former directors and former employees	14/05/2013 to 13/05/2022	0.19	980,000	–	–	–	4,879,368	5,859,368
				Total	7,558,290	–	(19,375,558)	–	37,751,433	25,934,165
			Weighted average exercise price		HK$1.8	–	HK$0.37	–		HK$2.99

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For the year ended 31 December 2015

29. SHARE OPTION SCHEME (continued)

2002 Share Option Scheme (continued)

Year	Date of grant (dd/mm/yyyy)	Grantees	Exercise period	Exercise price HK$	Number of share options: Balance as at 1 January 2014	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	Balance as at 31 December 2014
2014	24/03/2006	Former directors and former employees	24/03/2007 to 23/03/2016	57.054	269,916	–	–	–	269,916
	26/04/2006	Former directors and former employees	26/04/2007 to 25/04/2016	57.054	809,756	–	–	–	809,756
	29/01/2007	Former directors and former employees	29/01/2008 to 28/01/2017	27.045	134,956	–	–	–	134,956
	11/02/2008	Former directors and former employees	11/02/2009 to 10/02/2018	13.337	708,543	–	–	–	708,543
	29/12/2008	Former directors and former employees	29/12/2009 to 28/12/2018	1.334	269,916	–	–	–	269,916
	07/10/2010	Former directors and former employees	07/10/2011 to 06/10/2020	1.171	2,321,300	–	(620,813)	(715,284)	985,203
	16/03/2012	Former directors and former employees	16/03/2013 to 15/03/2022	1.206	4,325,000	–	–	(925,000)	3,400,000
	14/05/2012	Former directors and former employees	14/05/2013 to 13/05/2022	1.136	980,000	–	–	–	980,000
				Total	9,819,387	–	(620,813)	(1,640,284)	7,558,290
				Weighted average exercise price	HK$8.565	–	HK$1.171	HK$1.191	HK$10.773

Notes:

(1) The exercise prices of the share options were adjusted for the bonus issue of shares made by the Company on 27 January 2015.

(2) The aggregate number of shares that can be subscribed for was adjusted for the bonus issue of shares made by the Company on 27 January 2015.

No option was granted under the 2002 Share Option Scheme during the years ended 31 December 2015 and 2014.

No options were lapsed under the 2002 Share Option Scheme (2014: 1,640,284) upon resignation of employees during the year ended 31 December 2015.

The weighted average closing price of the shares immediately before the date on which share options under the 2002 Share Option Scheme were exercised was HK$0.37.

The weighted average remaining contractual life of the options outstanding as at 31 December 2015 was approximately 3.70 years.

No share-based compensation expense was recognised under the 2002 Share Option Scheme (2014: HK$127,000) during the year ended 31 December 2015.

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29. SHARE OPTION SCHEME (continued)

2014 Share Option Scheme

The following table sets out information relating to the 2014 Share Option Scheme during the year:

Year	Date of grant (dd/mm/yyyy)	Exercise price HK$	End of exercise period	Exercise period	Adjusted Exercise price (Note 1)	Balance as 1 January 2015	Exercised during the year	Cancelled/ lapsed during the year	Adjusted upon the bonus issue (Note 2)	Balance as at 31 December 2015	Options exercisable as at 31 December 2015
2015	15/05/2014	0.98	14/05/2024	15/05/2014– 14/05/2024	0.16	10,332,000	(4,512,000)	(3,062,500)	51,926,500	54,684,000	54,684,000
	20/06/2014	0.94	19/06/2024	20/06/2014– 19/06/2024	0.16	12,712,000	(6,515,375)	(299,625)	61,971,000	67,868,000	67,868,000
						23,044,000	(11,027,375)	(3,362,125)	113,897,500	122,552,000	122,552,000

Notes:

(1) The exercise prices of the share options were adjusted for the bonus issue of shares made by the Company on 27 January 2015.

(2) The aggregate number of shares that can be subscribed for were adjusted for the bonus issue of shares made by the Company on 27 January 2015.

The following table discloses movements in the outstanding option granted by the Company under the 2014 Share Option Scheme during the year:

Year	Date of grant (dd/mm/yyyy)	Grantees	End of exercise period	Exercise period	Balance as 1 January 2015	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	Adjusted upon the bonus issue	Balance as at 31 December 2015	Exercise price per share HK$
2015	15/05/2014	Directors	14/05/2024	15/05/2014– 14/05/2024	8,928,000	–	–	–	45,756,000	54,684,000	0.16
	20/06/2014	Directors	19/06/2024	20/06/2014– 19/06/2024	5,976,000	–	(2,643,750)	–	29,133,000	32,465,250	0.16
					14,904,000	–	(2,643,750)	–	74,889,000	87,149,250	
	15/05/2014	Other eligible participants	14/05/2024	15/05/2014– 14/05/2024	1,404,000	–	(4,512,000)	(3,062,500)	6,170,500	–	0.16
	20/06/2014	Other eligible participants	19/06/2024	20/06/2014– 19/06/2024	6,736,000	–	(3,871,625)	(299,625)	32,838,000	35,402,750	0.16
					8,140,000	–	(8,383,625)	(3,362,125)	39,008,500	35,402,750	
				Total	23,044,000	–	(11,027,375)	(3,362,125)	113,897,500	122,552,000	
				Weighted average exercise price	0.96	–	0.16	0.16	0.16	0.16	

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29. SHARE OPTION SCHEME (continued)

2014 Share Option Scheme (continued)

Year	Date of grant (dd/mm/yyyy)	Grantees	Exercise period (Notes)	Balance as at 1 January 2014	Transferred from other category on 23 May 2014	Granted during the year	Exercised during the year	Lapsed during the year	Transferred to other category on 23 May 2014	Balance as at 31 December 2014	Exercise price per share HK$
				Number of share options							
2014	15/05/2014	Directors	(1) and (5)	–	9,128,000	–	(200,000)	–	–	8,928,000	0.98
	20/06/2014	Directors	(2)	–	–	11,426,000	(450,000)	(5,000,000)	–	5,976,000	0.94
				–	9,128,000	11,426,000	(650,000)	(5,000,000)	–	14,904,000	
	15/05/2014	Other eligible participants	(3) and (5)	–	–	11,528,000	(996,000)	–	(9,128,000)	1,404,000	0.98
	20/06/2014	Other eligible participants	(4)	–	–	10,450,000	(1,214,000)	(2,500,000)	–	6,736,000	0.94
				–	–	21,978,000	(2,210,000)	(2,500,000)	(9,128,000)	8,140,000	
			Total	–	9,128,000	33,404,000	(2,860,000)	(7,500,000)	(9,128,000)	23,044,000	
		Weighted average exercise price		–	HK$0.98	HK$0.95	HK$0.96	HK$0.94	HK$0.98	HK$0.96	

Notes:

(1) Exercisable from 15 May 2014 to 14 May 2024.

(2) Divided into two tranches exercisable from 20 June 2014 and 20 June 2015, respectively to 19 June 2024.

(3) Divided into two tranches exercisable from 15 May 2014 and 15 May 2015, respectively to 14 May 2024.

(4) Divided into four tranches exercisable from 20 June 2014, 1 January 2015, 20 June 2015 and 1 January 2016, respectively to 19 June 2024.

(5) Mr. Chang Tat Joel and Mr. Ho Gilbert Chi Hang were appointed as Directors of the Company on 23 May 2014, such share options were transferred from the category of "Other eligible participants" to "Directors".

(6) The closing price of the shares of the Company quoted on the Stock Exchange on 14 May 2014, being the business date immediately before the date on which share options were granted, was HK$0.97.

(7) The closing price of the shares of the Company quoted on the Stock Exchange on 19 June 2014, being the business date immediately before the date on which share options were granted, was HK$0.95.

No options were granted under the 2014 Share Option Scheme (2014: 33,404,000) during the year ended 31 December 2015.

3,362,125 (2014: 7,500,000) options were lapsed upon resignation other eligible participants during the year ended 31 December 2015.

Notes to the Financial Statements

For the year ended 31 December 2015

29. SHARE OPTION SCHEME (continued)

2014 Share Option Scheme (continued)

The weighted average closing price of the shares immediately before the dates on which share options under 2014 Share Option Scheme were exercised was HK$0.4 (2014: HK$1.86).

The fair value of the options granted for the year ended 31 December 2014, measured at the date of grant, totalled approximately HK$26,260,000. The weighted average remaining contractual life of the options outstanding as at 31 December 2015 was approximately 8.43 years (2014: 8.74 years).

Share-based compensation expense of HK$638,000 (2014: HK$19,336,000) was recognised in the consolidated statement of profit or loss for the year ended 31 December 2015.

The total number of share available for issue under the scheme is 122,552,000 representing approximately 1.64% of the Company's total number of issued shares at the date of this report.

The following significant assumptions were used to derive the fair value of the share options granted in the year ended 31 December 2015, using the Binomial Option Pricing Model:

(i) an expected constant volatility: between 87% and 88% (2014: 87% and 88%) throughout the option life;

(ii) no dividend yield (2014: nil);

(iii) the estimated expected life of the options granted is 9 years (2014: 10 years); and

(iv) the risk free rates are based on the yields on Hong Kong Exchange Fund Bills and Notes.

In determining the volatility, the historical volatility of the Company prior to the issuance of share options has been considered. The volatility is measured based on the daily price change and the volatility measured on daily basis provided a reasonable estimation for the expected volatility is considered.

Notes to the Financial Statements

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30. MATERIAL RELATED PARTY TRANSACTIONS

Other than those disclosed elsewhere in these financial statements, details of other significant transactions between the Group and other related parties during the year ended 31 December 2015 are as follows:

(a) Remuneration for key management personnel of the Group, including amounts paid to the Directors and the highest paid employees other than the Directors of the Company is as follows:

	2015 HK$'000	2014 HK$'000
Fees	1,016	588
Salaries, allowances and benefits in kind	15,029	3,279
Retirement fund contributions	54	36
Share-based compensation expense	–	12,347
	16,099	16,250

(b) During the year, the Group had the following material related party transactions:

	2015 HK$'000	2014 HK$'000
Fee rebate paid and payable to key management staff of the Group	–	57
Advertising expenses paid to a related company, Totally Apps Holdings Limited	4,404	–
Rental expenses and related charges paid to a related company, HMV Hong Kong Limited	2,588	–
Advertising fee paid to a related company, Animoca Brands Limited	1,014	–
Service fee paid and payable to the non-controlling shareholders, Outblaze Ventures Holdings Limited ("Outblaze")	2,368	592

Notes to the Financial Statements

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30. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(c) As at 31 December 2015 and 2014, the balances due from/(to) related parties were:

	2015 **HK$'000**	2014 HK$'000
Amount due from HMV Hong Kong Limited	**151**	–
Amount due from HMV Kafe Limited	**155**	–
Amount due from Animoca Brands Limited	**1,554**	–
Amount due from Totally Apps Holdings Limited	**11,527**	10,151
Amount due to Outblaze	**(2,063)**	(270)
Loan to a shareholder of an associate (Note 19(b))	**12,519**	–
Advances from a director, Mr. Wu King Shiu, Kelvin (Note 21(c))	**–**	(11,600)

31. COMMITMENTS

(a) Operating leases

As at 31 December 2015, the total future minimum lease payments of the Group under non-cancellable operating leases in respect of land and buildings are payable as follows:

	2015 **Land and buildings** **HK$'000**	2014 Land and buildings HK$'000
Within one year	**24,951**	1,141
In the second to fifth years	**65,893**	1,284
	90,844	2,425

The Group leased certain properties under operating leases in Hong Kong and China. The leases run for an initial period of 3 to 5 years (2014: 2 to 3 years), with an option to renew the lease and renegotiate the terms at the expiry date or at dates as mutually agreed between the Group and respective landlords/lessors. The lease contracts include terms of contingent rentals.

Notes to the Financial Statements

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31. COMMITMENTS (Continued)

(b) Capital commitments

As at 31 December 2015, the Group had capital commitments of HK$9,740,000 for the acquisition of a property located in Japan for own use and HK$2,117,000 for office renovation work.

In December 2015, the Group entered into a sale and purchase agreement to purchase a property at a consideration of HK$10,787,000 in cash. As at 31 December 2015, the Group had paid a deposit of HK$1,047,000 (Note 19(c)), representing 10% of purchase consideration of the property. The remaining balance has been settled in full in January 2016.

Other than the above, the Group had no material capital commitments as at 31 December 2015.

In December 2014, a wholly-owned subsidiary of the Company, the Company, Mr. Zhuang Xiao Jie ("Mr. Zhuang"), Mr. Zhang Yong Feng and Ms. Chen Xiao Ping entered into a sale and purchase agreement, pursuant to which the wholly-owned subsidiary of the Company has agreed to purchase seventy (70) shares of US$1.00 each in the share capital of Honestway Global Group Limited ("Honestway Global"), representing 70% of the issued share capital of Honestway Global at an aggregate amount of RMB84,000,000 (the "Consideration") subject to adjustments. The Consideration is to be settled in several instalments by cash and issuance of new shares of the Company to Mr. Zhuang. Details are set out in Note 36(c) to the financial statements.

32. CONTINGENCIES

As at 31 December 2015, the Group had no material contingent liabilities.

As at 31 December 2014, the Company provided corporate guarantee of unlimited amount to secure bank loans granted to a wholly owned subsidiary of the Company, HK$32,950,000 of which the maximum amount required to pay if the guarantees were called on, as set out in Note 22 to the financial statements. The Company did not recognise any provision in the financial statements as at 31 December 2014 in respect of the corporate guarantee as the Directors considered that the probability for the holder of the corporate guarantee to call upon the Company as a result of default in repayment is remote. The corporate guarantee of unlimited amount given by the Company was released on 15 June 2015 following the disposal of the entire interest in Crosby Capital (Holdings) Limited (Note 35(b)).

Save as disclosed above, the Group had no other material contingent liabilities as at 31 December 2014.

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For the year ended 31 December 2015

33. RECONCILIATION OF LOSS BEFORE TAXATION TO CASH OUTFLOW FROM OPERATIONS

	Notes	2015 HK$'000	2014 HK$'000
Cash flows from operating activities			
Loss before taxation		**(238,392)**	(105,209)
Adjustments for:			
Amortisation of intangible assets	9, 15	**47,573**	19,320
Depreciation of property, plant and equipment	9, 13	**18,490**	7,297
Finance costs	8	**22,890**	12,272
Share-based compensation expense	12(d)	**638**	19,463
Gain on financial asset at fair value through profit or loss	17	**(260)**	–
Loss on financial liabilities at fair value through profit or loss	25	**6,786**	6,009
Loss on remeasurement of contingent consideration payables, net	7	**4,735**	–
Interest income		**(1,217)**	(452)
Impairment of inventories	18	**2,199**	356
Gain on disposal of property, plant and equipment	7,9	**(2)**	(5)
Loss/(gain) on disposal of subsidiaries	35(a),(b)	**512**	(8,684)
Foreign exchange gains, net	9	**(354)**	–
Share of losses of an associate		**596**	–
Impairment of goodwill	9, 15	**41,305**	–
Impairment of available-for-sale investments		**818**	–
Impairment of deposit paid	19(c)	**5,850**	–
Write-off of property, plant and equipment	9, 13	**–**	1,415
Share-based payment	9	**–**	128
Gain on deregistration of a subsidiary		**–**	(231)
Operating loss before working capital changes		**(87,833)**	(48,321)
Increase in inventories		**(19,434)**	(1,630)
Increase in trade and other receivables		**(51,156)**	(20,709)
Increase in trade and other payables		**30,668**	8,531
Cash outflow from operations		**(127,755)**	(62,129)

34. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2015, the following major non-cash transactions occurred:

(i) On 29 January 2015, the Tranche 1 Convertible Bonds in aggregate principal amount of HK$21,000,000 at the conversion price of HK$0.12 per share whereby a respective total number of 175,000,000 conversion shares were issued. As a result of the conversion, share capital and share premium account of the Company have increased by approximately HK$13,650,000 and HK$13,191,000 respectively and aggregate of which represents proportional amounts of the derivative component and the liability component at the time of conversion (Note 27(j)).

(ii) On 30 April 2015, 41,564,729 shares were issued to Outblaze in respect of the second instalment of consideration for the acquisition of 70% equity interest in CSL. As the 2014 profit bonus has been achieved, 29,839,609 shares were issued to Outblaze to settle the profit bonus payment (Note 27(g)).

(iii) On 27 January 2015, the Company completed the issue of bonus shares of HK$184,615,000 to the qualifying shareholders of the Company on the basis of five (5) bonus shares for every one (1) existing share of the Company held on the record date i.e. 16 January 2015 and a total of 2,366,865,285 new shares of the Company were allotted and issued under the Bonus Issue (Note 27(i)).

During the year ended 31 December 2014, the Group had the following major non-cash transactions:

(i) On 24 February 2014, the Group acquired approximately 53.18% equity interest of HMV Ideal, at a fair value consideration of HK$43,200,000, which was satisfied by way of allotment and issue of 60,000,000 ordinary shares of the Company (Note 36(a)).

(ii) On 5 May 2014, 6 June 2014 and 4 July 2014, Tranche 1 and Tranche 2 Convertible Bonds in aggregate principal amount of HK$13,000,000 at the conversion price of HK$0.76 per share whereby a respective total number of 17,105,262 conversion shares were issued. As a result of the conversion, share capital and share premium account of the Company increased by approximately HK$1,334,000 and HK$15,308,000 respectively and the aggregate of which represented proportional amounts of the derivative component and the liability component at the time of conversion (Notes 27(c)).

(iii) On 9 October 2014, the Group acquired 70% of the issued share capital of CSL at fair value of consideration of approximately HK$88,702,000. The consideration was settled by cash of approximately HK$22,532,000, issue of shares of approximately HK$2,246,000, consideration payable of approximately HK$40,809,000 and fair value of contingent consideration of approximately HK$23,115,000 (Note 36(b)).

(iv) On 22 December 2014, the Group acquired 35.46% of the issued share capital of HMV Ideal in exchange for the disposal of its 98% of the issued share capital of VS Media Co Limited for a consideration of HK$14,947,000 (Note 35(a)).

Notes to the Financial Statements

For the year ended 31 December 2015

35. DISPOSALS OF SUBSIDIARIES

(a) Disposal of VS Media Co Limited

On 22 December 2014, the Group disposed of 98% equity interests in VS Media Co Limited, which had principally engaged in content creators support and development, in exchange for the acquisition of approximately 35.46% equity interests in HMV Ideal. The net assets of VS Media Co Limited at the date of disposal were as follows:

	2014 HK$'000
Net assets of subsidiaries disposed of:	
Intangible assets (Note 15)	5,250
Attributable goodwill (Note 15)	4,836
Other receivables	389
Cash and cash equivalents	79
Trade and other payables	(3,290)
Deferred tax liabilities (Note 26)	(866)
Non-controlling interests	(7)
	6,391
Less: Non-controlling interests	(128)
	6,263
Deemed consideration	14,947
Gain on disposal of subsidiaries included in other income in the consolidated statement of profit or loss for the year (Note 7)	8,684
Satisfied by:	
3,120 ordinary shares of HMV Ideal, at fair value	14,947
Net cash outflow arising on disposal:	
Cash and bank balances disposed of	79

Notes to the Financial Statements

For the year ended 31 December 2015

35. DISPOSALS OF SUBSIDIARIES (continued)

(b) Disposal of Crosby Capital (Holdings) Limited

On 17 February 2015, the Group disposed of its entire interests in Crosby Capital (Holdings) Limited and its subsidiaries to an individual third party at a consideration of HK$37,000,000. The net assets of Crosby Capital (Holdings) Limited and its subsidiaries at the date of disposal were as follows:

	2015 HK$'000
Net assets of subsidiaries disposal of:	
Property, plant and equipment (Note 13)	69,141
Other receivables	734
Cash and cash equivalents	332
Accruals and other payables	(105)
Bank borrowings	(32,590)
	37,512
Total consideration	37,000
Loss on disposal of subsidiaries included in other operating expenses in the consolidated statement of profit or loss for the year (Note 9)	512
Satisfied by:	
Cash	37,000
Net cash inflow arising on disposal:	
Cash consideration	37,000
Cash and bank balances disposed of	(332)
	36,668

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For the year ended 31 December 2015

36. ACQUISITION OF SUBSIDIARIES

(a) Acquisition of HMV Ideal

On 24 February 2014, the Group further acquired 4,680 ordinary shares of HMV Ideal, representing 53.18% of the issued share capital of HMV Ideal, at a consideration of HK$46,800,000, which was settled by the issue of 60,000,000 ordinary shares of the Company at the issue price of HK$0.78 each. Together with the subscription of the 1,000 ordinary shares of HMV Ideal, representing 11.36% of the enlarged share capital of HMV Ideal, at a consideration of HK$10,000,000 on 10 December 2013, the Group had an aggregate interest of 64.54% in HMV Ideal. HMV Ideal, together with its subsidiaries, is engaged in the operation of the Central Retail Store, the HMV online business and an online fashion platform. The acquisition of HMV Ideal enables the Group to build an integrated online and offline business ecology in the entertainment and lifestyle sector.

The fair value of identifiable assets and liabilities of HMV Ideal as at the date of acquisition were:

	2014 HK$'000
Net assets acquired:	
Property, plant and equipment (Note 13)	162
Inventories	5,375
Trade and other receivables	1,143
Cash and cash equivalents	1,395
Intangible assets (Note 15)	50,800
Trade and other payables	(8,333)
Deferred tax liabilities recognised upon fair value adjustments (Note 26)	(8,382)
The fair value of net assets acquired	42,160
Less: Non-controlling interests	(14,947)
	27,213
Total consideration (at fair value)	53,200
Goodwill arising on acquisition (Note 15)	25,987
Consideration satisfied by:	
Available-for-sale investments (Note 14)	10,000
60,000,000 ordinary shares of the Company, at fair value (Note 27(a))	43,200
	53,200

The fair value of 60,000,000 ordinary shares of the Company issued as part of the consideration was determined with reference to the market price of HK$0.72 of the Company's shares on the date of completion. Out of the total fair value of HK$43,200,000, HK$4,680,000 was credited to share capital and the remaining balance of HK$38,520,000 was credited to the share premium account.

Notes to the Financial Statements

For the year ended 31 December 2015

36. ACQUISITION OF SUBSIDIARIES (continued)

(a) Acquisition of HMV Ideal (continued)

The fair value of trade and other receivables at the date of acquisition amounting to HK$1,143,000 which was also the gross contractual amounts of these trade and other receivables acquired. None of the contractual cash flows of the above amount was estimated to be uncollectible.

The non-controlling interests recognised at the acquisition date were measured by reference to the non-controlling interest's proportionate share of the recognised amount of the net assets of these companies and amounted to HK$14,947,000.

Goodwill of HK$25,987,000 arose on this acquisition, which was not deductible for tax purposes, comprised the acquired workforce and the expected synergies arising from the combination of the acquired business with the existing operations of the Group.

During the year ended 31 December 2014, the acquired business contributed revenue of HK$36,327,000 and a loss after income tax of HK$31,459,000 to the Group for the period from 22 February 2014 to 31 December 2014.

Had the acquisition occurred on 1 January 2014, the Group's revenue and loss after income tax would have been increased by HK$44,563,000 and HK$34,302,000 respectively for the year ended 31 December 2014.

This pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2014, nor is it intended to be a projection of future results.

On 22 December 2014, the Group further acquired the remaining 35.46% of the issued share capital of HMV Ideal at a consideration being the aggregate of (i) 980 ordinary shares in VS Media Co Limited and (ii) the amounts owed by VS Media Limited to each of HMV Ideal, HMV Marketing Limited, Vissible Co & Limited and Viss Me Co & Limited outstanding as at the date of completion of the transaction, which shall not in any event be more than HK$6,100,000.

The transaction was accounted for as equity transaction with the non-controlling interests as follows:

	2014 HK$'000
Consideration paid for 35.46% ownership interest	14,947
Net liabilities attributable to 35.46% ownership interest	1,327
Decrease in equity attributable to owners of the Company (included in accumulated losses)	16,274

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36. ACQUISITION OF SUBSIDIARIES (continued)

(b) Acquisition of CSL

On 10 September 2014, the Group entered into a sale and purchase agreement with Outblaze Ventures Holdings Limited (the "Vendor"), pursuant to which the Group acquires 70% of the issued share capital of CSL at an aggregate consideration of US$9,660,000 (equivalent to approximately HK$75,106,500, the "Consideration"), subject to adjustment. The Consideration is to be satisfied by the Company by way of cash and allotment and issue of ordinary shares of the Company to the Vendor. The acquisition was completed on 9 October 2014. Accordingly, the Group owns 70% of the issued share capital of CSL and CSL became a subsidiary of the Group thereafter.

CSL, which is a limited liability company incorporated in the British Virgin Islands, together with its subsidiary, is engaged in the development, operation and distribution of mobile games. After the acquisition, the Group will have potential to collaborate with other products which target similar end users such as toys and fashion products and have strong synergies with the operations of the Group, for the development of an innovative Online to Offline platform and e-commerce business.

The fair value of identifiable assets and liabilities arising from the acquisition of CSL as at the date of acquisition were:

	2014 HK$'000
Net assets acquired:	
Intangible assets (Note 15)	38,822
Trade and other payables	(16)
Deferred tax liabilities recognised upon fair value adjustments (Note 26)	(6,406)
The fair value of net assets acquired	32,400
Less: Non-controlling interests	(9,720)
Fair value of net assets acquired	22,680
Total consideration at fair value	88,702
Goodwill arising on acquisition (Note 15)	66,022
Consideration satisfied by:	
Cash	22,532
1,627,795 ordinary shares of the Company, at fair value (Note 27(b))	2,246
Contingent consideration payable (Note 21(a))	63,924
	88,702

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For the year ended 31 December 2015

36. ACQUISITION OF SUBSIDIARIES (continued)

(b) Acquisition of CSL (continued)

	2014 HK$'000
Purchase consideration settled in cash	(22,532)
Cash and cash equivalents acquired	–
Cash outflow on acquisition	(22,532)

The above contingent consideration represented the third instalment of the Consideration and includes a performance-based adjustment, which principally based on the shortfall between the audited consolidated net profits of CSL and its subsidiary (the "CSL Group") for the year ending 31 December 2015 and the performance target of US$2,750,000 (or equivalent to approximately HK$21,381,000), if any. The adjustment will be settled after the release of the audited financial statements of CSL Group for the year ended 31 December 2015. The potential undiscounted amount of the contingent consideration adjustment that the Group could be required to make under such arrangement is between nil to US$3,220,000 (or equivalent to HK$25,035,500). At the acquisition date, the fair value of the contingent consideration arrangement of HK$23,115,000 was estimated by applying the discounted cash flow approach at a discount rate of 5.25%. As at 31 December 2015, the fair value of the contingent consideration decreased by HK$20,431,000 as a result of the payment of second instalment of HK$40,898,000, reduction in estimated third instalment of HK$20,431,000 for the year ended 31 December 2015.

The non-controlling interests recognised at the acquisition date were measured by reference to the non-controlling interest's proportionate share of the recognised amount of the net assets of these companies and amounted to HK$9,720,000.

The acquisition-related costs of HK$850,000 was expensed and were included in administrative expenses for the year ended 31 December 2014. The attributable costs of the issuance of the Company's shares of HK$506,000 were deducted in the share premium.

Goodwill of HK$66,022,000 arose on this acquisition, which was not deductible for tax purposes, comprised the expected synergies arising from the combination of the acquired business with the existing operations of the Group.

During the year ended 31 December 2014, the acquired business contributed revenue of HK$16,052,000 and a profit after income tax of HK$8,924,000 to the Group for the period from 9 October 2014 to 31 December 2014.

Had the acquisition occurred on 1 January 2014, the Group's revenue and gain after income tax would have been increased by HK$16,052,000 and HK$8,907,000 respectively for the year ended 31 December 2014.

This pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2014, nor is it intended to be a projection of future results.

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For the year ended 31 December 2015

36. ACQUISITION OF SUBSIDIARIES (continued)

(c) Acquisition of HGGL

On 2 April 2015, the Group completed the acquisition of 70% issued share capital of HGGL at a consideration of RMB84,000,000 (equivalent to approximately HK$106,117,200), in which RMB14,000,000 (equivalent to approximately HK$17,686,200) was paid at completion and the remaining consideration of RMB70,000,000 (equivalent to approximately HK$88,431,000) is to be paid by instalments, subject to adjustment.

The fair value of identifiable assets and liabilities of HGGL Group as at the date of acquisition were:

	Notes	2015 HK$'000
Net assets acquired:		
Property, plant and equipment (Note 13)		437
Trade and other receivables, deposits and prepayments		27,863
Cash and cash equivalents		5,320
Intangible assets (Note 15)		49,226
Trade and other payables		(22,452)
Provision for taxation		(3,019)
Deferred tax liabilities recognised upon fair value adjustments (Note 26)		(12,306)
Total fair value of net assets acquired		45,069
Less: Non-controlling interests		(13,520)
		31,549
Total consideration at fair value		93,088
Goodwill arising on acquisition (Note 15)	(ii)	61,539
Consideration satisfied by:		
Cash		17,686
Contingent consideration payable, at fair value	(iii)	75,402
		93,088
Net cash outflow for acquisition:		
Cash consideration paid at acquisition		(17,686)
Cash and bank balances acquired		5,320
		(12,366)

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For the year ended 31 December 2015

36. ACQUISITION OF SUBSIDIARIES (continued)

(c) Acquisition of HGGL (continued)

After acquisition and upto 31 December 2015, the second instalment comprising cash of HK$7,579,800 and 5,903,271 ordinary shares of the Company with aggregate fair value of HK$1,263,300 were paid and settled.

Notes:

(i) The fair value of trade and other receivables amounted to HK$25,945,000. The gross amount of these receivables is HK$25,945,000. None of these receivables had been impaired and it was expected that the full contractual amount could be collected.

(ii) Goodwill of HK$61,539,000 arose on this acquisition, which is not deductible for tax purposes, comprises the acquired workforce and the expected synergies arising from the combination of the existing operations of the Group.

(iii) The contingent consideration represents the second, third and fourth instalments of the consideration and includes a performance-based adjustment, which principally based on the shortfall between the unaudited consolidated net profit of SZ8088 and VSOYOU for the period ended 30 June 2015, the audited consolidated net profit of SZ8088 and VSOYOU for the year ended 31 December 2015 and year ending 31 December 2016, and the performance target of RMB8,800,000 (equivalent to approximately HK$11,117,040), RMB22,000,000 (equivalent to approximately HK$27,792,600) and RMB29,000,000 (equivalent to approximately HK$36,635,700) respectively, if any. In the event of the above target profits are met, the second, third and fourth considerations will be settled as follows:

Second instalment

— (i) as to RMB6,000,000 (equivalent to approximately HK$7,579,800) to be settled by cash; and (ii) as to RMB1,000,000 (equivalent to approximately HK$1,263,300) by the issue and allotment of consideration shares payable and to be settled within 15 business days from the date of issue of the interim report for the period ended 30 June 2015.

Third instalment

— Assuming the second instalment is not payable, (i) as to RMB6,000,000 (equivalent to approximately HK$7,579,800) to be settled by cash, and (ii) as to RMB29,000,000 (equivalent to approximately HK$36,635,700) by the issue and allotment of consideration shares and to be settled within 15 business days from the date of issue of the annual report for the year ended 31 December 2015; and

— Assuming the second instalment is payable, an amount equivalent to the second instalment shall be deducted from the third instalment and RMB28,000,000 (equivalent to approximately HK$35,372,400) to be settled by the issue and allotment of consideration shares and to be settled within 15 business days from the date of issue of the annual report for the year ended 31 December 2015.

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For the year ended 31 December 2015

36. ACQUISITION OF SUBSIDIARIES (continued)

(c) Acquisition of HGGL (continued)

Notes: (continued)

(iii) (continued)

Fourth instalment

— as to RMB35,000,000 (equivalent to approximately HK$44,215,500) by the issue and allotment of consideration shares and to be settled within 15 business days from the date of issue of the annual report for the year ending 31 December 2016.

In the event that the 2015 audited net profit is less than RMB22,000,000 (equivalent to approximately HK$27,792,600) or the 2016 audited net profit is less than RMB29,000,000 (equivalent to approximately HK$36,635,700), the third or fourth instalment will be adjusted by deducting the amount equal to 3.85 times of the shortfall for the relevant years, and the amount of adjustment shall be no more than RMB35,000,000 (equivalent to approximately HK$44,215,500). There will not be any upward adjustment to the third and the fourth Instalment.

In the event that the 2015 audited net profit exceeds the 2015 profit target, the purchaser shall pay to the vendor a profit bonus equal to 50% of 3.85 times of the amount of the 2015 audited net profit in excess of the 2015 profit target, provided that the 2015 profit bonus shall be no more than RMB15,400,000 (equivalent to approximately HK$19,454,820). The 2015 profit bonus shall be settled by the issue and allotment of the 2015 profit bonus shares, within fifteen (15) business days from the date of issue of the 2015 annual report. The issue and allotment of 2015 profit bonus shares shall be subject to the same conditions as the issue and allotment of the second instalment consideration shares, the third instalment consideration shares and the fourth instalment consideration shares. If any of the conditions for the issue and allotment of the 2015 profit bonus shares is not satisfied, the purchaser will settle that portion of the 2015 profit bonus by cash. The issue price of the 2015 profit bonus shares shall be the average closing price of the shares quoted on GEM for the ten (10) business days immediately preceding the date of the issue of the 2015 annual report.

The vendor undertakes to each of the purchaser and the company that, subject to completion taking place and the issue of the consideration shares to the vendor pursuant to the third instalment and the fourth instalment (as applicable), it shall not, directly or indirectly, and shall procure that the holder(s) of the shares and/or shares shall not, directly or indirectly:

(a) in respect of the 30% of the shares issued at anytime pursuant to the third instalment, for a three (3)-month period commencing on the date of issuance of the third instalment consideration shares;

(b) in respect of the remaining 70% of the shares issued at anytime pursuant to the third instalment, for a six (6)-month period commencing on the date of issuance of the third instalment consideration shares;

(c) in respect of the 50% of the fourth Instalment consideration shares issued at anytime pursuant to the fourth instalment, for a six (6)-month period commencing on the date of issuance of the fourth instalment consideration shares;

(d) in respect of the remaining 50% of the fourth instalment consideration shares issued at anytime pursuant to the fourth instalment, for a twelve (12)-month period commencing on the date of issuance of the fourth instalment consideration shares;

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For the year ended 31 December 2015

36. ACQUISITION OF SUBSIDIARIES (continued)

(c) Acquisition of HGGL (continued)

Notes: (continued)

(iii) (continued)

sell, transfer or otherwise dispose of (including but not limited to the creation of any options over or pledge or charge as security) any of such Shares described above. This undertaking shall survive the completion, save for:

(a) where such disposal is made in the acceptance of an offer made in accordance with the Takeovers Code by any third party; or

(b) where such disposal is made pursuant to an offer by the Company to purchase its own Shares which is made by the Company under the Hong Kong Code on Share Repurchases.

Please refer to the circular dated 2 March 2015 for details of the acquisition.

The potential undiscounted amount of the contingent consideration adjustment that the Group could be required to make such arrangement is between RMBNil to RMB70,000,000 (equivalent to approximately HK$88,431,000). At the acquisition date, the fair value of the contingent consideration payable of HK$75,402,000 was estimated by applying Monte Carlo simulation by a firm of independent professional valuers, Grant Sherman Appraisal Limited. As of 31 December 2015, the fair value of the contingent consideration payable was remeasured at HK$91,724,000 by Grant Sherman Appraisal Limited and hence a loss on fair value of HK$25,166,000 was recorded under "Other net (loss)/ income" in profit or loss for the year ended 31 December 2015.

(iv) The acquired business contributed revenue of approximately HK$65,236,000 and profit after income tax of approximately HK$20,608,000 for the period from 2 April 2015 to 31 December 2015.

Had the acquisition occurred on 1 January 2015, the HGGL Group's revenue and profit after income tax would have been approximately HK$85,565,000 and approximately HK$26,957,000 respectively for the year ended 31 December 2015.

The non-controlling interests recognised at the acquisition date were measured by reference to the non-controlling interest's proportionate share of the recognised amount of the net assets of these companies and amounted to HK$17,115,000.

The acquisition-related costs of HK$1,750,000 have been expensed and are included in administrative expenses for the year ended 31 December 2015.

This proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2015, nor is it intended to be a projection of future results.

(d) Acquisition of HMV IP Rights and HMV Business

On 30 November 2015, the Group completed the acquisition of HMV IP Rights and HMV Business at a final consideration of HK$105,737,000 in cash. The HMV IP Rights represents all the rights to use the name "HMV", the various HMV trade marks and trade mark applications and the HMV domain names for the purposes of conducting the retail business of "HMV" operating through the four (4) retail stores selling music, movies and television series related contents and products located in Hong Kong (the "HMV Business") and any other business to be conducted in the PRC, Hong Kong and Singapore.

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For the year ended 31 December 2015

36. ACQUISITION OF SUBSIDIARIES (continued)

(d) Acquisition of HMV IP Rights and HMV Business (continued)

The provisional fair value of identifable assets and liabilities of HMV IP Rights and HMV Business as at the date of acquisition were:

	2015 HK$'000
Net assets acquired:	
Intangible assets (Note 15)	77,634
Property, plant and equipment (Note 13)	5,799
Inventories	16,019
Trade and other receivables	12,648
Cash and cash equivalents	179
Deferred tax liabilities recognised upon fair value adjustments (Note 26)	(16,798)
Provisional fair value of net assets acquired	95,481
Total consideration	105,737
Goodwill arising on acquisition (Note 15)	10,256
Consideration satisfied by:	
Cash	105,737
Net cash outflow for acquisition:	
Cash consideration	(105,737)
Cash and cash equivalents acquired	179
	(105,558)

As at the date of the consolidated financial statements, the Group has not finalised the fair value assessments for intangible assets acquired from the acquisition. The relevant fair value of net assets acquired stated above are on a provisional basis.

The acquisition-related costs of HK$2,264,000 have been expensed and are included in the administrative expenses for the year ended 31 December 2015.

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For the year ended 31 December 2015

36. ACQUISITION OF SUBSIDIARIES (continued)

(d) Acquisition of HMV IP Rights and HMV Business (continued)

The fair value of trade and other receivables at the date of acquisition amounting to HK$12,648,000 which was also the gross contractual amounts of these trade and other receivables acquired. None of the contractual cash flows of the above amount was estimated to be uncollectible.

Goodwill of HK$10,256,000 arose on this acquisition, which is not deductible for tax purposes, comprises the expected synergies arising from the combination of the acquired business with the existing operations of the Group.

The acquired business contributed revenue of approximately HK$12,712,000 and a loss after income tax of approximately HK$283,000 to the Group for the period from 1 December 2015 to 31 December 2015.

Had the acquisition occurred on 1 January 2015, the Group's revenue and loss after income tax would have been approximately HK$121,259,000 and approximately HK$10,728,000 respectively for the year ended 31 December 2015.

This pro forma information is for illustrative purpose only and is not necessarily an indication of revenue and the results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2015, nor is it intended to be a projection of future results.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks, as detailed below, which are managed by the three Executive Directors collectively in close cooperation with the Board of Directors:

(A) Credit risk

The Group's credit risk is primarily attributable to its trade and other receivables arising from default of the counterparty, with a maximum exposure equal to the carrying amounts of these financial assets in the statement of financial position. The Group trades only with recognised and creditworthy third parties on specific terms mutually agreed prior to any business transaction.

Management of the Group closely monitors the credit worthiness of the counterparties to ensure full recovery, including scrutinising their financial position. In this regard, the Directors consider that the Group's credit risk is minimal.

The credit risk on liquid funds is limited because the Group mainly places deposits with leading financial institutions in Hong Kong.

As at 31 December 2015, the Group had no exposure to credit risk for financial guarantees issued. As at 31 December 2014, the maximum expense to credit risk in respect of financial guarantees issued was HK$32,950,000 which represented the maximum amount the Group could be required to pay if the guarantees were called on (Note 22).

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37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(B) Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates, interest rates and equity prices.

(i) Foreign currency risk management

The Group's main exposure to foreign currencies includes its investments in foreign subsidiaries and financial asset and liabilities at fair value through profit or loss where the foreign currency risk is managed as an integral part of the investment return.

Certain subsidiaries of the Group have foreign currency revenue and costs, which expose the Group to foreign currency risk. The Group manages this risk by reserving sufficient revenue to settle the costs in the relevant foreign currency, subject to other operating requirements.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities, which are subject to foreign exchange risk, at 31 December 2015 and 2014 are summarised as follows:

	2015					
	HK$ denominated HK$'000	US$ denominated equivalent HK$'000	RMB denominated equivalent HK$'000	YEN denominated equivalent HK$'000	Other currencies equivalent HK$'000	Total HK$'000
ASSETS						
Financial asset at fair value through profit and loss	11,008	–	–	–	–	11,008
Investment in convertible bond	11,622	–	–	–	–	11,622
Available-for-sale investments	30,000	–	–	–	–	30,000
Trade and other receivables*	40,196	14,588	42,167	1,047	–	97,998
Pledged bank deposits	7,000	–	–	–	–	7,000
Cash and cash equivalents	262,171	540,706	14,990	–	–	817,867
	361,997	555,294	57,157	1,047	–	975,495
LIABILITIES						
Trade and other payables	(174,865)	(6,000)	(15,646)	(243)	(1,303)	(198,057)
Financial liabilities at fair value through profit or loss	(30,573)	–	–	–	–	(30,573)
Borrowings	(5,455)	–	–	–	–	(5,455)
Convertible bonds	(318,909)	–	–	–	–	(318,909)
	(529,802)	(6,000)	(15,646)	(243)	(1,303)	(552,994)
NET TOTAL	(167,805)	549,294	41,511	804	(1,303)	422,501

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37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(B) Market risk (continued)

(i) Foreign currency risk management (continued)

	2014					
	HK$ denominated HK$'000	US$ denominated equivalent HK$'000	YEN denominated equivalent HK$'000	AUD denominated equivalent HK$'000	Other currencies equivalent HK$'000	Total HK$'000
ASSETS						
Available-for-sale investments	818	–	–	–	–	818
Trade and other receivables*	3,872	16,168	–	–	–	20,040
Cash and cash equivalents	101,698	369	–	–	–	102,067
	106,388	16,537	–	–	–	122,925
LIABILITIES						
Trade and other payables	(25,806)	(66,280)	(9)	–	(660)	(92,755)
Financial liabilities at fair value through profit or loss	(28,185)	–	–	–	–	(28,185)
Borrowings	(40,452)	–	–	–	–	(40,452)
Convertible bonds	(183,331)	–	–	–	–	(183,331)
	(277,774)	(66,280)	(9)	–	(660)	(344,723)
NET TOTAL	(171,386)	(49,743)	(9)	–	(660)	(221,798)

* Excluded from the trade and other receivables of HK$97,998,000 (2014: HK$20,040,000) is an amount of HK$10,388,000 (2014: HK$4,885,000) representing prepayments which are not subject to foreign exchange risk.

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37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(B) Market risk (continued)

(i) Foreign currency risk management (continued)

Sensitivity analysis

The Group is mainly exposed to the effects of fluctuation in YEN and RMB (2014: YEN and AUD). Other currencies mainly represented HK$ and US$. Since HK$ is pegged to US$, the Group does not expect any significant movements in US$/HK$ exchange rate. The following table details the Group's sensitivity to a 20% (2014: 20%) increase and decrease in the HK$ against the relevant foreign currencies. 20% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes outstanding foreign currency denominated monetary items, and adjusts their translation at the period end for a 20% change in foreign currency rates. A positive number below indicates an increase in profit and other equity where HK$ weaken 20% against the relevant currency. For a 20% strengthening of HK$ against the relevant currency, there would be an equal and opposite impact on the loss and other equity, and the balances below would be negative.

			2015		
Foreign Currency	**As at 31 December HK$'000**	**Increase in exchange rate %**	**Effect on gain for the year and equity HK$'000**	**Decrease in exchange rate %**	**Effect on loss for the year and equity HK$'000**
YEN	**804**	**20**	**(161)**	**20**	**161**
RMB	**41,511**	**20**	**(8,302)**	**20**	**8,302**
TOTAL	**42,315**		**(8,463)**		**8,463**

			2014		
Foreign Currency	As at 31 December HK$'000	Increase in exchange rate %	Effect on gain for the year and equity HK$'000	Decrease in exchange rate %	Effect on loss for the year and equity HK$'000
YEN	9	20	(2)	20	2
AUD	0	20	0	20	0
TOTAL	9		(2)		2

Notes to the Financial Statements

For the year ended 31 December 2015

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(B) Market risk (continued)

(ii) Interest rate risk management

The Group's exposure to interest rate risk for changes in interest rates relates primarily to the Group's floating interest rate borrowing as disclosed in Note 22 to the financial statements. During the year, management did not consider it necessary to use interest rate swaps to hedge their exposure to interest rate risk as the interest rate risk exposure is not significant.

(iii) Fair value measurements recognised in the statement of financial position

The following table presents financial assets and liabilities measured at fair value in the statement of financial position in accordance with the fair value hierarchy. The hierarchy groups financial assets and liabilities into three levels based on the relative reliability of significant inputs used in measuring the fair value of these financial assets and liabilities. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level in the fair value hierarchy within which the financial assets and liabilities is categorised in its entirety is based on the lowest level of input that is significant to the fair value measurement.

The financial assets and liabilities measured at fair value in the statement of financial position are grouped into the fair value hierarchy as follows:

	2015			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Financial assets:				
Financial asset at fair value through profit or loss	–	–	11,008	11,008
Financial liabilities:				
Financial liabilities at fair value through profit or loss	–	–	(30,573)	(30,573)
Contingent consideration payables	–	–	(95,908)	(95,908)
Total	–	–	(126,481)	(126,481)

Notes to the Financial Statements

For the year ended 31 December 2015

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(B) Market risk (continued)

(iii) Fair value measurements recognised on the statement of financial position (continued)

	2014			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Financial assets:				
Available-for-sale investments				
— Unlisted	–	–	818	818
Financial liabilities:				
Financial liabilities at fair value through profit or loss	–	–	(28,185)	(28,185)
Contingent consideration payables	–	–	(64,198)	(64,198)
Total	–	–	(92,383)	(92,383)

There have been no significant transfers among levels 1, 2 and 3 in the reporting period.

As the share volatility was derived from the historical prices which typically do not represent current market participant's expectations about future volatility, the fair values of the embedded derivatives in convertible bonds, warrants and redeemable convertible preference shares are categorised within level 3 of the fair value hierarchy. The fair values of the financial asset and financial liabilities at fair value through profit or loss and the contingent consideration payables are Level 3 fair value measurement and are estimated by using Monte Carlo Simulation and the Binomial Option Pricing Model.

No sensitivity analysis for unlisted equity investment is presented as a reasonably possible change in key assumptions used in the sensitivity analysis would not result in any significant potential financial impact.

Notes to the Financial Statements

For the year ended 31 December 2015

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(B) Market risk (continued)

(iii) Fair value measurements recognised on the statement of financial position (continued)

The determination of fair value is based on discount rate which is unobservable. The significant unobservable input and relationship of this input to fair value are shown as below:

(a) *Financial asset at fair value through profit or loss*

	2015 **HK$'000**	2014 HK$'000
At 1 January	**–**	–
Subscription of convertible bond	**10,748**	–
Gain on financial asset at fair value through profit or loss	**260**	–
At 31 December	**11,008**	–

The fair value of financial asset at fair value through profit or loss is measured using Monte Carlo Simulation.

(b) *Financial liabilities at fair value through profit or loss*

	2015 **HK$'000**	2014 HK$'000
At 1 January	**28,185**	12,253
Conversion of convertible bonds	**(3,343)**	(3,061)
Loss on financial liabilities at fair value through profit or loss	**6,786**	6,009
Conversion of redeemable convertible preference shares	**(1,055)**	(74)
Redemption of convertible bonds	**–**	(826)
Issue of convertible bonds	**–**	14,718
Exercise of warrants	**–**	(834)
At 31 December	**30,573**	28,185

The fair value of financial liabilities at fair value through profit or loss is measured using the Binomial Option Pricing Model as disclosed in Note 25 to the financial statements.

Notes to the Financial Statements

For the year ended 31 December 2015

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(B) Market risk (continued)

(iii) Fair value measurements recognised on the statement of financial position (continued)

(c) *Contingent consideration payables*

Pursuant to the relevant agreement, the Group is required to pay in cash or by issue or allotment of the Company's shares to the then respective sellers contingent considerations with reference to certain performance indicators as written in the respective agreements with those then sellers.

Accordingly, liabilities in respect of the present value of contingent considerations have been recognised. These are subsequently re-measured at their fair values as a result of change in the expected performance at each reporting date, with any resulting gain or loss recognised in the consolidated statement of profit or loss. Deferred consideration is subsequently measured at amortised cost. Details of contingent consideration are shown in Note 21 to the financial statements.

	2015	2014
	HK$'000	HK$'000
At 1 January	**64,198**	–
Arising from acquisition of subsidiaries	**75,402**	63,924
Settlement of contingent consideration	**(49,653)**	–
Total gains or losses:		
— effective interest expense in profit or loss (included in finance costs)	**1,226**	274
— net loss on remeasurement of contingent consideration payables in profit or loss (included in other net (loss)/income)	**4,735**	–
At 31 December	**95,908**	64,198
Total net losses recognised in profit or loss relating to financial instruments held by the Group at the reporting date	**5,961**	274

The details of the methods and valuation techniques used for the purpose of measuring the fair value of contingent consideration payables are disclosed in Notes 36(b) and (c).

Notes to the Financial Statements

For the year ended 31 December 2015

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(B) Market risk (continued)

(iii) Fair value measurements recognised on the statement of financial position (continued)

(d) Unlisted securities

Reconciliation for financial instruments carried at fair value based on significant unobservable inputs (Level 3) are as follows:

	Available-for-sale investments	
	2015	2014
	HK$'000	HK$'000
At 1 January	**818**	10,000
Additions	**–**	818
Transfer to investment in a subsidiary	**–**	(10,000)
Less: change in fair value recognised directly in other comprehensive income	**(818)**	–
At 31 December	**–**	818

(C) Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities. Cash management of all operating entities is centralised, including raising of loans to cover expected cash demands. The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in short and long terms.

Notes to the Financial Statements

For the year ended 31 December 2015

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(C) Liquidity risk (continued)

The following table details the Group's remaining contractual maturities for its financial liabilities which are included in the maturity analysis provided internally to the key management personnel for the purpose of managing liquidity risk.

2015

	Less than 1 month or on demand HK$'000	1–3 months HK$'000	3 months– 1 year HK$'000	1–5 years HK$'000	More than 5 years HK$'000	Total contractual undiscounted cash flow HK$'000	Total carrying amount as at 31 December HK$'000
Non-derivatives:							
Trade and other payables*	(30,298)	(116,559)	(6,199)	(34,606)	–	(187,662)	(187,662)
Borrowings	(5,475)	–	–	–	–	(5,475)	(5,455)
Convertible bonds	–	(4,988)	(14,963)	(358,771)	–	(378,722)	(318,909)
TOTAL	(35,773)	(121,547)	(21,162)	(393,377)	–	(571,859)	(512,026)

2014

	Less than 1 month or on demand HK$'000	1–3 months HK$'000	3 months– 1 year HK$'000	1–5 years HK$'000	More than 5 years HK$'000	Total contractual undiscounted cash flow HK$'000	Total carrying amount as at 31 December HK$'000
Non-derivatives:							
Trade and other payables*	(8,587)	(7,553)	(75,790)	–	–	(91,930)	(91,930)
Borrowings	(7,830)	(758)	(2,275)	(11,968)	(22,000)	(44,831)	(40,452)
Convertible bonds	–	–	(21,741)	(175,000)	–	(196,741)	(183,331)
TOTAL	(16,417)	(8,311)	(99,806)	(186,968)	(22,000)	(333,502)	(315,713)

* Excluded from trade and other payables of HK$187,662,000 (2014: HK$91,930,000) is an amount of HK$189,000 (2014: HK$125,000) representing provision for payments for long service and unconsumed leave, the settlement which will depend upon either the termination of services of the relevant staff and management discretion respectively and provision for store reinstatement costs of HK$10,206,000 (2014: HK$700,000), and therefore the liquidity terms cannot be reasonably ascertained.

Notes to the Financial Statements

For the year ended 31 December 2015

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(D) Capital risk management

The Group's objectives when managing capital are:

(a) To safeguard the Group's ability to continue as a going concern, so that it continues to provide returns and benefits for stakeholders;

(b) To support the Group's stability and growth;

(c) To provide capital for the purpose of strengthening the Group's risk management capability; and

(d) To provide capital for purposes of potential mergers and acquisitions.

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and equity holder returns, taking into consideration the future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. The Group currently does not adopt any formal dividend policy.

The Directors review the capital structure annually. As part of this review, the Directors assess the annual budget prepared by management of the Company and consider the cost of capital and the risks associated with each class of capital.

The Group is not subject to externally imposed capital requirements, except for a wholly owned subsidiary, AID Partners Asset Management Limited. This subsidiary met its relevant paid up share capital and liquid capital requirements as stipulated by respective regulators throughout the year.

For capital management purpose, the Directors regard the total equity presented in the face of statement of financial position as capital. The amount of capital attributable to owners of the Company as at 31 December 2015 was HK$727,391,000 (2014: HK$186,000).

Notes to the Financial Statements

For the year ended 31 December 2015

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of principal subsidiaries as at 31 December 2015 are as follows:

Name	Place/Country of incorporation/ establishment	Principal place of operation	Issued share capital	Percentage of attributable interest held by the Company 2015	2014	Principal activities
Action Key Investments Limited	Samoa	N/A	1 ordinary share at US$1 each	**100%**	100%	Investment holding
AID Partners Asset Management Limited	Hong Kong	Hong Kong	ordinary HK$3,080,000	**100%**	100%	Provision of investment advisory and fund management services
Honour Best Holdings Limited	British Virgin Islands	N/A	1 ordinary share at US$1 each	**100%**	100%	Investment holding
Silver Alpine Limited	British Virgin Islands	N/A	1 ordinary share at US$1 each	**100%**	–	Investment holding
8088 Management Limited	Hong Kong	Hong Kong	ordinary HK$1	**100%**	100%	Provision of corporate services
HMV Ideal Limited	British Virgin Islands	N/A	8,800 ordinary shares at US$1 each	**100%**	100%	Investment holding
HMV Master Quality Sound Limited	British Virgin Islands	N/A	1 ordinary share at US$1 each	**100%**	100%	Inactive
HMV eShop Limited	British Virgin Islands	N/A	1 ordinary share at US$1 each	**100%**	100%	Investment holding
HMV eShop (Hong Kong) Limited	Hong Kong	Hong Kong	1 ordinary share at HK$1 each	**100%**	–	Provision of IT products and services
Vissible Co & Limited	British Virgin Islands	N/A	10,000 ordinary shares at US$1 each	**100%**	100%	Investment holding
Viss Me Co & Limited	Hong Kong	Hong Kong	ordinary HK$10,000	**100%**	100%	Mobile and web advertising and promotion and mobile and web based e-commerce services
HMV M&E Limited	British Virgin Islands	N/A	1 ordinary share at US$1 each	**100%**	–	Investment holding

Notes to the Financial Statements

For the year ended 31 December 2015

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Name	Place/Country of incorporation/ establishment	Principal place of operation	Issued share capital	Percentage of attributable interest held by the Company 2015	2014	Principal activities
HMV Marketing Limited	Hong Kong	Hong Kong	ordinary HK$1	**100%**	100%	Retailing of musical recordings, compact discs, vinyls, digital versatile discs, blu-ray discs and other entertainment related products
Bonus Boost Enterprises Limited	British Virgin Islands	N/A	1 ordinary share at US$1 each	**100%**	100%	Investment holding
Complete Star Limited	British Virgin Islands	N/A	100 ordinary shares at US$1 each	**70%**	70%	Investment holding
Complete Star (HK) Limited	Hong Kong	Hong Kong	ordinary HK$10,000	**70%**	70%	Development and operation of mobile games
Valliant Investments Limited	British Virgin Islands	N/A	1 ordinary share at US$1 each	**70%**	–	Investment holding
Honestway Global Group Limited	British Virgin Islands	N/A	100 ordinary shares at US$1 each	**70%**	–	Investment holding
深圳八零八八科技有限公司	The PRC	Shenzhen, the PRC	ordinary HK$12,633,000	**70%**	–	Investment holding
上海威搜游科技有限公司	The PRC	Shenzhen, the PRC	ordinary RMB10,000,000	**70%**	–	Provision of mobile games business in PRC

All of the above principal subsidiaries are limited liability companies and are indirectly held by the Company except for AID Partners Asset Management Limited, Silver Alpine Limited and Honour Best Holdings Limited.

The Directors of the Company are of the opinion that a complete list of the particulars of all subsidiaries would be of excessive length and therefore the above list contains only the particulars of the principal subsidiaries which materially affect the results or the assets of the Group.

None of the subsidiaries had any debt securities subsisting at the end of the year or at any time during the year.

Notes to the Financial Statements

For the year ended 31 December 2015

39. NON-CONTROLLING INTERESTS

As at 31 December 2015, the Group's material non-controlling interests ("NCI") are as follows:

(a) Complete Star Limited ("CSL") is a 70% indirectly owned subsidiary of the Company. Summarised financial information in relation to the post-acquisition NCI of CSL, before inter-group eliminations, is presented below:

	2015 HK$'000	2014 HK$'000
For the year ended 31 December		
Revenue	16,391	16,052
Profit and total comprehensive income for the year, before amortisation (net of tax)	3,605	8,907
(Loss)/profit and total comprehensive income for the year, after amortisation (net of tax)	(2,878)	7,443
(Loss)/profit allocated to NCI	(863)	2,233
Dividend paid to NCI	–	–
For the year ended 31 December		
Cash inflow from operating activities	2,767	867
Cash inflow from investing activities	–	–
Cash inflow from financing activities	–	1
Net cash inflows	2,767	868
As at 31 December		
Current assets	18,224	11,037
Non-current assets	29,304	37,069
Current liabilities	(5,711)	(2,129)
Non-current liabilities	(4,852)	(6,133)
Net assets	36,965	39,844
Accumulated non-controlling interests	11,090	11,953

Notes to the Financial Statements

For the year ended 31 December 2015

39. NON-CONTROLLING INTERESTS (continued)

(b) Honestway Global Group Limited ("HGGL") is a 70% indirectly owned subsidiary of the Company. Summarised financial information in relation to the post-acquisition NCI of HGGL, before inter-group eliminations, is presented below:

	2015 HK$'000
For the year ended 31 December	
Revenue	65,236
Profit and total comprehensive income for the year, before amortisation (net of tax)	20,608
Profit and total comprehensive income for the year, after amortisation (net of tax)	11,983
Profit allocated to NCI	3,595
Dividend paid to NCI	–
For the year ended 31 December	
Cash inflow from operating activities	3,310
Cash inflow from investing activities	–
Cash inflow from financing activities	–
Net cash inflows	3,310
As at 31 December	
Current assets	74,730
Non-current assets	16,335
Current liabilities	(28,561)
Non-current liabilities	(5,451)
Net assets	57,053
Accumulated non-controlling interests	17,115

Notes to the Financial Statements

For the year ended 31 December 2015

40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	As at 31 December 2015 HK$'000	As at 31 December 2014 HK$'000
ASSETS AND LIABILITIES		
Non-current assets		
Property, plant and equipment	**631**	1,127
Interests in subsidiaries	**667,233**	120,627
	667,864	121,754
Current assets		
Other receivables	**736**	5,597
Cash and cash equivalents	**702,362**	89,338
	703,098	94,935
Current liabilities		
Other payables	**52,739**	1,610
Borrowings	**5,455**	7,502
Convertible bonds	**–**	23,313
Financial liabilities at fair value through profit or loss	**2,738**	7,164
	60,932	39,589
Net current assets	**642,166**	55,346
Total assets less current liabilities	**1,310,030**	177,100

Notes to the Financial Statements

For the year ended 31 December 2015

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

	As at 31 December 2015 HK$'000	As at 31 December 2014 HK$'000
Non-current liabilities		
Other payables	**36,260**	–
Convertible bonds	**318,909**	160,018
Financial liabilities at fair value through profit or loss	**27,835**	21,021
	383,004	181,039
Net assets/(liabilities)	**927,026**	(3,939)
EQUITY		
Share capital (Note 27)	**582,016**	36,907
Reserves (Note 28)	**345,010**	(40,846)
Total equity/(capital deficiency)	**927,026**	(3,939)

Wu King Shiu, Kelvin
Director

Ho Gilbert Chi Hang
Director

Notes to the Financial Statements

For the year ended 31 December 2015

41. EVENTS AFTER THE REPORTING PERIOD

(a) Deemed disposal of 18.37% equity interest in HMV M&E Limited

On 1 March 2016, an indirect wholly-owned subsidiary of the Company entered into a sale and purchase agreement with an independent thirty party, in which (i) the indirect wholly-owned subsidiary of the Company has agreed to sell 2,250 existing ordinary shares of HMV M&E Limited, representing approximately 18.37% of HMV M&E Limited, for a cash consideration of US$9,000,000 (equivalent to approximately HK$70,200,000); and (ii) the indirect wholly-owned subsidiary of the Company shall apply the consideration received for the subscription of 2,250 new ordinary shares in the capital of HMV M&E Limited. This deemed disposal has completed on 4 March 2016.

Details of the deemed disposal are set out in the Company's announcement dated 1 March 2016.

(b) Proposed disposal of further 81.63% equity interest in HMV M&E Limited

On 14 March 2016, an indirect wholly-owned subsidiary of the Company entered into a sale and purchase agreement with an independent third party, in which the indirect wholly-owned subsidiary of the Company has agreed to sell 10,000 existing ordinary shares of HMV M&E Limited, representing approximately 81.63% of HMV M&E Limited, for a consideration of HK$408,150,000 to be satisfied by the issue and allotment of an aggregate of 1,118,219,178 consideration shares of China 3D Digital Entertainment Limited (Stock code: 8078) ("China 3D"), a company incorporated in Bermuda with limited liability, the shares of which are listed on GEM. The consideration shares will represent approximately 22.59% of the issued share capital of China 3D as enlarged by the allotment and issue of the consideration shares. Upon completion, the receipt of such consideration shares will be deemed to be an acquisition of equity interests in China 3D by the Group and China 3D will be treated as an associate in the consolidated financial statements of the Group through the Group's shareholding in China 3D in which, based on publicly available information, the Group will become the single largest shareholder of China 3D upon completion.

The proposed disposal is subject to, among other things, shareholders' approval and is expected to be completed on or before 31 May 2016. Details of the disposal are set out in the Company's announcement dated 14 March 2016.

Appendix I

FIVE-YEAR FINANCIAL SUMMARY

The financial information relating to the year ended 31 December 2015 included in this five year summary does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance, Cap. 622 (the "Companies Ordinance") is as follows:

	2015	2014	2013	2012	2011
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Financial results					
Loss attributable to owners of the Company	**(233,146)**	(89,666)	(84,452)	(38,220)	(49,093)
Assets and liabilities					
Total assets	**1,344,807**	369,361	106,534	172,323	200,429
Total liabilities	**(589,211)**	(357,222)	(99,331)	(309,140)	(336,375)
Total equity/(capital deficiency)	**755,596**	12,139	7,203	(136,817)	(135,946)

The Company will deliver the financial statements for the year ended 31 December 2015 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.

The Company's auditor has reported on those financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

Appendix II

CORPORATE INFORMATION

Board of Directors

Executive Directors:

Wu King Shiu, Kelvin *Chairman*
Ho Gilbert Chi Hang
Chang Tat Joel

Independent Non-Executive Directors:

Chinn Adam David
Professor Lee Chack Fan, *GBS, SBS, JP*
Yuen Kwok On

Audit Committee

Yuen Kwok On *Chairman*
Chinn Adam David
Professor Lee Chack Fan, *GBS, SBS, JP*

Remuneration Committee

Yuen Kwok On *Chairman*
Wu King Shiu, Kelvin
Professor Lee Chack Fan, *GBS, SBS, JP*

Nomination Committee

Professor Lee Chack Fan, *GBS, SBS, JP* *Chairman*
Wu King Shiu, Kelvin
Yuen Kwok On

Company Secretary

Chan Suet Ngan

Compliance Officer

Ho Gilbert Chi Hang

Principal Bankers

East West Bank
The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited
DBS Bank (Hong Kong) Limited
China Construction Bank (Asia) Corporation Limited

Auditor

BDO Limited

Solicitors

Troutman Sanders

Registered Office

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

Share Registrars and Transfer Office

Computershare Hong Kong Investor Services Limited
46th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Stock Code

GEM 8088