
# HAO WEN HOLDINGS LIMITED
# 皓 文 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8019

## Characteristics of the Growth Enterprise Market ("GEM") of the Stock Exchange of Hong Kong Limited (the "Stock 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 Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of 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.**

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*This annual report, for which the directors (the "Directors") of Hao Wen Holdings Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this annual report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this annual report misleading.*

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# CORPORATE INFORMATION

## Directors

### Executive Directors

Mr. Chow Yik
Mr. Lok Wing Fu
Ms. Tsui Annie *(appointed on 12 October 2015)*
Mr. Wun Chun Yip *(appointed on 4 January 2016)*
Mr. Leung King Fai *(resigned on 16 March 2015)*

### Independent Non-Executive Directors

Mr. Kwok Pak Yu, Steven
Mr. Ho Kei Wing, Nelson
Ms. Ma Sijing

## Chief Executive Officer

Mr. Chan Yin Tsung

## Company Secretary

Ms. Wong Man Yi *(appointed on 16 March 2015)*
Mr. Leung King Fai *(resigned on 16 March 2015)*

## Assistant Company Secretary

Codan Trust Company (Cayman) Limited

## Registered Office

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

## Head Office and Principal Place of Business in Hong Kong

Level 20, Infinitus Plaza
199 Des Voeux Road Central
Sheung Wan
Hong Kong

## Auditors

HLB Hodgson Impey Cheng Limited
31st Floor, The Landmark
11 Pedder Street
Central
Hong Kong

## Compliance Officer

Mr. Wun Chun Yip *(appointed on 4 January 2016)*
Mr. Chan Yin Tsung *(resigned on 4 January 2016)*

## Authorised Representatives

Ms. Wong Man Yi *(appointed on 16 March 2015)*
Mr. Wun Chun Yip *(appointed on 4 January 2016)*
Mr. Chow Yik *(resigned on 4 January 2016)*
Mr. Leung King Fai *(resigned on 16 March 2015)*

## Legal Advisor on Cayman Islands Laws

Conyers Dill & Pearman
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

## Principal Share Registrar and Transfer Office

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

## Hong Kong Branch Share Registrar and Transfer Office

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

## Principal Bankers

*in Hong Kong*
The Hongkong and Shanghai Banking Corporation Limited
OCBC Wing Hang Bank Limited

## GEM Stock Code

8019

# CHAIRMAN'S STATEMENT

On behalf of the board of directors ("the Board") of Hao Wen Holdings Limited(the "Company"), I hereby present the annual results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2015.

During the year ended 31 December 2015, both of the Group's revenue and gross profit for the year were increased by approximately 7.3% and 26.3% respectively in compared with last year, the consumption of oil drove the inventing level of crude oil to a balanced state in the first half of 2015, and in July 2015, the removal of economic sanctions towards Iraq forced the crude oil into an unbalanced stage together with the Organization of the Petroleum Exporting Countries ("OPEC") sustained production growth, the crude oil phumneted which resulted a turbulent crude oil market in 2015, as the crude oil record US$37.7 in Brent oil market, the Group recorded a loss of approximately RMB166,387,000 for the year mainly due to the impairment loss on goodwill on the acquisition of biomass fuel business acquired in 2013.

Looking ahead, the business environments in which the Group is to operating are still uncertainties and challenges, as such, the management will continue to manage the Group's business in a prudent and cautions approach after taking into consideration the value of shareholders will be maximized.

On behalf of the Board, I would like to express my appreciation to the shareholders of the Company for their continued support and to our staffs for their dedication and diligence. I also wish to take this opportunity to express my sincere gratitude to the Group's customers, suppliers, bankers lawyers and auditors for their trust and support.

**Chow Yik**
*Chairman*

Hong Kong, 29 March 2016

# MANAGEMENT DISCUSSION AND ANALYSIS

## Business review

During the year under review, Hao Wen Holdings Limited (the "Company"), together with its subsidiaries (collectively "the Group") continues to engage in trading and manufacturing of biomass fuel in the PRC, the money lending business and the sale of biodegradable food containers and disposable industrial packaging for consumer products in Hong Kong.

Even though the People Republic of China (the "PRC") Government has implemented "Pearl River Delta Regional Air Quality Management Plan" which is favourable to the Group's biomass fuel business, it is hard for our management to solicit contracts from power plants under the depressing global commodity market environment since crude oil is more economical as compared to biomass fuel and it does not violate the Pearl River Delta Regional Air Quality Management Plan.

Furthermore, the rejoin of Iran into the crude oil market and sustained production growth of oil production from Organisation of Petroleum Exporting Countries ("OPEC") had reversed the rebound of the crude oil price in June 2015 from US$62.3 to US$37.7 in December 2015 (source: International Monetary Fund: Monthly Commodity Report). The persistent unfavourable factors impeded the recovery of crude oil market. After evaluation, the Directors revised its strategies under a more conservative tone which in principle balancing in risk and benefits in order to attain the maximisation of benefits for the shareholders in the operation of biomass fuel business and decided to provide an impairment on goodwill to reflect the reduced recoverable amount.

Persisting high demand for loan products in the market during the year which resulted the loan portfolio held by the Group amount to approximately RMB89,292,000 as at 31 December 2015. The Group monitor the credit risk of the loan portfolio on an ongoing basis. There were no bad debts recorded during the year.

The Group's biodegradable products business continued to focus on the trading of biodegradable containers and disposable industrial packaging products under the brand name of "Earth Buddy". The business is doing well in the first half of 2015 since the revenue was improved during this period as compared with corresponding year. However, the further slow down of economy in the European countries in the second half of 2015 had drove down the demand of our products, and consequently the revenue has declined in the second half of 2015. In addition the competitiveness of our products were further adversely affected by the rising production costs of the products from the PRC. The business recorded a material decrease in trading volume in the second half of 2015. The management had performed a quarterly review on the value of the intellectual property held by the business. In view of the poor performance of the business in the second half of the year 2015 and the management expect that the pace of recovery in European zone will remain slow in coming year, the management after the detail assessment and made an impairment of approximately RMB3,236,000 (2014: RMB12,737,000) against the intangible assets during the year under review.

In response to the declining segment revenue in the second half of the year, a new company was setup under the biodegradable products division in December 2015 to look for the opportunities to further diversify its products range, explore potential new market and suppliers for both branded and unbranded products.

# MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

## Financial review

During the year under review, the Group recorded an audited consolidated revenue of approximately RMB37,209,000 (2014: RMB34,685,000), which represented an increase of approximately 7.3% as compared with that of 2014.

| | 2015 | |
|---|---|---|
| **Sales revenue growth rate** | | |
| Money lending business | **207%** | |
| Biomass fuel business | **(15)%** | |
| Biodegradable products business | **135%** | |
| | **2015** | 2014 |
| **Gross profit ratio for the year (%)** | **25.9%** | 22.0% |
| **Assets Turnover ratio (%)** | | |
| **(Turnover/Total Assets)** | **11.1%** | 8.0% |

The increase of audited consolidated revenue was primary attributable to the increase of income from the money lending business and biodegradable products trading business in Hong Kong. These increase were partly offset by the decrease of income from manufacturing and sale of biomass fuel business. For the year under review, income from money lending business and biodegradable products trading business had increased by approximately RMB6,169,000 and RMB1,098,000, or approximately 207.2% or 135.4%, respectively, to approximately RMB9,146,000 and RMB1,909,000, respectively, from approximately RMB2,977,000 and RMB811,000 in the corresponding year. In 2015, the revenue from the manufacturing and sale of biomass fuel had decreased by RMB4,743,000 or 15.4% to approximately RMB26,154,000 from approximately RMB30,897,000 for the corresponding year.

The Group has derived net interest income from our loan portfolio of approximately RMB9,146,000 for the year ended 31 December 2015 (2014: RMB2,977,000). The increase of net interest income was mainly attributed to more loans are solicited directly by the Group rather than through the referred borrowers from other intermediary. During the year under review, the Group had no bad and doubtful debts from its loan receivables.

The sharp decrease of other gains was attributed to lesser unrealised gain of approximately RMB729,000 (2014: RMB11,224,000) was recorded from the listed securities portfolio held by the Group as at the year ended 31 December 2015.

The general and administrative expenses increased by approximately RMB2,064,000 or 11.5% from RMB17,958,000 to RMB20,022,000. The increase was mainly attributed to more corporate exercises incurred during the year under review.

The Group's 22.5% owned associated company, Sincere Smart International Limited ("Sincere Smart") had performed positively during the year. The revenue of Sincere Smart increased by 334% to approximately RMB5,373,000 (2014: RMB1,238,000 from the acquisition date to 31 December 2014) and the Group's share of its profit was approximately RMB568,000 for the year (2014: RMB185,000 from the acquisition date to 31 December 2014).

# MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

The finance costs for the year decreased by approximately RMB273,000 or 62.9% from approximately RMB434,000 to RMB161,000. The decrease was mainly due to the absence of the effective interest on convertible notes during the year (2014: RMB393,000) after the convertible notes were fully converted in corresponding year. The finance costs for the year of approximately RMB161,000 (2014: RMB41,000) represented the interest expenses on the obligations under finance leases entered by the Group.

The Group's audited consolidated loss for the year was approximately RMB166,387,000 (2014: RMB13,016,000), which represented an increase of approximately RMB153,371,000 or 1,178.3% as compared with the corresponding year. The increase of the net loss incurred was mainly attributed to the impairment loss on goodwill of approximately RMB149,988,000 (2014: Nil) and an improvement loss on available-for-sale financial assets of approximately RMB4,059,000 (2014: Nil) were recognised during the year under review. It was mainly attributed to the actual performance was lagged behind the original plan.

## LIQUIDITY AND FINANCIAL RESOURCES

| | **2015** | 2014 |
|---|---|---|
| **Current ratio** | **5.9 times** | 3.1 times |
| **Gearing**<br>(Total Liabilities/Total Assets) | **9.2%** | 10.0% |

The Group generally financed its operations through internally-generated cash flows, finance lease provided by financial institutions and Shareholder's equity.

As at 31 December 2015, the Group had current assets of approximately RMB167,353,000 (2014: RMB127,715,000) and liquid assets comprising cash and short term securities investments totalling approximately RMB48,653,000 (2014: RMB49,862,000). The Group's current ratio, calculated based on current assets of approximately RMB167,353,000 (2014: RMB127,715,000) over the current liabilities of approximately RMB28,525,000 (2014: RMB41,392,000), was at a healthy level of approximately 5.9 times as at 31 December 2015 (2014: 3.1 times).

As at 31 December 2015, the Group had long-term obligation under finance lease of approximately RMB2,437,000 (2014: RMB1,970,000) and short-term obligation under finance lease of approximately RMB884,000 (2014: RMB609,000).

The Group had conducted fund raising exercises during the year under review and a total approximately HK$86.4 million of net proceeds was raised through placing of new shares of the Company ("Shares"). As at 31 December 2015, the Group's gearing ratio, being the ratio of total liabilities to total assets, was at a low level of 9.2% (2014: 10.0%).

Subsequent to the year under review, the Group had successfully raised a total of approximately HK$241.6 million through rights issue.

With the amount of liquid assets and short term securities investments on hand, together with the net proceeds raised from the rights issue subsequent to the year ended date, the management at the date of this report is of the view the Group has sufficient financial resources to meet its ongoing operational requirements.

# MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

## MAJOR EVENTS DURING AND AFTER THE YEAR UNDER REVIEW

### Material acquisition and disposal

On 6 February 2015, Starry Regent Limited, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with an independent third party, pursuant to which Starry Regent Limited agreed to acquire 5.4% equity interests in Peak Zone Group Limited at the consideration of HK$19.2 million. The transaction was completed on 16 February 2015.

The Group had no material disposal during the year.

### Placing of new shares under general mandate

On 2 June 2015, the Company and Gransing Securities Co., Limited ("Placing Agent I") entered into the placing agreement ("Placing Agreement I"), pursuant to which Placing Agent I agreed to procure not less than six placees to subscribe up to 601,800,000 new ordinary Shares on a best effort basis, at an issue price of HK$0.103 ("Placing Price I") per each placing share ("Placing I").

On 2 June 2015, the Company and Grand China Securities Limited ("Placing Agent II") entered into the placing agreement ("Placing Agreement II"), pursuant to which Placing Agent II agreed to procure not less than six placees to subscribe up to 250,000,000 new ordinary Shares on a best effort basis, at an issue price of HK$0.103 ("Placing Price II") per placing share ("Placing II").

The Placing Price I or the Placing Price II, (as the case may be, as "Placing Price"), of HK$0.103 per placing Share was determined after arm's length negotiation between the Company, the Placing Agents I and the Placing Agents II with reference to the market price of the Shares and the market condition. The Placing Price represents (1) a discount of approximately 19.53% to the closing price of HK$0.128 per Share as quoted on the Stock Exchange of Hong Kong Limited ("Stock Exchange") on 2 June 2015, being the date of the Placing Agreements I and Placing Agreements II, (collectively the "Placing Agreements"), (2) a discount of approximately 13.74% to the average market price of HK$0.1194 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to the date of the Placing Agreements, and (3) a discount of approximately 10.67% to the average closing price of HK$0.1153 per Share as quoted on the Stock Exchange for the last ten consecutive trading days immediately prior to the date of the Placing Agreements.

The Board consider that the Placing I and Placing II, (collectively the "Placings"), would provide strengthen the financial position of the Group and provide working capital of the Group to meet any future development and obligation. The Placings also represent good opportunities to broaden the base of the shareholders of the Company ("Shareholders") and the capital base of the Company.

The Placings were completed on 15 June 2015. The Company received net proceeds of approximately HK$86.4 million from the Placings. Approximately net proceeds of HK$46.4 million and HK$40.0 million raised from the Placings had been applied for the operation of money lending business and general working capital of the Group respectively.

At the date of this report, the net proceeds was fully used according to its original plan.

# MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

## MAJOR EVENTS DURING AND AFTER THE YEAR UNDER REVIEW (Continued)

### Capital reduction and share sub-division

On 3 June 2015, the Company proposed to implement the reduction of the paid-up capital on each of the issued Shares with par value of HK$0.10 each in the share capital of the Company ("Share Capital") by cancelling the paid-up capital to the extent of HK$0.099 per issued Share, thereby reducing the nominal value of each issued Share from HK$0.10 to HK$0.001 (the "Capital Reduction"). Immediately following the Capital Reduction becoming effective, each authorised but unissued Share be sub-divided into one hundred (100) unissued new Shares with a nominal value of HK$0.001 each (the "Sub-division").

The credit arising from the Capital Reduction be credited to a distributable reserve account of the Company and be applied for such purposes as permitted by all applicable laws and the memorandum and articles of association of the Company and as the board of directors of the Company (the "Board") considers appropriate.

An extraordinary general meeting of the Company was held on 15 July 2015 and the Capital Reduction and the Sub-division have been conditionally approved by the Shareholders. The Grand Court of the Cayman Islands (the "Court") has approved the Capital Reduction at the hearing held on 8 October 2015 (Cayman Islands time) and a copy of the order granted by the Court sanctioning the Capital Reduction and the minutes approved by the Court were filed and duly registered with the Registrar of Companies in the Cayman Islands on 15 October 2015 (Cayman Islands time). Accordingly, the Capital Reduction and the Sub-division became effective after 4:00 p.m. on 15 October 2015 but before 9:00 a.m. on 16 October 2015 (due to time difference between Hong Kong and Cayman Islands). Details of the Capital Reduction and the Sub-division were set out in the Company's circular dated 22 June 2015 and the Company's announcements dated 3 June 2015, 17 June 2015, 15 July 2015 and 16 October 2015.

### Share consolidation

On 21 September 2015, the Company proposed to implement the consolidation of every twenty (20) issued and unissued Shares of HK$0.001 each in the Share Capital into one (1) consolidated Share of HK$0.02 each upon the Capital Reduction and the Sub-division having become effective ("Share Consolidation").

An extraordinary general meeting of the Company was held on 6 November 2015 and the resolution was duly passed by poll as an ordinary resolution. Accordingly, the Share Consolidation became effective on 9 November 2015. Details of the Share Consolidation were set out in the Company's circular dated 20 October 2015 and the Company's announcements dated 21 September 2015 and 6 November 2015.

# MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

## MAJOR EVENTS DURING AND AFTER THE YEAR UNDER REVIEW (Continued)

### Rights issue

On 2 December 2015, the Company proposed to raise not less than approximately HK$245.32 million and not more than approximately HK$287.12 million before expenses by rights issue, on the basis of six rights shares of HK$0.02 each in the Share Capital for every one Share held on 29 January 2016 at the subscription price of HK$0.16 per rights share ("Rights Issue"). The number of rights shares proposed to be issued was not less than 1,533,240,504 new Shares and not more than 1,794,509,862 new Shares ("Rights Shares"). The Company and Grand China Securities Limited ("Underwriter") entered into the underwriting agreement ("Underwriting Agreement"), pursuant to the Underwriting Agreement, the Underwriter has conditionally agreed to underwrite all the Rights Shares subject to the terms and conditions set out in the Underwriting Agreement. Completion of the Rights Issue took place on 29 February 2016. Details of the Rights Issue were set out in the Company's prospectus dated 1 February 2016, the circular dated 28 December 2015 and the Company's announcements dated 2 December 2015, 21 January 2016 and 26 February 2016.

The entire net proceeds from the Rights Issue was approximately HK$241.60 million and the Company intended to apply net proceeds from the Rights Issue, as to (i) approximately HK$200 million for further development of money lending business; and (ii) approximately HK$41.60 million for any future acquisition or investments.

## SIGNIFICANT INVESTMENTS

Saved as Starry Regent Limited acquired 5.4% equity interests in Peak Zone Group which was completed on 16 February 2015, the Group had no other significant investments during the year under review.

## CAPITAL STRUCTURE

### Authorised share capital

Since the Capital Reduction and the Sub-division became effective after 4:00 p.m. on 15 October 2015 but before 9:00 a.m. on 16 October 2015 (due to time difference between Hong Kong and Cayman Islands), the authorised Share Capital ("Authorised Share Capital") was changed from HK$1,000,000,000 divided into 10,000,000,000 Shares of HK$0.10 each to HK$1,000,000,000 divided into 1,000,000,000,000 Shares of HK$0.001 each.

Since the Share Consolidation became effective on 9 November 2015, the Authorised Share Capital was changed from HK$1,000,000,000 divided into 1,000,000,000,000 Shares of HK$0.001 each to HK$1,000,000,000 divided into 50,000,000,000 Shares of HK$0.02 each.

### Issued share capital

On 15 June 2015, a total of 851,800,000 new Shares were allotted at Placing Price of HK$0.103 per placing share pursuant to the Placing Agreements. Accordingly, the number of Shares in issue was changed from 4,259,001,686 Shares of HK$0.10 each into 5,110,801,686 Shares of HK$0.10 each.

Since the Capital Reduction and the Sub-division became effective after 4:00 p.m. on 15 October 2015 but before 9:00 a.m. on 16 October 2015 (due to time difference between Hong Kong and Cayman Islands), the number of Shares in issue was changed from 5,110,801,686 Shares of HK$0.10 each to 5,110,801,686 Shares of HK$0.001 each.

# MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

## CAPITAL STRUCTURE (Continued)

### Issued share capital (Continued)

Since the Share Consolidation became effective on 9 November 2015, the number of Shares in issue was changed from 5,110,801,686 Shares of HK$0.001 each to 255,540,084 Shares of HK$0.02 each.

## USE OF PROCEEDS

| | | Original intended use of proceeds stated in announcement dated 30 April 2014 | Actual usage of proceeds as at the date of this report |
|---|---|---|---|
| | | *HK$* | *HK$* |
| Issue of unlisted warrants | Working capital | 1,778,000 | 1,778,000 |
| Exercise in full of the subscription rights attached to unlisted warrants | Working capital | 65,664,000 | 9,000,000 |
| | | 67,442,000 | 10,778,000 |

| | | Original intended use of proceeds stated in circular dated 25 June 2014 and change in use of proceeds in announcement dated 20 July 2015 | Actual usage of proceeds as at the date of this report |
|---|---|---|---|
| | | *HK$* | *HK$* |
| Placement of convertible bonds | Development of money lending business | 42,000,000 | 42,000,000 |
| | Acquisition of machinery | 38,000,000 | 38,000,000 |
| | Future acquisition | 70,000,000 | 70,000,000 |
| | Working capital for future 2 years | 45,000,000 | 45,000,000 |
| | | 195,000,000 | 195,000,000 |
| Exercise in full of bonus warrants upon the exercise rights attached to convertible bonds | Future working capital | 20,000,000 | 2,100,000 |
| | Future investment opportunities | 20,000,000 | – |
| | | 40,000,000 | 2,100,000 |

# MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

## USE OF PROCEEDS (Continued)

| | | Original intended use of proceeds stated in announcement dated 3 June 2015<br>*HK$* | Actual usage of proceeds as at the date of this report<br>*HK$* |
|---|---|---|---|
| Placing of new Shares under general mandate | Operation of money lending business | 46,400,000 | 46,400,000 |
| | Working capital | 40,000,000 | 40,000,000 |
| | | 86,400,000 | 86,400,000 |

| | | Original intended use of proceeds stated in announcement dated 2 December 2015<br>*HK$* | Actual usage of proceeds as at the date of this report<br>*HK$* |
|---|---|---|---|
| Rights issue | Development of money lending business | 200,000,000 | – |
| | Future acquisition or investments | 40,760,000 | – |
| | | 240,760,000 | – |

## FOREIGN EXCHANGE EXPOSURE

Since almost all transactions of the Group are denominated in Hong Kong dollars and most of the Group's assets are held in Hong Kong dollars to minimise exposure to foreign exchange risk. The Board are of the view that the Group's risk exposure to currency fluctuations to be minimal. Therefore, the Group had not implemented any formal hedging on alternative policies to deal with such exposure during the year under review, but the Director will continue to monitor it.

## CHARGES ON GROUP ASSETS

Save as the finance leases entered by the Group, as at 31 December 2015 and 2014, none of the assets of the Group has been pledged.

# MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

## HUMAN RESOURCES

As at 31 December 2015, the Group has about 34 employees (2014: 37 employees) working in Hong Kong and the PRC. The staff costs, including directors' emoluments, were approximately RMB4,590,000 for the year under review (2014: RMB2,982,000).

The emolument policy of the Directors are decided by the Board, taking into account recommendation from the remuneration committee of the Board, having regard to merit, qualification and competence of each Director. The Group remunerates its employees based on their performance, experience and the prevailing industrial practice. Benefits plan maintain by the Group including contribution to statutory mandatory provident fund scheme, medical insurance, share option scheme and discretionary bonus.

## CONTINGENT LIABILITIES

As at 31 December 2015, the Group had no contingent liabilities (2014: Nil).

## CAPITAL COMMITMENT

As at 31 December 2015, the Group did not have any material capital commitment. As at 31 December 2014, the Group had capital expenditure commitments contracted for acquisition of plant and equipments of approximately RMB13,452,000.

## BUSINESS OUTLOOK AND PROSPECT

Owing to the recent turbulence in global stock markets, anticipated rising interest rate in The United States of America, decline in the local landed property market, and keen and competitive mortgage loan market in Hong Kong, the Group have implemented various measures when conducting our mortgage loan and finance business and will re-balancing and adjusting our mortgage loan portfolio partially to other finance business.

However, Hong Kong Monetary Authority ("HKMA") continued to impose stringent policy and prudential measures on the local landed property mortgage loans provided by authorised financial institutions in Hong Kong. These measures and tight controls have created extra hurdles for the general public who may look for mortgages to satisfy their financial needs which, resulted to further opportunities to expand our mortgage loan business. With the approximately HK$200 million net proceeds raised from the Rights Issue specific for the development of money lending business subsequent to the reporting period, we will continue on the development of the Group's mortgage loan business. Under the prudential measures imposed by the HKMA, although we consider the market demand of mortgage loan products is still strong, as we have mentioned above, under the current unfavourable and volatile landed property market, we have already implemented vigorous measures when conducting our mortgage loan business. We strongly believe these measures were particularly important and essential which help us to produce a more solid and healthy position for our mortgage loan business during the time of unstable and uncertain economic environment.

Iranian Oil Minister Bijan Namdar Zanganeh has vowed to increase output by 1 million barrels per day once sanctions are removed as the nation seeks to regain market share. The global surplus of oil is so large which could drive prices as low as US$20 per barrel (source: Goldman Sachs). Hence, we now believe the market requires non-OPEC production to shift from our prior expectation of modest growth to large declines in 2016 which resulted to the uncertainty on how and where that adjustment will take place has increased.

# MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

The Board's viewpoint on the energy market is more pessimistic when compared with their viewport on 30 September 2015. The Board will take a cautious and prudent approach on developing the biomass fuel business in the coming 12 months. Nevertheless, a Pulitzer Prize-winning oil historian expect that global supply and demand will begin to move into balance by late 2016 or 2017. In the long run, the Board believe that the ban in Pearl River Delta Region will create abundant market opportunities for the Group's wooden pellet businesses and the Group will execute the development plan in the alignment with the market trend of the energy to capture on the above opportunities.

Based on the research released by Hong Kong Trade Development Council on 26 February 2016, "the Hong Kong's merchandise export fell 3.8% year-on-year in January 2016, after dropping by 1.8% in 2015". The Group's biodegradable products business will be challenging in coming future. The biodegradable products business are expected to face fierce competition on its market, while our business have to live with a challenging production environment in PRC from rising costs. In the light of the aforesaid, the management will monitor the performance of the business closely and consider possible alternatives and further revise its strategies if think fit.

Looking ahead, in light of the uncertainties and challenges faced by the Group in related to business environment, the Group will continue to manage its businesses with a prudent manner. In respect of new investment opportunities, the Group will continue with cautious approach in evaluating new projects to ensure a more secure prospect for the Shareholders.

# PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

## Executive Directors

Mr. Chow Yik ("Mr. Chow"), aged 34, is the Chairman of the board of Directors and was appointed to our Board on 11 January 2011. Mr. Chow obtained the degree of Bachelor of Engineering, majoring in Electronic and Communication Engineering, from the City University of Hong Kong. He is highly experienced in commercial businesses. He founded the Vision Century Company in 2003. Moreover, since 2005, Mr. Chow has been the sales director and executive director of the British electronic company, Air Audio Distribution (HK) Ltd. Mr. Chow currently acts as an executive director and chairman of Creative Energy Solutions Holdings Limited with stock code 8109.

Mr. Lok Wing Fu ("Mr. Lok"), aged 58, was appointed to our Board on 17 February 2014. He received education in Hong Kong. He has over 20 years' working experience in marketing and wholesales, staff training and sales management. Before joining the Company, Mr. Lok worked for San Miguel Brewery Hong Kong Limited as a wholesales manager responsible for business development, promotions execution and logistics over 10 years. Currently, Mr. Lok is also a director of Foreverup Company Limited responsible for trading operations to and from United States, Mainland China and Hong Kong.

Ms. Tsui Annie ("Ms. Tsui"), aged 31, was appointed to our Board on 12 October 2015. She has over 8 years of experience in retail businesses. Ms. Tsui operated a chain fashion business of 7 shops in Hong Kong. She operates a jewellery retail store in Hong Kong. She has extensive management experience in corporate leadership, corporate development, strategic planning and business strategies as well as in critical business decisions. Ms. Tsui has passed Paper 1, Paper 7 and Paper 8 of Licensing Examination for Securities and Futures Intermediaries organised by Hong Kong Securities and Investment Institute.

Mr. Wun Chun Yip ("Mr. Wun"), aged 41, joined the Group in November 2015 and was appointed to our Board and as compliance officer of the Company on 4 January 2016. He holds a Bachelor Degree in Commerce from The University of Melbourne in Australia, and a Master Degree in Business Administration from The University of Adelaide in Australia. He is a member of the CPA Australia and of the Hong Kong Institute of Certified Public Accountants. Mr. Wun has more than 15 years of experience in auditing, financial reporting and financial management and has held several financial positions in public companies in Hong Kong and Singapore.

# PROFILES OF DIRECTORS AND SENIOR MANAGEMENT *(Continued)*

## Independent Non-Executive Directors

Mr. Kwok Pak Yu, Steven ("Mr. Kwok"), aged 45, was appointed to our Board on 1 July 2014. He was educated at the University of Toronto, majoring in economics. Mr. Kwok is member of the Chartered Institute of Management Accountants, the Chartered Professional Accountants of Canada and the American Institute of Certified Public Accountants. He is a partner and principal consultant at S. P. Kwok & Co., a management accounting and consulting firm in Vancouver, Canada since 2000. Mr. Kwok has extensive experience in accounting, finance, corporate governance, strategic planning, as well as merger and acquisition.

Mr. Ho Kei Wing, Nelson ("Mr. Ho"), aged 47, was appointed to our Board on 1 September 2014. He holds a master's degree in applied science in electrical engineering from the University of British Columbia (U.B.C.), Canada. Mr. Ho is member of the Association of Professional Engineer (Ontario) of Canada. Before joining the Company, Mr. Ho worked for International Business Machines Corporation, Canada as an Information Technology Architect over 17 years.

Ms. Ma Sijing ("Ms. Ma"), aged 44, was appointed to our Board on 24 November 2014. She graduated from 中央廣播電視大學 (China Central Radio and TV University*) specializing in social work and obtained the certificate of accounting profession issued by 深圳龍崗財政局 (Shenzhen Longgang Municipal Finance Bureau*) in the PRC in May 2005. Ms. Ma is currently the financial controller of a non-governmental organization primarily responsible for the financial and accounting matters in the PRC. Ms. Ma has over 13 years' experience in financial and accounting in different sectors, such as biotech industries and social services in the PRC.

## Senior Management

Mr. Chan Yin Tsung ("Mr. Chan"), aged 36, was appointed as the Chief Executive Officer of the Group on 17 February 2014. Mr. Chan is a Certified Public Accountant certified under the American Institute of Certified Public Accountants. He holds a bachelor degree in business administration from the University of British Columbia and a master degree in finance from The Hong Kong University of Science and Technology. Mr. Chan has over 10 years of experience in initial public offering, corporate merger and acquisitions, restructuring, due diligence, audit, financial modeling and business valuation. From 2003 to 2010, Mr. Chan held various positions in Ernst & Young, KPMG Transaction Advisory Services and PricewaterhouseCoopers Corporate Finance, providing transaction advisory and audit services in China and Hong Kong to various corporations. Mr. Chan joined the investment banking division of Essence International Financial Holdings Limited in October 2010 where he focused on advising clients in initial public offering. In August 2011, Mr. Chan joined the private equity department of the same company as a senior manager and he was responsible for investment projects' origination, analysis and execution. Mr. Chan is responsible for formulating the Group's corporate strategies and general administration affairs.

Ms. Wong Man Yi ("Ms. Wong"), aged 40, was appointed as the company secretary of the Company on 16 March 2015. Ms. Wong has over 10 years of experience in company secretarial services and served as the company secretary in various companies in Hong Kong since 1995. Since 2014, she has been the Senior Manager of G.O. Secretarial Services Limited. Ms. Wong was a joint company secretary of China Nonferrous Mining Corporation Limited, a company listed on the main board of the Stock Exchange for the period from June 2012 to December 2013. Ms. Wong graduated from City University of Hong Kong with a Bachelor degree of Business Administration (Honours) in Business Management in 2006 and a Master of Science in Professional Accounting and Corporate Governance in 2009. Ms. Wong is an associate member of The Hong Kong Institute of Chartered Secretaries, The Institute of Chartered Secretaries and Administrators, The Taxation Institute of Hong Kong and Certified Tax Adviser of Hong Kong.

* for identification purpose only

# CORPORATE GOVERNANCE REPORT

## Corporate Governance

The Company is committed to achieving and maintaining the highest standards of corporate governance consistent with the needs and requirements of the business and its shareholders, and consistent with the code provisions as set out in the Corporate Governance Code and Corporate Governance Report (the "CG Code") contained in Appendix 15 to the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("GEM Listing Rules"). The Group has considered the CG Code and has put in place corporate governance practices to meet the code provisions.

The corporate governance principles of the Company emphasise a quality board, sound internal controls, and transparency and accountability to all Shareholders.

Throughout the financial year ended 31 December 2015, except for deviations from code provisions A.4.1 and A.6.7 which are explained in paragraphs A.4 and F.1 below, the Group has complied with all code provisions.

## A Directors

### A.1 The Board

We are governed by the Board which assumes the responsibility for leadership and control of the Company. Our Directors are collectively responsible for promoting the success of the Company by developing the strategic direction of the Group and directing and supervising the affairs of the Company.

The Board is responsible for the management of the business and affairs of the Group with the objective of enhancing shareholder value and presenting a balanced, clear and understandable assessment of the Company's performance, position and prospects in its annual and interim reports, other inside information announcements, other financial disclosures as required under the GEM Listing Rules, reports to regulators, and information required to be disclosed pursuant to statutory requirements. The Board is also required to approve acquisitions or disposals and connected transactions within the meaning of Chapter 20 of the GEM Listing Rules that require notification or approval under the GEM Listing Rules.

The Board has a fiduciary duty and statutory responsibility towards the Group and is directly accountable to the Shareholders. Other responsibilities and matters reserved to the Board are set out in paragraph D.1 below.

# CORPORATE GOVERNANCE REPORT *(Continued)*

The Board meets regularly, normally four times each year with a meeting scheduled at approximately three month intervals and additional meetings would be arranged if and when necessary. The dates of regular Board meetings for each year are normally made available to all Directors at the beginning of the year to provide sufficient notice to give all Directors an opportunity to attend. Regular meetings are for reviewing and approving the financial and operating performances of the Group as well as considering and approving the overall strategies and policies of the Group. Special Board meetings will be held when necessary. Matters on transactions where Directors are considered having a conflict of interest or material interests would not be dealt with by way of written resolutions and a separate Board meeting shall be held where independent non-executive Directors who have no interests should be present at the meeting. Directors having a conflict of interest or material interests in a transaction before the meeting of the Board will declare his/her interest therein in accordance with the articles of association of the Company ("Articles of Association"), shall abstain from voting on the resolution and shall not be counted in the quorum present at such Board meeting. Such declaration of interests will be duly noted in the minutes of the relevant Board meeting.

Notices are given to all the Directors for attending regular Board meetings approximately fourteen (14) days before the meetings. For other Board meetings, reasonable notices are generally given. Board papers, together with all appropriate information are sent to all Directors at least three (3) days before each Board meetings to the extent practicable.

Board meetings involve the active participation, either in person or through other electronic means of communication, by all of the Directors. The Company Secretary of the Company ("Company Secretary") assists in preparing the meeting agenda, and each Director may request the inclusion of items in the agenda. Directors are also consulted to suggest matters to be included in the agenda for all regular meetings of the Board.

Minutes of the Board meetings are recorded in detail and draft minutes are circulated within a reasonable time after the meeting to all Directors for their review and comments before being approved by the Board. All the minutes of the meetings are properly kept by the Company Secretary and are available for inspection by the Directors during normal office hours.

# CORPORATE GOVERNANCE REPORT *(Continued)*

Participation of individual Directors at Board meetings in 2015 is as follows:

| | |
|---|---|
| Number of meetings | 13 |
| **Executive directors:** | |
| Mr. Chow Yik | 13/13 |
| Mr. Lok Wing Fu | 13/13 |
| Ms. Tsui Annie (Note 1) | 0/1 |
| Mr. Leung King Fai (Note 2) | 0/2 |
| **Independent non-executive directors:** | |
| Mr. Kwok Pak Yu, Steven | 10/13 |
| Mr. Ho Kei Wing, Nelson | 10/13 |
| Ms. Ma Sijing | 4/13 |

Notes:

1. Ms. Tsui Annie was appointed as an executive Director on 12 October 2015.

2. Mr. Leung King Fai resigned as an executive Director on 16 March 2015.

## A.2 Chairman and Chief Executive Officer

The positions of Chairman and Chief Executive Officer are held by Mr. Chow Yik and Mr. Chan Yin Tsung respectively. The Chairman provides leadership and is responsible for the effective functioning and leadership of the Board. The Chief Executive Officer focuses on the Company's business development and daily management and operations generally.

# CORPORATE GOVERNANCE REPORT *(Continued)*

## A.3 Board composition

As at the date of this report, the Board comprises seven Directors: four executive Directors and three independent non-executive Directors. The current composition of the Board is as follows:

**Membership of Board Committees:**

| | |
|---|---|
| **Executive Directors:** | |
| Mr. Chow Yik | Member of the Remuneration Committee |
| Mr. Lok Wing Fu | — |
| Ms. Tsui Annie | — |
| Mr. Wun Chun Yip | — |
| **Independent non-executive Directors:** | |
| Mr. Kwok Pak Yu, Steven | Chairman of the Audit Committee<br>Chairman of the Remuneration Committee<br>Chairman of the Nomination Committee |
| Mr. Ho Kei Wing, Nelson | Member of the Audit Committee<br>Member of the Remuneration Committee<br>Member of the Nomination Committee |
| Ms. Ma Sijing | Member of the Audit Committee<br>Member of the Remuneration Committee<br>Member of the Nomination Committee |

The GEM Listing Rules require every listed issuer to have at least three independent non-executive Directors, at least one of whom must have appropriate professional qualifications, or accounting or related financial management expertise. Mr. Kwok Pak Yu, Steven is a member of the Chartered Institute of Management Accountants, the Chartered Professional Accountants of Canada and the American Institute of Certified Public Accountants. He is currently a partner and principal consultant at S. P. Kwok & Co., a management accounting and consulting firm in Vancouver, Canada.

The Company has received from each of the independent non-executive Directors an annual confirmation of his/her independence pursuant to Rule 5.09 of the GEM Listing Rules. The Board has assessed the independence of all the independent non-executive Directors and is satisfied of their independence. None of the independent non-executive Directors of the Company has served the Company for 9 years or more.

The Board members do not have any family, financial or business relations with each other. The biographies of our Directors are set out on pages 15 to 16 of this annual report.

The list of Directors is disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time.

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

# CORPORATE GOVERNANCE REPORT *(Continued)*

## A.4 Appointment, re-election and removal of Directors

Code provision A.4.1 of the CG Code stipulates that non-executive Directors should be appointed for a specific term, subject to re-election.

Code provision A.4.2 stipulates that all Directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after appointment. Every Director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

Each of the independent non-executive Directors of the Company was appointed for a term from the date of their respective appointment up to the date of the annual general meeting of the Company ("AGM") for the year ended 31 December 2015. Independent non-executive Directors of the Company do not have a specific term of appointment. As the appointment of independent non-executive Directors are subject to the retirement by rotation provisions in the Articles of Association, the Board considers that it is not necessary to appoint the non-executive Directors for a specific term. At every AGM, one-third of the Directors for the time being, or if their number is not three or in a multiple of three, the number nearest to but not less than one-third, shall retire from office by rotation according to article 84 of the Articles of Association. All Directors, including those appointed for a fixed term, are subject to the retirement by rotation provision in the Articles of Association.

Pursuant to article 83(3) of the Articles of Association, any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting after his appointment and be subject to re-election at such meeting. Any Director appointed by the Board as an addition to the existing Board shall hold office until the next following AGM and shall then be eligible for re-election.

The Board has established a Nomination Committee on 18 November 2009 with written terms of reference. Currently, the Nomination Committee comprised of Mr. Kwok Pak Yu, Steven, Mr. Ho Kei Wing, Nelson and Ms. Ma Sijing, all are independent non-executive Directors.

Mr. Kwok Pak Yu, Steven is the chairman of the Nomination Committee. The Nomination Committee has held 1 meeting during the year which was attended by all its members.

The Company has adopted board diversity policy.

The Nomination Committee is responsible for reviewing Board composition structure, size and diversity (including but not limited to gender, age, culture and educational background), identifying suitable candidates for directorship, assessing the independence of independent non-executive Directors, making recommendations to the Board regarding any proposed appointment or re-appointment. The Nomination Committee follows a formal, considered and transparent procedure for the appointment of new Directors to the Board. The appointment of a new Director is the collective decision of the Board, taking into consideration the recommendation of the Nomination Committee and the relevant candidate's qualification, expertise, experience, integrity and commitment to his/her responsibilities within the Group. In addition, all candidates to be selected and appointed as a Director must be able to meet the standards set out in Rules 5.01 and 5.02 of the GEM Listing Rules. A candidate who is to be appointed as an independent non-executive Director must also meet the independence criteria set out in Rule 5.09 of the GEM Listing Rules. Further appointment of independent non-executive Director who has serves more than 9 years should be subject to a separate resolution to be approved by the Shareholders and the Board would consider and set out the reason why such independent non-executive Director continues to be independent and should be elected.

To comply with code provision A.4.2 and pursuant to article 83(3) of the Articles of Association, Ms. Tsui Annie and Mr. Wun Chun Yip, both are executive Directors, appointed after the last AGM, shall retire from office upon the conclusion of the forthcoming AGM and be eligible to offer themselves for re-election.

Pursuant to article 84 of the Articles of Association, at each AGM, one-third of the Directors shall retire from office by rotation provided that every Director shall be subject to retirement at an AGM at least once every three years. Any Director who retires under article 83(3) of the Articles of Association shall not be taken into account in determining which particular Directors or the number of Directors who are retire by rotation at such meeting pursuant to article 84 of the Articles of Association. In this regard, Mr. Chow Yik, an executive Director, and Mr. Ho Kei Wing, Nelson, an independent non-executive Director, shall retire from office by rotation upon the conclusion of the forthcoming AGM and be eligible to offer themselves for re-election.

## A.5 Responsibilities of Directors

Each newly appointed Director is provided with a package of orientation materials setting out the required duties and responsibilities of Directors under the GEM Listing Rules and other relevant statutory requirements of Hong Kong. An orientation as to a Director's duties and obligations under the GEM Listing Rules and relevant legislations will be arranged for all newly appointed Directors.

Newly appointed Directors will also receive an introduction on the Company's operation and business. Our Directors are kept informed from time to time on the latest development of any changes to the regulatory requirements and the progress of compliance of applicable rules and regulations by the Company. Our Directors will also be updated from time to time on the business development and operation plans of the Company. All our Directors are encouraged to participate in continuing professional development seminars and/or courses to update their skills and knowledge on the latest development or changes in the relevant statutes, Listing Rules and corporate governance practices.

According to the records maintained by the Company, the current Directors received the following training with an emphasis on the roles, functions and duties of a director of a listing company in compliance with the Revised CG Code on continuous professional development during 2015.

# CORPORATE GOVERNANCE REPORT *(Continued)*

| | Corporate governance, rules and regulations (including directors' duties) | Financial, management and other business skills and knowledge |
|---|---|---|
| **Executive Directors** | | |
| Mr. Chow Yik | ✔ | ✔ |
| Mr. Lok Wing Fu | ✔ | ✔ |
| Ms. Tsui Annie (Note 1) | ✔ | ✔ |
| Mr. Wun Chun Yip (Note 2) | ✔ | ✔ |
| **Independent Non-executive Directors** | | |
| Mr. Kwok Pak Yu, Steven | ✔ | ✔ |
| Mr. Ho Kei Wing, Nelson | ✔ | ✔ |
| Ms. Ma Sijing | ✔ | ✔ |

Notes:

1. Ms. Tsui Annie was appointed as an executive Director on 12 October 2015.

2. Mr. Wun Chun Yip was appointed as an executive Director on 4 January 2016.

Every Director is aware that he/she should give sufficient time and attention to the affairs of the Company.

The Company has adopted the standard set out in Rules 5.48 to 5.67 (the "Model Code") of the GEM Listing Rules, in relation to the dealings in securities of the Company by the Directors.

Having made specific enquiry of all Directors, each Director of the Company has confirmed that he has complied with the standards set out in the Model Code during the year ended 31 December 2015.

The Company has also established written guidelines on no less exacting terms than the Model Code (the "Code for Securities Transactions by Employees") for securities transactions by employees of the Company, its subsidiaries and its holding company (including Directors of the Company's holding company and its subsidiaries), who because of such office or employment, are likely to be in possession of unpublished inside information of the Company or its securities.

# CORPORATE GOVERNANCE REPORT *(Continued)*

### A.6 Supply of and access to information

With respect to regular Board meetings, and so far as practicable in all other cases, an agenda and accompanying board papers are sent in full to all Directors in a timely manner as permitted under the circumstances. Notices are given to all the Directors for attending regular Board meetings fourteen (14) days before the meetings. For other Board meetings, reasonable notices are generally given. It has been the practice of the Board and accepted by all members of the Board that relevant information of Board meetings will be sent to all Directors three (3) days in advance of the relevant meetings or any reasonable time before such meetings where it is not practicable to send out the information three (3) days in advance.

Members of the management have been reminded that they have an obligation to supply the Board and the Board committees with adequate information on a timely basis to enable each of them to make informed decisions. The Board and each Director have separate and independent access to the Group's senior management for information on the latest developments and financial position of the Company and other information and materials necessary to enable the Directors to make informed decisions of the matters to be considered at the Board meetings. The compliance officer of the Company ("Compliance Officer") and the Company Secretary meet the management of the Company and attend Board Meetings when necessary to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Company. Mr. Chan Yin Tsung was the Compliance Officer throughout the year 2015, and resigned as the Compliance Officer on 4 January 2016. Mr. Wun Chun Yip, who was appointed on 4 January 2016, is currently the Compliance Officer. Mr. Leung King Fai resigned as an executive Director and the Company Secretary with effect from 16 March 2015. Ms. Wong Man Yi was appointed as Company Secretary with effect from 16 March 2015.

All Directors are entitled to have access to Board papers, minutes and related materials.

## B Remuneration of Directors and Senior Management

### B.1 The level of remuneration and disclosure

The Remuneration Committee was established on 8 August 2006 in accordance with the CG Code.

The existing members of the Remuneration Committee are Mr. Kwok Pak Yu, Steven, Mr. Ho Kei Wing, Nelson and Ms. Ma Sijing, all are independent non-executive Directors, and Mr. Chow Yik, an executive Director. Mr. Kwok Pak Yu, Steven is the chairman of the Remuneration Committee. The Terms of Reference of the Remuneration Committee are adopted with reference to the CG Code, including the specific duties set out in code provision B.1.2(a) to (h) of the CG Code.

The Remuneration Committee is responsible for making recommendations to the Board regarding the Group's policy and structure for remuneration of all Directors and senior management. The Remuneration Committee is authorised to seek any information it requires from any employee of the Group and has the power to request the executive Directors and other persons to attend its meetings.

# CORPORATE GOVERNANCE REPORT *(Continued)*

The Remuneration Committee is also authorised to obtain outside professional advice and to secure the attendance of other persons with relevant experience and expertise if it considers as necessary.

The work performed by the Remuneration Committee during 2015 included reviewing and approving the remuneration package of the Directors (including the three independent non-executive Directors) and the senior management of the Company.

During the process of consideration, no individual Director will be involved in decisions relating to his/her own remuneration.

Full minutes of the Remuneration Committee meeting are kept by the Company Secretary. Draft and final versions of the minutes of the Remuneration Committee meetings are sent to all members of the Remuneration Committee for comments and approval.

The Remuneration Committee will make available its Terms of Reference, explaining its role and the authority delegated to it by the Board, on request. The Terms of Reference are also available on both of the website of the Company and the website of Hong Kong Exchanges and Clearing Limited ("HKEx").

During 2015, the Remuneration Committee has met once.

Participation of individual Directors at Remuneration Committee meetings in 2015 is as follows:

| | |
|---|---|
| Number of meetings | 1 |
| **Executive directors:** | |
| Mr. Chow Yik | 1/1 |
| Mr. Leung King Fai (Note) | 0/0 |
| **Independent non-executive directors:** | |
| Mr. Kwok Pak Yu, Steven | 1/1 |
| Mr. Ho Kei Wing, Nelson | 1/1 |
| Ms. Ma Sijing | 1/1 |

Note: Mr. Leung King Fai resigned as a member of Remuneration Committee on 16 March 2015.

# CORPORATE GOVERNANCE REPORT *(Continued)*

## C Accountability and Audit

### C.1 Financial reporting

Management shall provide such explanation and information to the Board as will enable the Board to make an informed assessment of the financial and other matters put before the Board for approval.

The Directors are responsible for overseeing all financial aspects of the Company and for keeping proper accounting records and preparing financial statements for each financial period, that give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the financial statements for the year ended 31 December 2015, the Directors have:

— approved the adoption of all applicable International Financial Reporting Standards which are issued by the International Accounting Standards Board;

— selected and applied consistently appropriate accounting policies;

— made judgments and estimates that are prudent and reasonable; and

— prepared the accounts on a going concern basis.

The Board is accountable to its shareholders for a clear and balanced assessment of the Company's financial position and prospects. In this regard, the Directors' responsibility to present a balanced, clear and understandable assessment extends to annual and interim reports, other inside information announcements and other financial disclosures required under the GEM Listing Rules, reports to regulators, and information required to be disclosed pursuant to statutory requirements.

The financial statements for the year were audited by HLB Hodgson Impey Cheng Limited. The Audit Committee has recommended to the board of directors that HLB Hodgson Impey Cheng Limited be nominated for appointment as the auditors of the Company at the forthcoming AGM.

For the year ended 31 December 2015, the audit service fees paid or payable by the Company in relation to statutory audit amounted to approximately RMB950,000.

The statement of the Auditors about their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditors' Report on pages 42 to 43 of this annual report.

### C.2 Internal control

The Board is entrusted with the overall responsibility of devising the Company's system of internal controls and conducting an annual review of its effectiveness. This ensures that the Board oversees and monitors the Group's overall financial position so that the interests of the Shareholders are well protected and covered. The system of internal controls covers the areas of financial, operational, compliance and risk management of the Group's business.

For the year ended 31 December 2015, the Board have reviewed the effectiveness of the internal control system and they consider them effective and adequate.

# CORPORATE GOVERNANCE REPORT *(Continued)*

## C.3 Audit Committee

The Audit Committee was established on 5 July 2001 and a terms of reference was adopted. The Terms of Reference of the Audit Committee was revised on 31 December 2015 during the year and have included the duties set out in code provision C.3.3(a) to (n) of the CG Code. The existing members of the Audit Committee comprise Mr. Kwok Pak Yu, Steven, Mr. Ho Kei Wing, Nelson and Ms. Ma Sijing, all of whom are independent non-executive Directors. Mr. Kwok Pak Yu, Steven is the chairman of the Audit Committee. The Audit Committee does not have any member who is a former partner of the Group's existing audit firm.

During 2015, the Audit Committee met on 5 occasions and discharged its responsibilities.

Attendance of individual members at Audit Committee meetings in 2015 is as follows:

| | |
|---|---|
| Number of meetings | 5 |
| Mr. Kwok Pak Yu, Steven | 5/5 |
| Mr. Ho Kei Wing, Nelson | 5/5 |
| Ms. Ma Sijing | 3/5 |

The principal duties of the Audit Committee included reviewing the Company's financial controls, internal control and risk management systems, annual report, accounts and quarterly and interim reports.

The following is a summary of the work performed by the Audit Committee during 2015:

— reviewing the auditor's management letter and management's response;

— reviewing and considering the recently issued accounting standards, the adoption of new accounting standards and the change in significant accounting policies;

— reviewing the audited financial statements and final results announcement for the year ended 31 December 2014;

— reviewing the interim report and the interim results announcement for the six months ended 30 June 2015;

— reviewing the quarterly reports and the quarterly results announcement for the three months ended 31 March 2015 and nine months ended 30 September 2015, respectively;

— meeting with the auditors to go through any significant audit issues or key findings noted during the audit of the Group's 2014 final results and before the commencement of the audit of the Group's 2015 final results;

# CORPORATE GOVERNANCE REPORT *(Continued)*

All issues raised by the Audit Committee have been addressed by the management. The work and findings of the Audit Committee have been reported to the Board. During 2015, no issues brought to the attention of the management and the Board were of sufficient importance to require disclosure in this annual report.

Full minutes of the Audit Committee meetings are kept by the Company Secretary. Draft and final versions of the minutes of the Audit Committee meetings are sent to all members of the Audit Committee for comments and approval.

The Audit Committee will make available its Terms of Reference, explaining its role and the authority delegated to it by the Board, on request. The Terms of Reference are also available on the website of the Company and the website of HKEX.

This annual report has been reviewed by the Audit Committee.

## D Company Secretary

Ms. Wong Man Yi ("Ms. Wong") was appointed as the Company Secretary on 16 March 2015. Her current primary corporate contact person at the Company is Mr. Wun Chun Yip, an executive Director. Ms. Wong has taken no less than 15 hours of relevant professional training during the year.

## E Delegation by the Board

### E.1 Management functions

In general, the Board oversees the Company's strategic development and determines the objectives, strategies and policies of the Group. The Board also monitors and controls operating and financial performance and sets appropriate policies for risk management pursuant to the Group's strategic objectives. The Board delegates the implementation of strategies and day-to-day operation of the Group to the management.

### E.2 Board committees

Apart from the Audit Committee (as described under paragraph C.3), the Remuneration Committee (as described under paragraph B.1) and the Nomination Committee (as described under paragraph A.4), the Board has not established any other committee of the Board.

# CORPORATE GOVERNANCE REPORT *(Continued)*

## F Communication with Shareholders

### F.1 Effective communication

The Company attaches great importance to communications with Shareholders. Information on the Group's activities, business, strategies and developments is provided in the Company's annual reports and interim reports. Shareholders are encouraged to attend the AGM of the Company which offer a valuable forum for dialogue and interaction with management.

In line with the practice of the Company, in respect of each issue to be considered at the AGMs and extraordinary general meetings of the Company ("EGMs"), including the re-election of Directors, a separate resolution will be proposed by the Chairman of the meeting.

In accordance with the code provision E.1.2 as set out in the CG Code, chairman of the Board have attended the AGM held in 2015.

The independent non-executive Directors, for the time when the general meetings were held in year 2015, had other business engagements and thus, were not able to attend most general meetings held in year 2015. In this regard, the compliance officer and Company Secretary had reminded the relevant independent non-executive Directors as well as the current independent non-executive Directors to attend general meetings of the Company in future, for compliance of code provisions A.6.7 as set out in the CG Code.

Participation of individual Directors at general meetings in 2015 is as follows:

| | AGM | EGM |
|---|---|---|
| Number of meetings | 1 | 2 |
| **Executive directors:** | | |
| Mr. Chow Yik | 1/1 | 1/2 |
| Mr. Lok Wing Fu | 1/1 | 2/2 |
| Mr. Leung King Fai (Note 1) | 0/0 | 0/0 |
| Ms. Tsui Annie (Note 2) | 0/0 | 0/1 |
| **Independent non-executive directors:** | | |
| Mr. Kwok Pak Yu, Steven | 1/1 | 2/2 |
| Mr. Ho Kei Wing, Nelson | 1/1 | 1/2 |
| Ms. Ma Sijing | 0/1 | 0/2 |

# CORPORATE GOVERNANCE REPORT *(Continued)*

Notes:

1. Mr. Leung King Fai resigned as an executive Director on 16 March 2015.

2. Ms. Tsui Annie was appointed as an executive Director on 12 October 2015.

Notices of general meetings were sent to Shareholders at least 20 clear business days before the annual general meeting and at least 10 clear business days for all other general meetings. The Company's auditors have also attended the AGM in 2015.

Designated executive Director(s) and senior management maintain regular dialogue with institutional investors and analysts to keep them abreast of the Company's developments. Enquiries from investors are dealt with in an informative and timely manner. Investors may write directly to the Company at its principal place of business in Hong Kong for any queries.

### F.2 Voting by poll

At all general meetings held in 2015, the chairman of the general meetings had provided an explanation of the procedures for conducting a poll at the commencement of each of the meetings. Poll results were posted on the website of HKEx (as well as on the website of the Company) on the day of the holding of each of the Shareholders' meetings.

Separate resolutions are proposed at Shareholders' meeting on each substantial issue, including the election of individual Directors.

## G Shareholders' Rights

### G.1 Convening an extraordinary general meeting and Procedures for putting forward proposals at shareholders' meeting

There are no provisions allowing shareholders to propose new resolutions at the general meetings under the Cayman Islands Companies Law (2013 Revision). However, Shareholders are requested to follow article 58 of the Articles of Association, general meetings shall be convened on the written requisition of any one or more members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

# CORPORATE GOVERNANCE REPORT *(Continued)*

### G.2 Procedures for nominating a new Director

Pursuant to the Articles of Association, no person shall, unless recommended by the Board, be eligible for election to the office of Director at any general meeting.

The Board always welcome Shareholders' and other stakerholder's questions and concerns relating to the Group's management and governance. Shareholders and other stakeholders may at any time send their enquiries and concerns to the Board by addressing them to Company Secretary by post. The address is Level 20, Infinitus Plaza, 199 Dex Voeux Road Central, Sheung Wan, Hong Kong.

## H Investor Relations

The Company has disclosed all necessary information to the Shareholders and established a range of communication channels between itself, its shareholders and investors which in compliance with GEM Listing Rules.

In addition, the Group engaged professional services on investor relationship from service provider for advising and promoting professional communication with existing and potential investors.

The Company's website (http://www.tricor.com.hk/webservice/008019) offers timely access to the Company's financial information, announcements, circulars to Shareholders and information on the Company's corporate governance structure and practices. For efficient communication with Shareholders and in the interest of environmental protection, Shareholders are encouraged to elect to receive the Company's corporate communications by electronic means through the Company's website.

The annual general meeting of the Company provides a forum for communication between Shareholders and the Board. The Chairman of the Board, other members of the Board and external auditor attend the annual general meeting and answer questions from Shareholders.

## I Constitutional Documents

On 18 May 2015, the Company has adopted a new set of Articles of Association. On 21 January 2016, the Company has adopted a new set of the memorandum of association of the Company (Memorandum of Association) and amended the Articles of Association. An updated and consolidated version of the Memorandum and Articles of Association (both English and Chinese versions) are available on the websites of the Company and HKEx.

# REPORT OF THE DIRECTORS

The directors ("Directors") of Hao Wen Holdings Limited (the "Company") have pleasure in presenting their annual report together with the audited consolidated financial statements for the year ended 31 December 2015.

## Principal Activities and Geographical Analysis of Operations

The Company is an investment holding company. The principal activities of the Company's subsidiaries, together with the Company (the "Group"), are detailed in the note 18 to the consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during the year. An analysis of the Group's performance of the year by business segment and its geographical segment information is set out on note 5 to the consolidated financial statements.

## Business Review

Detailed business review of the Group's business during the year, including the analysis of Group's performance during the year by using the financial key performance indicators, is set out in the section of Management Discussion and Analysis ("MD&A") on pages 5 to 14 this annual report. Future development of the Company's business is set out in the section of Business Outlook and Prospect in this annual report on pages 13 to 14.

Other than the events set out in the note 37 to the consolidated financial statements, the Directors has not identified any important events affecting the Group that have occurred subsequent to the year under review.

## Key risks and uncertainties

The Group's financial position, operations, business and prospects may be affected by the following identified risks and uncertainties.

### Business risks

The Group's money lending business is subject to risks that a customer or counterparty may fail to perform its contractual obligations on payment of interest as the principal or that the value of collateral held to secure the obligations might be inadequate. While the Group has internal policies and procedures designed to manage such risks, these policies and procedures may not be fully effective. Any material customers delay or default on their payments could adversely affect the Group's financial position and profitability. Although the Group has adopted the money lending policy and money lending procedure manual which provide guidelines on the handling and/or monitoring of the money lending procedures according to the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong), the Group may face the risk of breaching the relevant rules and regulations from time to time, which may result in penalty or other potential liabilities to the Group.

The Group's biomass fuel business is operating in the People's Republic of China ("PRC"). Any addition or amendment to existing laws and regulations or any reduction of demand in PRC may affect the Group's financial position and performance. In addition, unfavourable movement on crude oil price will reduce the profitability of the operation.

# REPORT OF THE DIRECTORS *(Continued)*

## Key risks and uncertainties (Continued)

### Business risks (Continued)

The Group's biodegradable products business is highly competitive to, price, quality, and brand awareness. The pricing of similar products by competitors may adversely affect the pricing of the products and could resulted in keen competition in price, lower business' revenue and profitability level or suffer from loss of market share. Significant price fluctuations and shortage of materials used for production including sugar cane dregs, straw, wheat stalk, reed and bamboo and rises of labour costs could increase the costs and may adversely affect the performance of the business.

The Group will update and monitor the risks exposures to the Group's businesses to ensure appropriate measures are implemented on a timely manner.

### Customer Concentration Risks

The Group had a strong reliance on existing customers, any loss on the customers will have adverse impact on the future performance. The Group will broaden and diversify its customer bases to avoid this risk.

### Market risks

The business operations of the Group are primarily based in Hong Kong and the PRC. Accordingly, the Group's operating results, financial position and prospects could be adversely affected by economic, political and legal developments in those territories. Any changes in the political and economic policies/environments of the those territories (including, but not limited to, government policies, political instability, expropriation, laws, labour activism, war, civil unrest, terrorism, and changes in interest rates, foreign exchange rates, taxation, environmental regulations and import and export duties and restrictions) may adversely affect the Group's business and results of operations as well as its ability to sustain its expansion strategies and thus future growth. The Group manages and monitors the market risks exposure to the Group's business to ensure appropriate measures are implemented on a timely manner.

### Foreign exchange rates risks

The Group has asset and liabilities denominated in currencies other than its functional currency and that are subject to fluctuation in foreign exchange rate. The Group monitors the foreign exchange exposure and will consider to hedge significant foreign currency exposure should the need arise.

### Equity price risks

Equity price risk aries from fluctuation in quoted market price of the Group's investment in financial assets. The Group counter the equity price risk by ensuring a board diversification of the Group's investment portfolio and ensuring the investment portfolio are frequently reviewed and monitored.

### Operational risks

Operational risk is the risk of loss resulting from inadequate or fail internal processes, people and system, or from external events. In order to manage these risks, the Group had set a standard operational procedures, limits of authority and reporting framework and invests in human resources and equipments to manage and reduce the operational risks exposure.

# REPORT OF THE DIRECTORS *(Continued)*

### Liquidity risks

Liquidity risk is the potential that our Group will not be able to meet its obligations when fall due. In order to manage the liquidity risk, the Group will continually monitors cash flows and maintains an adequate level of cash and credit facilities to ensure the Group to meet its finance needs.

## Compliance with relevant laws and regulation

During the year ended 31 December 2015, the Company was not aware of any material non-compliance with any relevant laws and regulations that have a significant impact to the Group.

## Relationships with stakeholders

Employees are the assets of the Group. The Group provides competitive remuneration package and a pleasant workplace environment to attract and motivate the employees. An annual performance evaluation will be conducted annually based on individual's contributions and achievements throughout the year and the Group will make necessary adjustments based on the result of the performance evaluation.

In addition to the salaries, the Group had set up a mandatory provident fund scheme ("MPF Scheme") in accordance with the Hong Kong Employment Ordinance and medical insurance plan for our staffs in Hong Kong. The MPF Scheme is subject to regulations under the Mandatory Provident Fund Scheme Ordinance and is a defined contribution retirement plan administrated by independent trustees. The Group's staffs in the PRC are entitled to national statutory social insurance under the statutory Employment Ordinance of the PRC.

The Group understands the importance of maintaining a good relationship with our business partners, which including the Group's customers and suppliers. The Group believes that a healthy relationship can be build up by providing better products and enhanced services to the customers, maintaining an effective communication channel to the employees and collaborating with key suppliers.

The Group engage professional services on investor relationship from service provider for advising and promoting professional communication with existing and potential investors.

## Environmental Policy

The Group encourages environmental protection and promote environmental awareness for the employees. The Group implements green office practices by encourage the employees to make use of the e-statement or scanning copies, double-sided printing and copying, setting up of recycle boxes for reducing and disposing of waste. The Group also reducing the green-house emissions by switching off idle lightings and other office equipments after the normal working hours and using of office equipments with Energy Label issued by the Electrical and Mechanical Services Department. The Group regular review its environmental practice to make further improvement.

## Social Responsibility

The Group recognises the importance of social responsibility and sustainability. The Group is committed to maintain a high standard of corporate social governance and contributes to the community by encourage the employees to participate in volunteering events.

The Group is strictly prohibits child labour, child labour means any employees under the minimum legal age for child labour, in any workplace. The Group prohibits discrimination based on race, colour, age, gender, sex orientation, ethnicity, disability, pregnancy, religion, political affiliation, union membership or marital status in recruitment and employment practices.

# REPORT OF THE DIRECTORS *(Continued)*

Both the Group and its business partners are committed to upholding the highest ethics standards. Parties involved in business interaction shall prohibit each and every form of corruption, extortion, bribery, fraud, money and embezzlement.

## Major Customers and Suppliers

For the year ended 31 December 2015, the five largest customers accounted for approximately 74.4% of the Group's total revenue. The five largest suppliers accounted for approximately 95.0% of the Group's total purchases. In addition, the largest customer accounted for approximately 43.6% of the Group's total revenue while the largest supplier accounted for approximately 93.0% of the Group's total purchases.

None of the Directors, their associates or any shareholders (which, to the knowledge of the Directors, own more than 5% of the Company's issued share capital) had any interest in the Group's five largest customers and suppliers.

## Results and Dividends

Details of the Group's results for the year ended 31 December 2015 are set out in the consolidated statement of profit or loss and other comprehensive income on pages 44 to 45 of this annual report.

Directors did not recommend the payment of final dividend in respect of the year.

## Share Capital and Share Option Scheme

Details of movements in the Company's issued share capital, together with the details of the Company's share option scheme are set out in the notes 27 and 29 to the consolidated financial statements.

## Purchase, Sale or Redemption of Shares

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

## Pre-Emptive Rights

There is no provision for pre-emptive rights under the Articles of Association and the laws in the Cayman Islands in relation to the issue of new shares by the Company.

## Reserves

Details of movements in reserves of the Group during the year are set out in the consolidated statement of changes in equity to the consolidated financial statements, respectively.

## Distributable Reserves

As at 31 December 2015 and 2014, the Company has no reserves available for distribution to its shareholders.

## Plant and Equipments

Details of movements in plant and equipments of the Group during the year are set out in note 13 to the consolidated financial statements.

# REPORT OF THE DIRECTORS *(Continued)*

## Bank and Other Borrowings

Save as the obligations under the finance leases, the Company has no bank and other borrowings as at 31 December 2015.

## Connected Transactions

There were no connected party transactions entered into by the Group for the year ended 31 December 2015.

## Directors

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

**Executive Directors**

| | |
|---|---|
| Mr. Chow Yik | |
| Mr. Lok Wing Fu | |
| Mr. Leung King Fai | resigned on 16 March 2015 |
| Ms. Tsui Annie | appointed on 12 October 2015 |
| Mr. Wun Chun Yip | appointed on 4 January 2016 |

**Independent Non-executive Directors**

Mr. Kwok Pak Yu, Steven
Mr. Ho Kei Wing, Nelson
Ms. Ma Sijing

Mr. Chow Yik, Mr. Ho Kei Wing, Nelson, Ms. Tsui Annie and Mr. Wun Chun Yip will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The Company has received from each of the independent non-executive Directors an annual confirmation of his/her independence pursuant to Rule 5.09 of the rules governing the listing of securities on the Growth Enterprise Market ("GEM") of the Stock Exchange ("GEM Listing Rule") and the Company considers the independent non-executive Directors remained independent.

## Biographical Details of Directors and Senior Management

Biographical details of the Directors and senior management of the Company of the Group are set out on pages 15 to 16 of this annual report.

## Directors' Service Contracts

All Directors have not been appointed for any fixed term but shall be subject to retirement by rotation in accordance with the Articles of Association of the Company.

None of the Directors proposed for re-election at the forthcoming annual general meeting of the Company ("AGM") has a service contract with any member of the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

# REPORT OF THE DIRECTORS *(Continued)*

## Directors' Interests in Contracts

No Director of the Company had a significant beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company or any of its subsidiaries was a party during or at the end of the year.

## Directors' and Chief Executives' Interests or Short Positions in the Shares, Underlying Shares or Debentures of the Company or any Associated Corporations

As at 31 December 2015, none of the Directors or chief executives of the Company had any interests or short positions in the shares of the Company (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 under the Laws of Hong Kong ("SFO")), which were notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which they have taken or deemed to have taken under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Rules 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

## Substantial shareholders and other persons' interests and short positions in the shares and underlying shares

Save as disclosed below, as at 31 December 2015, according to the register kept by the Company pursuant to section 336 of SFO, and so far as is known to the Directors or chief executive of the Company, there is no person (other than a Director or a chief executive of the Company) had, or was deemed or taken to have, an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital, including options in respect of such capital, carrying voting rights to vote in all circumstances at general meeting of any other member of the Group:

### Long position

| Name | Notes | Number<br>Capacity/nature of interest | Approximate %<br>of total issued<br>of Shares | share capital |
|---|---|---|---|---|
| Grand China Securities Limited (Note) | a | Beneficial owner | 1,533,240,504 | 600% |
| Black Marble Securities Limited | b & c | Beneficial owner | 643,961,012 | 252% |
| New Profit Finance Limited | c | Interest in controlled corporation | 643,961,012 | 252% |
| Black Marble Group Limited (formerly known as Red Honour Holdings Limited) | c | Interest in controlled corporation | 643,961,012 | 252% |
| Lerado Group (Holding) Company Limited | c | Interest in controlled corporation | 643,961,012 | 252% |

Notes:

a. the underwriter in relation to the underwriting arrangement in respect of the Rights Issue

b. the sub-underwriter in relation to the sub-underwriting agreement in respect of the Rights Issue

c. the interests refer to the same parcel of Shares

# REPORT OF THE DIRECTORS *(Continued)*

## SHARE OPTION

The Company has adopted the existing share option scheme (the ″New Scheme″) on 24 September 2009 and scheme mandate limit of which has been refreshed at the AGM on 18 May 2015 and adjusted on 9 November 2015 due to share consolidation. Details of the New Scheme is as follows:

### 1 Purposes

The purpose of the New Scheme is to provide incentives or rewards to the participants for their contribution to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group.

### 2 Qualifying participants

The qualifying participants include any employee (whether full time or part time), executive or officer, director (including executive, non-executive and independent non-executive directors) of any member of the Group or any invested entity, which is any entity in which the Group holds an equity interest, and any consultant, adviser or agent of any member of the Board, who have contributed or will contribute to the growth and development of the Group or any invested entity.

### 3 Maximum number of shares

As at the date of this annual report, the maximum number of shares in respect of which options may be granted under the New Scheme shall be 21,295,008 Shares, 8.33% of the Shares in issue as at 9 November 2015 (as at the date of annual report 2014: 182,400,167 Shares, 10% of the Shares in issue as at 25 November 2013). The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other share option schemes, must not in aggregate exceed 30% of the issued share capital of the Company from time to time.

As at the date of this annual report, the total number of Shares available for issue under the New Scheme is 12,396,850, which is approximately 0.69% of the issued share capital of the Company.

As at the date of annual report 2014, the total number of Shares available for issue under the New Scheme is 182,302,128, which is approximately 4.28% of the issued share capital of the Company.

### 4 Maximum entitlement of each participant

Maximum entitlement of each participant is 1% of the issued share capital of the Company from time to time within any 12-month period up to the date of the latest grant, any further grant of options to a participant in excess of the Individual Limit (including exercised, cancelled and outstanding options) in any 12-month period up to and including the date of such further grant must be subject to the Shareholders' approval in general meeting of the Company with such participant and his/her associates abstaining from voting.

### 5 Option period

The option period is determined by the Board provided that it is not later than 10 years from the date the Board makes an offer of the grant of an option subject to the provision for early termination. There is no minimum period for which an option must be held before it can be exercised.

# REPORT OF THE DIRECTORS *(Continued)*

## SHARE OPTION (Continued)

### 6 Acceptance of offer

Options granted must be accepted within 28 days from the date of the offer of grant of the option, upon payment of HK$10 per grant.

### 7 Exercise price

The exercise price must be at least the higher of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of offer of grant, which must be a trading day; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of the offer of grant; and (iii) the nominal value of the Shares.

### 8 Remaining life of the scheme

It shall be effective for a period of ten years commencing on 24 September 2009.

Pursuant to the New Scheme, the Directors may, at their discretion, offer to employees, Directors of the Company or its subsidiaries other eligible participants options to subscribe for shares in the Company subject to the terms and conditions stipulated therein.

The exercise price of options is the highest of the nominal value of the shares, the closing price of the shares as stated on the Stock Exchange's daily quotations sheet on the date of the offer of grant which must be on trading day and the average closing price of the shares as stated on the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of the offer of grant. The options vest immediate from the date of grant and are then exercisable within a period of ten years subject to the provisions for early termination thereof.

As at 31 December 2015, a Director, consultants, advisers and other service providers of the Company had the following interests in options to subscribe for shares of the Company granted for nil consideration under the New Scheme. The options are unlisted. Each option gives the holder the right to subscribe for one Share of HK$0.02 of the Company.

| Details of grantees | No. of options outstanding | Date granted | Period during which options are exercisable | Exercise price per share |
|---|---|---|---|---|
| Chow Yik (Director) | 250,000 | 28 November 2013 | 29 November 2013 to 28 November 2017 | HK$6.38 |
| Consultants, Advisers, Service Providers, Employees and Others | 114,893 | 11 November 2009 | 11 November 2009 to 10 November 2019 | HK$82.64 |
| | 8,490,000 | 28 November 2013 | 29 November 2013 to 28 November 2017 | HK$6.38 |

The options granted to a director is registered under the names of that Director who are also the beneficial owners.

# REPORT OF THE DIRECTORS *(Continued)*

## SHARE OPTION (Continued)

### 8 Remaining life of the scheme (Continued)

As a result of the Rights Issue, adjustments have been made to the exercise price of the outstanding share options and the number of Shares to be allotted and issued upon full exercise of the subscription rights attaching to the outstanding share options and took effect. As at 29 February 2016, a Director, employees, consultants, advisers and other service providers of the Company had the following interests in options to subscribe for Shares under the New Scheme.

| Details of grantees | Adjusted no. of options outstanding | Date granted | Period during which options are exercisable | Adjusted exercise price per share |
|---|---|---|---|---|
| Chow Yik (Director) | 350,000 | 28 November 2013 | 29 November 2013 to 28 November 2017 | HK$4.557 |
| Consultants, Advisers, Service Providers, Employees and Others | 160,850 | 11 November 2009 | 11 November 2009 to 10 November 2019 | HK$59.029 |
| | 11,886,000 | 28 November 2013 | 29 November 2013 to 28 November 2017 | HK$4.557 |

Information on the accounting policy for share options granted and the weighted average value per option is provided in notes 3 and 29 to the consolidated financial statements respectively.

Apart from the foregoing, at no time during the year was the Company, or any of its holding company, subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of Shares in or debentures of the Company or any other body corporate.

## Directors' and Chief Executives' Rights to Acquire Shares or Debt Securities

As at 31 December 2015, save as disclosed above, neither the Company nor any of its subsidiaries was a party to any arrangements to enable the Directors and chief executives of the Company to acquire benefits by means of the acquisition of shares in, or debt securities, including debentures, of the Company or any other body corporate, and none of the Directors, chief executives or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right.

## Competing Interest

Up to the date of this report, none of the Directors or the management shareholders or substantial shareholders of the Company or any of their respective associates (as defined in the GEM Listing Rules) of the Company has an interest in any business which directly or indirectly competes with the business of the Group, or has any other conflict of interests with the Group.

## Permitted Indemnity Provision

A permitted indemnity provision for the benefit of the directors of the Company is currently in force and was in force throughout the year ended 31 December 2015. The Company has taken out and maintained directors and officers liability insurance which provides appropriate cover for, among others, directors of the Company.

Pursuant to the Articles of Association of the Company, the Directors, Secretary and other officers of the Company shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them, may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty.

# REPORT OF THE DIRECTORS *(Continued)*

## Audit Committee

The Company established an audit committee in July 2001 with terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the audit committee include the review and supervision of the financial reporting process and the internal monitoring system of the Group. As at the date of this report, the audit committee has three members comprising Mr. Kwok Pak Yu, Steven, Mr. Ho Kei Wing, Nelson and Ms. Ma Sijing, the three independent non-executive Directors. The audit committee met 5 times during the year. The Group's audited consolidated results for the year have been reviewed by the audit committee, and it was in its opinion that (i) the preparation of such results complied with the applicable standards and statutory requirements and the requirements of the Stock Exchange and that (ii) the internal reporting and monitoring system of the Group had been properly implemented and was adequate to keep the Board informed of the business and the management affairs of the Group. During the year, no material matters were identified and reported by the audit committee to the Board.

## Public Float

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

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

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

## Corporate Governance

In the opinion of the Directors, except for deviations from code provisions A.4.1 and A.6.7 which is explained in paragraphs A.4 and F.1 as set out in the section headed "Corporate Governance Report", the Group has complied with all code provisions as set out in the Corporate Governance Code and Corporate Governance Report contained in Appendix 15 of the GEM Listing Rules throughout the accounting period covered by this annual report.

A report on the principal corporate governance practices adopted by the Company is set out in the section headed "Corporate Governance Report" of this annual report.

## Events After the Reporting Period

Details of the significant events of the Group after the reporting period are set out in note 37 to the financial statements.

## Auditors

A resolution for the reappointment of HLB Hodgson Impey Cheng Limited as the auditors of the Company for the ensuing year will be proposed at the forthcoming AGM.

On behalf of the Board
**Chow Yik**
*Chairman*
Hong Kong, 29 March 2016

# INDEPENDENT AUDITORS' REPORT

HLB 國衛會計師事務所有限公司
Hodgson Impey Cheng Limited

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

**TO THE SHAREHOLDERS OF**
**HAO WEN HOLDINGS LIMITED**
*(Incorporated in Cayman Islands with limited liability)*

We have audited the consolidated financial statements of Hao Wen Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 44 to 125, which comprise the consolidated statements of financial position as at 31 December 2015, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with 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.

## Auditors' Responsibility

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

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

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

# INDEPENDENT AUDITORS' REPORT *(Continued)*

## Opinion

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

**HLB Hodgson Impey Cheng Limited**
*Certified Public Accountants*

**Wong Sze Wai, Basilia**
Practising Certificate Number: P05806

Hong Kong, 29 March 2016

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2015

| | Notes | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|---|
| **Revenue** | 4 | **37,209** | 34,685 |
| Cost of sales | | **(27,571)** | (27,054) |
| **Gross profit** | | **9,638** | 7,631 |
| Other gains | 6 | **1,095** | 11,273 |
| General and administrative expenses | | **(20,022)** | (17,958) |
| Impairment loss on intangible assets | 14 | **(3,236)** | (12,737) |
| Impairment loss on goodwill | 15 | **(149,988)** | – |
| Loss on available-for-sale financial assets | 16 | **(4,059)** | – |
| **Loss from operations** | | **(166,572)** | (11,791) |
| Share of results of associates | 17 | **568** | 185 |
| Finance costs | 7(a) | **(161)** | (434) |
| **Loss before taxation** | 7 | **(166,165)** | (12,040) |
| Income tax expense | 8(a) | **(222)** | (976) |
| **Loss for the year** | | **(166,387)** | (13,016) |
| **Other comprehensive income/(loss), net of income tax** | | | |
| *Items that may be reclassified subsequently to profit or loss* | | | |
| Exchange differences on translating foreign operations | | **12,875** | 958 |
| Share of changes in other comprehensive income in associates | | **52** | – |
| Loss arising on revaluation of available-for-sale financial assets | | (4,059) | – |
| Reclassification adjustments relating to available-for-sale financial assets | | 4,059 | – |
| | | **12,927** | 958 |
| **Total comprehensive loss for the year** | | **(153,460)** | (12,058) |
| **Loss for the year attributable to:** | | | |
| Owners of the Company | | **(92,671)** | (12,625) |
| Non-controlling interests | | **(73,716)** | (391) |
| | | **(166,387)** | (13,016) |

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*(Continued)*

For the year ended 31 December 2015

| | Notes | **2015 RMB'000** | 2014 RMB'000 |
|---|---|---|---|
| **Total comprehensive loss for the year attributable to:** | | | |
| Owners of the Company | | **(79,744)** | (11,670) |
| Non-controlling interests | | **(73,716)** | (388) |
| | | **(153,460)** | (12,058) |
| **Loss per share** | 12 | | |
| | | | (Restated) |
| Basic and diluted (RMB cents) | | **(37.06)** | (8.91) |

The accompanying notes form an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2015

| | Notes | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Plant and equipments | 13 | **33,038** | 17,306 |
| Intangible assets | 14 | **198** | 3,645 |
| Goodwill | 15 | **63,271** | 213,259 |
| Available-for-sale financial assets | 16 | **11,851** | – |
| Interests in associates | 17 | **58,583** | 54,833 |
| Loan receivables | 20 | **1,597** | 17,042 |
| | | **168,538** | 306,085 |
| **Current assets** | | | |
| Inventories | 19 | **360** | 610 |
| Trade, loan and other receivables, prepayments and deposits | 20 | **118,340** | 77,243 |
| Financial assets at fair value through profit or loss | 21 | **45,216** | 20,456 |
| Cash and bank balances | 22 | **3,437** | 29,406 |
| | | **167,353** | 127,715 |
| **Current liabilities** | | | |
| Trade and other payables | 23 | **26,920** | 39,882 |
| Tax payables | 25 | **721** | 901 |
| Obligations under finance leases | 26 | **884** | 609 |
| | | **28,525** | 41,392 |
| **Net current assets** | | **138,828** | 86,323 |
| **Total assets less current liabilities** | | **307,366** | 392,408 |
| **Non-current liabilities** | | | |
| Obligations under finance leases | 26 | **2,437** | 1,970 |
| **Net assets** | | **304,929** | 390,438 |
| **Capital and reserves attributable to owners of the Company** | | | |
| Share capital | 27 | **4,067** | 339,771 |
| Reserves | 27 | **276,518** | (47,393) |
| Equity attributable to owners of the Company | | **280,585** | 292,378 |
| Non-controlling interests | | **24,344** | 98,060 |
| **Total equity** | | **304,929** | 390,438 |

The consolidated financial statements were approved and authorised for issue by the board of directors on 29 March 2016 and are signed on its behalf by:

**Chow Yik**
*Director*

**Tsui Annie**
*Director*

The accompanying notes form an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

| | Share capital RMB'000 | Share premium RMB'000 Note 27 (b)(i) | Warrants reserve RMB'000 | Convertible note equity reserve RMB'000 | Capital reduction reserve RMB'000 Note 27 (b)(ii) | Share-based compensation reserve RMB'000 Note 27 (b)(iii) | Available-for-sale financial asset reserve RMB'000 | Exchange reserve RMB'000 Note 27 (b)(v) | Accumulated losses RMB'000 | Total RMB'000 | Non-controlling interests RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **At 1 January 2014** | 146,820 | 84,248 | – | – | 92,489 | 36,239 | – | (11,541) | (300,997) | 47,258 | – | 47,258 |
| Loss for the year | – | – | – | – | – | – | – | – | (12,625) | (12,625) | (391) | (13,016) |
| Other comprehensive income for the year | | | | | | | | | | | | |
| Exchange differences on translating foreign operations | – | – | – | – | – | – | – | 955 | – | 955 | 3 | 958 |
| Total comprehensive income/(loss) for the year | – | – | – | – | – | – | – | 955 | (12,625) | (11,670) | (388) | (12,058) |
| Issuance of unlisted warrants, net with transaction costs, net of deferred tax | – | – | 1,349 | – | – | – | – | – | – | 1,349 | – | 1,349 |
| Issuance of convertible notes | – | – | – | 8,965 | – | – | – | – | – | 8,965 | – | 8,965 |
| Issue of shares upon conversion of convertible notes | 158,615 | – | 105 | (8,965) | – | – | – | – | – | 149,755 | – | 149,755 |
| Transaction costs attributable to issuances of shares upon conversion of convertible notes | – | (4,028) | – | – | – | – | – | – | – | (4,028) | – | (4,028) |
| Issue of shares upon exercise of bonus warrants | 1,700 | 5 | (5) | – | – | – | – | – | – | 1,700 | – | 1,700 |
| Exercise of unlisted warrants | 3,946 | 3,367 | (186) | – | – | – | – | – | – | 7,127 | – | 7,127 |
| Issue of shares upon conversion of convertible notes | 28,690 | 63,232 | – | – | – | – | – | – | – | 91,922 | – | 91,922 |
| Recognition upon acquisition of subsidiaries | – | – | – | – | – | – | – | – | – | – | 98,448 | 98,448 |
| **At 31 December 2014 and 1 January 2015** | **339,771** | **146,824** | **1,263** | **-** | **92,489** | **36,239** | **-** | **(10,586)** | **(313,622)** | **292,378** | **98,060** | **390,438** |
| Loss for the year | - | - | - | - | - | - | - | - | (92,671) | (92,671) | (73,716) | (166,387) |
| Other comprehensive income for the year | | | | | | | | | | | | |
| Exchange difference on other comprehensive income in associate | - | - | - | - | - | - | - | 52 | - | 52 | - | 52 |
| Exchange differences on translating foreign operations | - | - | - | - | - | - | - | 12,875 | - | 12,875 | - | 12,875 |
| Loss arising on revaluation of available-for-sale financial asset | - | - | - | - | - | - | 4,059 | - | - | 4,059 | - | 4,059 |
| Reclassification adjustments relating to available-for-sale financial assets | - | - | - | - | - | - | (4,059) | - | - | (4,059) | - | (4,059) |
| Total comprehensive income/(loss) for the year | - | - | - | - | - | - | - | 12,927 | (92,671) | (79,744) | (73,716) | (153,460) |
| Issue of shares upon placing of shares | 66,977 | 2,009 | - | - | - | - | - | - | - | 68,986 | - | 68,986 |
| Transaction cost in relation to issue of shares pursuant to placing of shares | - | (1,035) | - | - | - | - | - | - | - | (1,035) | - | (1,035) |
| Capital reduction | (402,681) | - | - | - | 402,681 | - | - | - | - | - | - | - |
| Release upon lapse of share options | - | - | - | - | - | (1,343) | - | - | 1,343 | - | - | - |
| **As at 31 December 2015** | **4,067** | **147,798** | **1,263** | **-** | **495,170** | **34,896** | **-** | **2,341** | **(404,950)** | **280,585** | **24,344** | **304,929** |

The accompanying notes form an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

| | Notes | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Loss before taxation | | **(166,165)** | (12,040) |
| Adjustments for: | | | |
| Depreciation | 7(c) | **1,696** | 877 |
| Impairment loss on goodwill | 7(c) | **149,988** | – |
| Amortisation of intangible assets | 7(c) | **740** | 4,096 |
| Gain on financial assets at fair value through profit or loss | 6 | **(729)** | (11,224) |
| Impairment loss of intangible assets | 7(c) | **3,236** | 12,737 |
| Share of results of associates | | **(568)** | (185) |
| Finance costs | 7(a) | **161** | 434 |
| Loss on available-for-sale financial assets | 7(c) | **4,059** | – |
| Loss on disposal of plant and equipments | | **251** | – |
| Purchase of financial assets at fair value through profit or loss | | **(21,874)** | (9,260) |
| **Operating loss before working capital changes** | | **(29,205)** | (14,565) |
| Decrease in inventories | | **250** | 524 |
| Increase in trade, loan and other receivables, prepayments and deposits | | **(21,101)** | (68,834) |
| (Decrease)/Increase in trade and other payables | | **(14,185)** | 16,242 |
| **Cash used in operations** | | **(64,241)** | (66,633) |
| Tax paid | | **(402)** | (163) |
| **Net cash used in operating activities** | | **(64,643)** | (66,796) |

# CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

For the year ended 31 December 2015

| | Notes | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|---|
| **Cash flows from investing activities** | | | |
| Purchase of plant and equipments | | **(16,673)** | (13,255) |
| Proceeds from disposal of plant and equipments | | **450** | – |
| Purchase of available-for-sale financial assets | | **(16,082)** | – |
| Net cash outflow from acquisition of subsidiaries | 36 | **–** | (9,560) |
| Net cash outflow from interests in associates | | **–** | (54,648) |
| **Net cash used in investing activities** | | **(32,305)** | (77,463) |
| **Cash flows from financing activities** | | | |
| Proceeds from placement of shares | | **68,986** | – |
| Payment for the transaction costs attributable to placing of shares | | **(1,035)** | – |
| Net proceeds from issuance of unlisted warrants | | **–** | 1,349 |
| Net proceeds from issuance of convertible notes | | **–** | 154,692 |
| Proceeds from exercise of unlisted warrants | | **–** | 7,127 |
| Proceeds from exercise of bonus warrants | | **–** | 1,700 |
| Repayment of obligation under finance leases | | **(599)** | (163) |
| Repayment of interest on obligation under finance leases | | **(161)** | (41) |
| Interest paid | | **–** | (131) |
| **Net cash generated from financing activities** | | **67,191** | 164,533 |
| Net (decrease)/increase in cash and cash equivalents | | **(29,757)** | 20,274 |
| Cash and cash equivalents at the beginning of the year | 22 | **29,406** | 9,024 |
| Effect of exchange rate changes on the balance of cash held in foreign currencies | | **3,788** | 108 |
| Cash and cash equivalents at the end of the year | 22 | **3,437** | 29,406 |

The accompanying notes form an integral part of these consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

## 1. General Information

Hao Wen Holdings Limited (the "Company") was incorporated in the Cayman Islands on 1 August 2000 as an exempted company with limited liability under the Companies Law (2000 Revision) of the Cayman Islands, and its shares are listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 20 July 2001. The address of the registered office and principal place of business of the Company are disclosed in the corporate information of the annual report.

The consolidated financial statements of the Company as at and for the year ended 31 December 2015 comprise the Company and its subsidiaries (together referred to as the "Group"). The Group is primarily engaged in money lending business, trading and manufacturing of biomass fuel and the sale of biodegradable food containers and disposable industrial packaging for consumer products.

## 2. Basis of Preparation

### (a) Statement of compliance

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

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2(e) provides information on any changes in accounting policies resulting from initial application relevant to the Group for the current and prior accounting periods reflected in these consolidated financial statements.

The provisions of the new Hong Kong Companies Ordinance (Cap. 622) ("new CO") regarding preparation of accounts and directors' reports and audits became effective for the Company for the financial year ended 31 December 2015. Further, the disclosure requirements set out in the GEM Listing Rules regarding annual accounts have been amended with reference to the new CO and to streamline with IFRS. Accordingly the presentation and disclosure of information in the consolidated financial statements for the financial year ended 31 December 2015 have been changed to comply with these new requirements. Comparative information in respect of the financial year ended 31 December 2014 are presented or disclosed in the consolidated financial statements based on the new requirements. Information previously required to be disclosed under the predecessor Companies Ordinance or GEM Listing Rules but not under the new CO or amended GEM Listing Rules are not disclosed in these consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2015

## 2. Basis of Preparation *(Continued)*

### (b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value, as explained in accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

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

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

### (c) Functional and presentation currency

Items included in the financial statements of each of the Group's subsidiaries are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currencies of the Company and its operating subsidiary in the People's Republic of China (the "PRC") are Hong Kong dollars and Renminbi ("RMB") respectively. For the purpose of presenting the consolidated financial statements, the Group adopted RMB as its presentation currency. All financial information presented in RMB has been rounded to the nearest thousand.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2015

## 2. Basis of Preparation *(Continued)*

### (d) Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and report amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Judgements made by management in the application of IFRSs that have significant effect on the consolidated financial statements and major sources of estimation uncertainty are disclosed in notes 34.

### (e) Application of New and Revised International Financial Report Standards ("IFRSs")

The Group has applied the following amendments IFRSs issued by the International Accounting Standard Board for the first time in the current year:

| | |
|---|---|
| Amendments to IAS19 | Defined benefit plans: Employee contributions |
| Amendments to IFRSs | Annual improvement to IFRSs 2010 – 2012 cycle |
| Amendments to IFRSs | Annual improvement to IFRSs 2011 – 2013 cycle |

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

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

*Issued but not yet effective International Financial Reporting Standards*

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

| | |
|---|---|
| IFRS 9 | Financial Instruments[2] |
| IFRS 15 | Revenue from Contracts with Customers[2] |
| IFRS 14 | Regulatory Deferral Accounts[4] |
| IFRS 16 | Lease[5] |
| Amendments to IFRS 11 | Accounting for Acquisitions of Interest in Joint Operations[1] |
| Amendments to IAS 1 | Disclosure initative[1] |
| Amendments to IFRS 16 and IAS 38 | Clarification of Acceptable Methods of Depreciation and Amortisation[1] |
| Amendments to IAS 16 and IAS 41 | Agriculture: Bearer Plants[1] |
| Amendments to IFRS 10 and IAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3] |
| Amendments to IFRS 10, IFRS 12 and IAS 28 | Investment entities: Applying the consolidation exception[1] |
| Amendments to IFRSs | Annual Improvements to IFRSs 2012-2014 Cycle[1] |

1 Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.
2 Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for first annual IFRS financial statements beginning on or after 1 January 2016, with earlier application permitted.
5 Effective for annual periods, beginning on or before 1 January 2019.

The Group is in the process of assessing the potential impact of the above new and revised IFRSs upon initial application but is not yet in a position to state whether the above new and revised IFRSs, will have a significant impact on the Group's results of operations and financial position.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2015

## 2. Basis of Preparation *(Continued)*

### (e) Application of New and Revised International Financial Report Standards ("IFRSs") *(Continued)*

IFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.
Key requirements of IFRS 9:

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2015

## 2. Basis of Preparation *(Continued)*

### (e) Application of New and Revised International Financial Report Standards ("IFRSs") *(Continued)*

- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The directors of the Company (the "Directors") do not anticipate of the new and revised IFRSs will have a material impact on the Group's consolidated financial statements except as below:

#### IFRS 15 Revenue from Contracts with Customers

In July 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

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

– Step 1: Identify the contract(s) with a customer

– Step 2: Identify the performance obligations in the contract

– Step 3: Determine the transaction price

– Step 4: Allocate the transaction price to the performance obligations in the contract

– Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

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

The Group is in the process of assessing the potential impact of the IFRS 15 upon initial application but is not yet in a position to state whether IFRS 15, will have a significant impact on the Group's results of operations and financial position.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2015

## 3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

### (a) Basis of consolidation

#### (i) Subsidiaries

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

#### (ii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

#### (iii) Changes in the Group's ownership interests in existing subsidiaries

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

When the Group loses control of a subsidiary, the 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 interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2015

## 3. Significant Accounting Policies *(Continued)*

### (a) Basis of consolidation *(Continued)*

#### (iv) Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

(i) deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;

(ii) liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payment at the acquisition date (see the accounting policy below); and

(iii) assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Noncurrent Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction by transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another IFRS.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2015

## 3. Significant Accounting Policies *(Continued)*

### (a) Basis of consolidation *(Continued)*

#### (iv) Business combinations *(Continued)*

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2015

## 3. Significant Accounting Policies *(Continued)*

### (b) Investments in subsidiaries

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment losses.

### (c) Interests in associates

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

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2015

## 3. Significant Accounting Policies *(Continued)*

### (c) Interests in associates *(Continued)*

Upon disposal of an associate that results in the Group losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with IAS 39. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group' consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

### (d) Goodwill

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

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2015

## 3. Significant Accounting Policies *(Continued)*

### (e) Plant and equipments

#### (i) Recognition and measurement

Items of plant and equipments are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that are directly attributable to the acquisition of the asset. The cost of self-constructed items of assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs.

When parts of an item of plant and equipments have different useful lives, they are accounted for as separate items (major components) of plant and equipments.

Gains or losses arising on disposal of an item of plant and equipments are determined by comparing the proceeds from disposal with the carrying amount of plant and equipments, and are recognised net within other income in profit or loss.

#### (ii) Subsequent costs

The cost of replacing part of an item of plant and equipments is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of plant and equipments are recognised in profit or loss as incurred.

#### (iii) Depreciation

Depreciation is calculated to write off the cost of items of plant and equipments, less their estimated residual values, if any, using the straight line method over their estimated useful lives as follows:

| | |
|---|---|
| – Machinery and equipment | 8 – 10 years |
| – Furniture and office equipment | 5 – 8 years |
| – Motor vehicles | 5 – 8 years |

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2015

## 3. Significant Accounting Policies *(Continued)*

### (e) Plant and equipments *(Continued)*

#### (iv) Construction in progress

Construction in progress represents buildings and various plant and equipments under construction and pending installation, and is stated at cost less any impairment losses. Cost comprises direct costs of construction incurred during the periods of construction.

Construction in progress is transferred to buildings, and machinery and equipment when the asset is substantially ready for its intended use.

### (f) Leased assets

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 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) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in 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.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2015

## 3. Significant Accounting Policies *(Continued)*

### (g) Intangible assets

*Intangible assets acquired separately*

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

*Internally-generated intangible assets – research and development expenditure*

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

(i) the technical feasibility of completing the intangible asset so that it will be available for use or sale;

(ii) the intention to complete the intangible asset and use or sell it;

(iii) the ability to use or sell the intangible asset;

(iv) how the intangible asset will generate probable future economic benefits;

(v) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

(vi) the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2015

## 3. Significant Accounting Policies *(Continued)*

### (g) Intangible assets *(Continued)*

*Intangible assets acquired in a business combination*

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

*Derecognition of intangible assets*

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

*Impairment of tangible and intangible assets other than goodwill*

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

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

Recoverable amount is the higher of fair value less costs to sell and value in use. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2015

## 3. Significant Accounting Policies *(Continued)*

### (g) Intangible assets *(Continued)*

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

### (h) Inventories

Inventories are measured at the lower of cost and net realisable value.

The cost of inventories is calculated based on the weighted average costing method (which approximates the average actual cost) and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

### (i) Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets 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.

#### Financial assets

Financial assets are classified into the following specified categories: financial assets "at fair value through profit or loss", "held-to-maturity" investments, "available-for-sale" financial assets and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2015

## 3. Significant Accounting Policies *(Continued)*

### (i) Financial instruments *(Continued)*

#### Effective interest method

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

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at financial asset at fair value through profit or loss.

#### Financial assets at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss when the financial asset is either held for trading or it is designated as at fair value through profit or loss.

A financial asset is classified as held for trading if:

(a) it has been acquired principally for the purpose of selling it in the near future; or

(b) on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

(c) it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at fair value through profit or loss upon initial recognition if:

(a) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

(b) the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

(c) it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2015

## 3. Significant Accounting Policies *(Continued)*

### (i) Financial instruments *(Continued)*

#### Available-for-sale financial assets

AFS financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.

Equity and debt securities held by the Group that are classified as available-for-sale financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of Available-for-sale monetary financial assets relating to interest income calculated using the effective interest method and dividends on available-for-sale equity investments are recognised in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of available-for-sale financial asset reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the available-for-sale financial asset reserve is reclassified to profit or loss.

Dividends on available-for-sale equity investments are recognised in profit or loss when the Group's right to receive the dividends is established.

The fair value of available-for-sale monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

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 investments are measured at cost less any identified impairment losses at the end of each reporting period.

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item in the consolidated statement of profit or loss and other comprehensive income.

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables and cash and bank balances) are measured at amortised cost using the effective interest method, less any impairment.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2015

## 3. Significant Accounting Policies *(Continued)*

### (i) Financial instruments *(Continued)*

#### Impairment of financial assets

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

For available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

(a) significant financial difficulty of the issuer or counterparty; or

(b) breach of contract, such as a default or delinquency in interest or principal payments; or

(c) it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or

(d) the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2015

## 3. Significant Accounting Policies *(Continued)*

### (i) Financial instruments *(Continued)*

#### Impairment of financial assets *(Continued)*

When available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

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

In respect of available-for-sale equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of available-for-sale financial asset reserve. In respect of Available-for-sales debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

#### Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

#### Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

#### Financial liabilities

Financial liabilities including trade and other payables, and obligations under finance leases are subsequently measured at amortised cost, using the effective interest rate method. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue cost.

#### Effective interest method

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2015

## 3. Significant Accounting Policies *(Continued)*

### (i) Financial instruments *(Continued)*

#### Effective interest method *(Continued)*

Interest expense is recognised on an effective interest basis other than financial liabilities classified as at fair value though profit or loss.

#### Convertible notes

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

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

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

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

#### Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in comprehensive income.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2015

## 3. Significant Accounting Policies *(Continued)*

### (i) Financial instruments *(Continued)*

#### Derecognition *(Continued)*

For financial liabilities, they are removed from the Group's consolidated statement of financial positions when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognised in the consolidated statement of profit or loss and other comprehensive income.

### (j) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

### (k) Borrowings

Borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

### (l) Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

### (m) Revenue

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

#### (i) Sale of goods

Revenue from sale of goods is recognised when significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. Revenue excludes value added tax or other sales taxes and is stated after deduction of any trade discounts.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2015

## 3. Significant Accounting Policies *(Continued)*

### (m) Revenue *(Continued)*

#### (ii) Interest income

Interest income is recognised and accrued using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted of the original effective, interest rate of the instrument and continues unwinding the discount as interest income.

### (n) Employee benefits

#### (i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

#### (ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a share-based compensation reserve within equity. The fair value is measured at grant date using the binomial model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the share-based compensation reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the share-based compensation reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the share-based compensation reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2015

## 3. Significant Accounting Policies *(Continued)*

### (o) Finance income and costs

Finance income comprises interest income on funds invested that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings that are recognised in profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying assets are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis

### (p) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2015

## 3. Significant Accounting Policies *(Continued)*

### (q) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate 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.

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 events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

### (r) Translation of foreign currencies

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

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

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

- exchange differences on transactions entered into in order to hedge certain foreign currency risks (see the accounting policies below); and

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2015

## 3. Significant Accounting Policies *(Continued)*

### (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 the key management personnel of the Group or of a parent of the Group;

(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 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 employees of either the Group or an entity related to the Group;

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

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

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

A transaction is considered to be a related party transaction when there is a transfer of resources and obligations between related parties.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2015

## 3. Significant Accounting Policies *(Continued)*

### (t) Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various line of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2015

## 4. Revenue

Revenue represents (i) the sales value of goods supplied to customers, which net of value added tax and is stated after deduction of goods returns and (ii) trade discounts and interest income earned from the money lending business.

| | **2015** | 2014 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Trading and manufacturing of biomass fuel | **26,154** | 30,897 |
| Interest income earned from the money lending business | **9,146** | 2,977 |
| Sale of biodegradable products | **1,909** | 811 |
| Total | **37,209** | 34,685 |

## 5. Segment Reporting

Information reported to the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of goods delivered or provided. The segmentations are based on the information about the operation of the Group that management uses to make decision and regularly review by the chief operating decision maker for the purpose of allocating resources to segments and assessing their performance.

The Group's reportable and operating segment under IFRS 8 are as follows:

(i) Interest income earned from the money lending business;

(ii) Trading and manufacturing of biomass fuel; and

(iii) Sale of biodegradable food containers and disposable industrial packaging for consumer products.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2015

## 5. Segment Reporting *(Continued)*

### Segment revenues and results

| | Money lending | | Biomass fuel | | Biodegradable products | | Consolidated | |
|---|---|---|---|---|---|---|---|---|
| | **2015 RMB'000** | 2014 RMB'000 | **2015 RMB'000** | 2014 RMB'000 | **2015 RMB'000** | 2014 RMB'000 | **2015 RMB'000** | 2014 RMB'000 |
| **Revenue** | | | | | | | | |
| External sales | **9,146** | 2,977 | **26,154** | 30,897 | **1,909** | 811 | **37,209** | 34,685 |
| **Result** | | | | | | | | |
| Segment results | **5,353** | 2,027 | **(475)** | 2,869 | **(3,211)** | (5,543) | **1,667** | (647) |
| Unallocated corporate income | | | | | | | **366** | – |
| Unallocated corporate expenses | | | | | | | **(12,051)** | (9,631) |
| Impairment loss on intangible assets | **–** | – | **–** | – | **(3,236)** | (12,737) | **(3,236)** | (12,737) |
| Gain on financial assets at fair value through profit or loss | | | | | | | **729** | 11,224 |
| Loss on available-for-sale financial assets | | | | | | | **(4,059)** | – |
| Impairment loss on goodwill | **–** | – | **(149,988)** | – | **–** | – | **(149,988)** | – |
| Loss from operations | | | | | | | **(166,572)** | (11,791) |
| Share of results of associates | | | | | | | **568** | 185 |
| Finance costs | | | | | | | **(161)** | (434) |
| Loss before taxation | | | | | | | **(166,165)** | (12,040) |
| Income tax expense | | | | | | | **(222)** | (976) |
| Loss for the year | | | | | | | **(166,387)** | (13,016) |

Segment revenues reported above represent revenue generated from external customers. There were no inter-segment sale in the current year (2014: Nil).

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3 to the consolidated financial statements. Segment results represent the profit/(loss) generated by each segment without allocation of corporate income and central administration costs including directors' emoluments, share of results of associates, gain on financial assets at fair value through profit or loss, loss on available-for-sale financial assets, impairment on goodwill, finance costs and income tax expense. This is the measure reported to the chief operating decision maker for the purposes of resources allocation and assessment of segments performance.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2015

## 5. Segment Reporting *(Continued)*

### Segment assets and liabilities

| | Money lending | | Biomass fuel | | Biodegradable products | | Consolidated | |
|---|---|---|---|---|---|---|---|---|
| | **2015 RMB'000** | 2014 RMB'000 | **2015 RMB'000** | 2014 RMB'000 | **2015 RMB'000** | 2014 RMB'000 | **2015 RMB'000** | 2014 RMB'000 |
| **Assets** | | | | | | | | |
| Segment assets | **92,304** | 77,117 | **113,980** | 253,805 | **10,901** | 15,730 | **217,185** | 346,652 |
| Unallocated corporate assets | | | | | | | **118,706** | 87,148 |
| | | | | | | | **335,891** | 433,800 |
| **Liabilities** | | | | | | | | |
| Segment liabilities | **1,605** | 269 | **17,895** | 34,808 | **4,914** | 3,790 | **24,414** | 38,867 |
| Unallocated corporate liabilities | | | | | | | **6,548** | 4,495 |
| | | | | | | | **30,962** | 43,362 |

For the purposes of monitoring segment performance and allocating resources between segments:

All assets are allocated to operating segments other than available-for-sale financial assets, interests in associates, financial assets at fair value through profit or loss and other corporate assets.

All liabilities are allocated to operating segments other than corporate liabilities.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2015

## 5. Segment Reporting *(Continued)*

### Other segment information

The following is an analysis of the Group's other segment information:

| | Money lending | | Biomass fuel | | Biodegradable products | | Unallocated | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Capital expenditure | **2,610** | – | **15,268** | 11,926 | **–** | 4,059 | **–** | 12 | **17,878** | 15,997 |
| Depreciation and amortisation | **431** | – | **85** | 41 | **1,877** | 4,931 | **43** | 1 | **2,436** | 4,973 |
| Impairment loss on intangible assets | **–** | – | **–** | – | **3,236** | 12,737 | **–** | – | **3,236** | 12,737 |
| Loss on available-for-sale financial assets | **–** | – | **–** | – | **–** | – | **4,059** | – | **4,059** | – |
| Impairment loss on goodwill | **–** | – | **149,988** | – | **–** | – | **–** | – | **149,988** | – |
| Gain on financial assets at fair value through profit or loss | **–** | – | **–** | – | **–** | – | **729** | 11,224 | **729** | 11,224 |
| Loss on disposal of plant and equipments | **–** | – | **–** | – | **–** | – | **251** | – | **251** | – |

The Group's revenue from its major products were disclosed in note 4.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2015

## 5. Segment Reporting *(Continued)*

### Geographical information

The Group operates in two principal geographical areas, the PRC (excluding Hong Kong) and Hong Kong. The Group's revenue from the external customers by location of operations and information about its non-current assets are detailed below:

| | Revenue | | Non-current assets* | |
|---|---|---|---|---|
| | **Year ended 31 December 2015 RMB'000** | Year ended 31 December 2014 RMB'000 | **As at 31 December 2015 RMB'000** | As at 31 December 2014 RMB'000 |
| The PRC | **9,736** | 14,810 | **91,194** | 226,985 |
| Hong Kong | **27,473** | 19,875 | **65,493** | 79,100 |
| | **37,209** | 34,685 | **156,687** | 306,085 |

* Non-current assets excluding available-for-sale financial assets.

### Information about major customers

For the year ended 31 December 2015, included in revenue arising from biomass fuel of approximately RMB23,247,000, was arisen from two single external customers. For the year ended 31 December 2014, included in the revenue arising from biomass fuel of approximately RMB25,493,000 was arisen from two single external customers.

Revenue from major customers, each of them amounted to 10% or more of the Group's revenue, are set out below:

| | **2015 RMB'000** | 2014 RMB'000 |
|---|---|---|
| Customer A | **16,221** | 15,991 |
| Customer B | **7,026** | 9,502 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2015

## 6. Other Gains

| | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|
| Sundry income | **366** | 49 |
| Gain on financial assets at fair value through profit or loss | **729** | 11,224 |
| Total | **1,095** | 11,273 |

## 7. Loss before Taxation

Loss before taxation is arrived after charging:

### (a) Finance costs

| | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|
| Interest on convertible notes | **–** | 393 |
| Interest on obligations under finance leases | **161** | 41 |
| | **161** | 434 |

### (b) Staff costs (including directors' emoluments)

| | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|
| Contributions to defined contribution plans | **154** | 88 |
| Salaries, wages and other benefits | **4,436** | 2,894 |
| Total staff costs | **4,590** | 2,982 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2015

## 7. Loss before Taxation *(Continued)*

### (c) Other items

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Amortisation of intangible assets | **740** | 4,096 |
| Depreciation | **1,696** | 877 |
| Operating lease charges in respect of property rentals: | | |
| minimum lease payments | **1,850** | 1,577 |
| Auditors' remuneration | | |
| – Audit services | **950** | 950 |
| – Non-audit services | **424** | – |
| Cost of inventories sold | **27,571** | 27,054 |
| Loss on available-for-sale financial assets | **4,059** | – |
| Impairment loss on intangible assets | **3,236** | 12,737 |
| Impairment loss on goodwill | **149,988** | – |
| Loss on disposal of plant and equipments | **251** | – |

## 8. Income Tax Expense

(a) Taxation in the consolidated statement of profit or loss and other comprehensive income represents:

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| **Current tax** | | |
| Hong Kong | **309** | 976 |
| PRC Enterprise Income Tax | **3** | – |
| Over-provision in prior year Hong Kong | **(90)** | – |
| | **222** | 976 |

### (i) Hong Kong profits tax

Hong Kong Profits tax has been provided at the rate of 16.5% (2014: 16.5%) on the estimated assessable profit for the year ended 31 December 2015.

### (ii) Income taxes outside Hong Kong

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands (the "BVI"), the Company and the Company's subsidiaries registered in the BVI are not subject to any income tax in the Cayman Islands and BVI, respectively.

The subsidiary of the Group established in the PRC is generally subject to PRC Enterprise Income Tax on its taxable income at an income tax rate of 25% in respect of the year ended 31 December 2015 (2014: 25%).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2015

## 8. Income Tax Expense *(Continued)*

(b) Reconciliation between tax expense and accounting loss at applicable tax rates:

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | **RMB'000** | **%** | RMB'000 | % |
| Loss before taxation | **(166,165)** | | (12,040) | |
| Notional tax on loss before taxation calculation at the relevant tax rate of 16.5% (2014: 16.5%) | **(27,417)** | **(16.5)** | (1,987) | (16.5) |
| Tax effect of non-taxable income | **(478)** | **(0.3)** | (1,852) | (15.4) |
| Tax effect of non-deductible expenses | **26,704** | **16.1** | 4,974 | 41.3 |
| Tax effect of unused tax losses not recognised | **1,432** | **0.9** | – | – |
| Tax effect of share of results of associates | **(94)** | **(0.1)** | (30) | (0.2) |
| Over-provision in prior years | **(90)** | **(0.1)** | – | – |
| Tax effect of different tax rates in other jurisdictions | **165** | **0.1** | (129) | (1.1) |
| Income tax expense for the year | **222** | **0.1** | 976 | 8.1 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2015

## 9. Directors' and chief executive's Remuneration

Details of the directors' remuneration of the Company for the year, disclosed pursuant to Listing Rules and Section 383 of the Hong Kong Companies Ordinance, are as follows:

| | **Directors' Fees RMB'000** | **Salaries, allowances and benefits in kind RMB'000** | **Retirement scheme contributions RMB'000** | **2015 Total RMB'000** |
|---|---|---|---|---|
| *Executive directors:* | | | | |
| Chow Yik | **–** | **287** | **13** | **300** |
| Lok Wing Fu | **–** | **305** | **14** | **319** |
| Tsui Annie (appointed on 12 October 2015) | **–** | **69** | **3** | **72** |
| Leung King Fai (resigned on 16 March 2015) | **–** | **78** | **3** | **81** |
| *Independent non-executive directors:* | | | | |
| Kwok Pak Yu, Steven | **157** | **–** | **–** | **157** |
| Ho Kei Wing, Nelson | **104** | **–** | **–** | **104** |
| Ma Sijing | **104** | **–** | **–** | **104** |
| *Chief Executive Officer:* | | | | |
| Chan Yin Tsung | **–** | **209** | **10** | **219** |
| | **365** | **948** | **43** | **1,356** |

| | Directors' fees RMB'000 | Salaries, allowances and benefits in kind RMB'000 | Retirement scheme contributions RMB'000 | 2014 Total RMB'000 |
|---|---|---|---|---|
| *Executive directors:* | | | | |
| Chow Yik | – | 358 | 16 | 374 |
| Lok Wing Fu (appointed on 17 February 2014) | – | 237 | 11 | 248 |
| Lee Cheuk Yue, Ryan (resigned on 1 September 2014) | – | 120 | – | 120 |
| Leung King Fai (resigned on 16 March 2015) | – | 501 | 17 | 518 |
| *Independent non-executive directors:* | | | | |
| Kwok Pak Yu, Steven (appointed on 1 July 2014) | 70 | – | – | 70 |
| Ho Kei Wing, Nelson (appointed on 1 September 2014) | 43 | – | – | 43 |
| Ma Sijing (appointed on 24 November 2014) | 12 | – | – | 12 |
| Yeung Mo Sheung, Ann (resigned on 1 July 2014) | 90 | – | – | 90 |
| Wong Ting Kon (resigned on 1 September 2014) | 80 | – | – | 80 |
| Lam Kai Tai (resigned on 24 November 2014) | 108 | – | – | 108 |
| | 403 | 1,216 | 44 | 1,663 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2015

## 9. Directors' and chief executive's Remuneration *(Continued)*

The details of those benefits in kind, including the principal terms and number of options granted, are disclosed in note 29.

For the years ended 31 December 2015 and 2014, no emolument was paid to the directors as an inducement to join or upon joining the Company or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration for the years ended 31 December 2015 and 2014.

## 10. Individuals with Highest Emoluments

Of the five individuals with the highest emoluments, one (2014: three) is a director whose emoluments are disclosed in note 9. The aggregate of the emoluments in respect of the other four individuals (2014: two) are as follows:

| | **2015** **RMB'000** | 2014 RMB'000 |
|---|---|---|
| Salaries and other emoluments | **1,507** | 627 |
| Retirement scheme contributions | **51** | 28 |
| | **1,558** | 655 |

The emoluments of the other four individuals (2014: two individuals) with the highest emoluments are within the following bands:

| | **Number of individuals** | |
|---|---|---|
| | **2015** | 2014 |
| Nil – HK$1,000,000 | **4** | 2 |

For the years ended 31 December 2015 and 2014, no emolument was paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2015

## 11. Dividend

The board of directors do not recommend the payment of any dividend for the year ended 31 December 2015 (2014: Nil).

## 12. Loss Per Share

### (a) Basic loss per share

The calculation of the basic loss per share for the year is based on the following data:

| | **2015** | 2014 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| **Loss** | | |
| Loss for the purposes of basic loss per share, loss for the year attributable to the owners of the Company: | **(92,671)** | (12,625) |

| | **2015** | 2014 |
|---|---|---|
| | **'000** | '000 |
| | | (Restated) |
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purpose of basic loss per share | **250,076** | 141,673 |

Note:

i) The weighted average number of ordinary shares for the year ended 2014 has been adjusted for the share consolidation.

ii) The weighted average number of ordinary share for the years ended 31 December 2015 and 2014 has been adjusted for the Right Issues. Completion of Right Issues took place on 29 January 2016.

### (b) Diluted loss per share

Diluted loss per share for the years ended 31 December 2015 and 2014 were same as the basic loss per share. The Company's outstanding share options and warrants were not included in the calculation of diluted loss per share because the effects of the Company's outstanding share option and warrants were anti-dilutive.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2015

## 13. Plant and Equipments

Movements in plant and equipments are as follows:

| | Construction in progress RMB'000 | Furniture and office equipment RMB'000 | Motor vehicles RMB'000 | Machinery and equipment RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 January 2014 | – | 741 | 601 | – | 1,342 |
| Currency realignment | – | 1 | – | – | 1 |
| Additions | 11,111 | 1,058 | 3,360 | 468 | 15,997 |
| Addition through acquisition of subsidiaries (note 36) | – | 4 | – | 919 | 923 |
| At 31 December 2014 and 1 January 2015 | 11,111 | 1,804 | 3,961 | 1,387 | 18,263 |
| Currency realignment | – | 58 | 303 | – | 361 |
| Additions | – | 47 | 2,563 | 15,268 | 17,878 |
| Transfer | (11,111) | – | – | 11,111 | – |
| Disposal | – | (53) | (896) | – | (949) |
| **At 31 December 2015** | **–** | **1,856** | **5,931** | **27,766** | **35,553** |
| **Accumulated depreciation and impairment** | | | | | |
| At January 2014 | – | 51 | 28 | – | 79 |
| Currency realignment | – | 1 | – | – | 1 |
| Charge for the year | – | 457 | 379 | 41 | 877 |
| At 31 December 2014 and 1 January 2015 | – | 509 | 407 | 41 | 957 |
| Currency realignment | – | 48 | 62 | – | 110 |
| Charge for the year | – | 481 | 1,090 | 125 | 1,696 |
| Disposal | – | (53) | (195) | – | (248) |
| **At 31 December 2015** | **–** | **985** | **1,364** | **166** | **2,515** |
| **Carrying amounts** | | | | | |
| **At 31 December 2015** | **–** | **871** | **4,567** | **27,600** | **33,038** |
| At 31 December 2014 | 11,111 | 1,295 | 3,554 | 1,346 | 17,306 |

Note: As at 31 December 2015, the carrying amount of the Group's motor vehicles of approximately RMB4,042,000 (2014: RMB2,978,000) of assets held under finance lease.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2015

## 14. Intangible Assets

Movements in intangible assets of the Group are as follows:

| | **Intellectual properties**<br>RMB'000<br>(note a) |
|---|---|
| **Cost** | |
| At 1 January 2014 | 127,037 |
| Currency realignment | 935 |
| At 31 December 2014 and 1 January 2015 | 127,972 |
| Currency realignment | 7,027 |
| **At 31 December 2015** | **134,999** |
| **Accumulated amortisation and impairment** | |
| At 1 January 2014 | 107,437 |
| Amortisation expenses | 4,096 |
| Impairment loss | 12,737 |
| Currency realignment | 57 |
| At 31 December 2014 and 1 January 2015 | 124,327 |
| Amortisation expenses | 740 |
| Impairment loss | 3,236 |
| Currency realignment | 6,498 |
| **At 31 December 2015** | **134,801** |
| **Carrying amounts** | |
| **At 31 December 2015** | **198** |
| At 31 December 2014 | 3,645 |

(a) The intellectual property's useful life used in the calculation of amortisation is 8 years.

During the year ended 31 December 2015, as the result of the unexpected poor performance of the biodegradable products, the directors of the Company carried out an impairment review. The recoverable amount of the intellectual properties was lower than the carrying amount of the intellectual properties and accordingly an impairment loss of approximately RMB3,236,000 (2014: RMB12,737,000) was recognised during the year ended 31 December 2015.

The recoverable amount of intellectual properties for the year ended 31 December 2015 was determined based on value-in-use calculations. The impairment review of the recoverable amount products is based on the expected future cash flows and based on the financial budgets approved by management covering a 5-year period. Discount rate of 13.05% was applied on the value-in-use calculations.

The intellectual properties have been reduced to its recoverable amount of RMB198,000 (2014: RMB3,645,000), any change in the assumptions used in the calculation of recoverable amount would result in further impairment loss.

(b) The amortisation charge for the year is included in "general and administrative expenses" in the consolidated statement of profit or loss and other comprehensive income.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2015

## 15. Goodwill

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| **Cost:** | | |
| At 1 January | **213,259** | – |
| Acquisition of subsidiaries | **–** | 213,259 |
| At 31 December | **213,259** | 213,259 |
| **Accumulated impairment loss:** | | |
| At 1 January | **–** | – |
| Impairment loss for the year | **149,988** | – |
| As 31 December | **149,988** | – |
| **Carrying amounts:** | | |
| At 31 December | **63,271** | 213,259 |

Particular of impairment testing on goodwill are disclosed below:

Goodwill has been allocated for impairment testing purposes to the following cash-generating units:

– Biomass fuel products business

Before recognition of impairment losses, the carrying amount of goodwill was allocated to cash-generating units as follows:

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Biomass fuel products business | **213,259** | 213,259 |

For the years ended 31 December 2015 and 31 December 2014, the recoverable amount of this cash-generating units has been determined based on a value in use calculation which uses cash flow projection based on financial budgets approved by the directors and valued by the professional valuer covering a five year period, and discount rate of 13.95% (2014: 12.0%) per annum. Cash flows beyond that five-year period have been extrapolated using a steady 3.00% (2014: 3.00%) growth rate. This growth rate does not exceed the long-term average growth rate for the market.

Impairment loss of approximately RMB149,988,000 was recognised during the year ended 31 December 2015 as the biomass fuel products business operation does not turnout as previously expected, due to decrease in demand of biomass fuel product as a result of the more stringent and competitive environment of the industry.

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

| | |
|---|---|
| Budgeted market share | Average market share in the period immediately before the budget period. The values assigned to the assumption reflect post experience |
| Budgeted gross margin | Average gross margins achieved in the period immediately before the budget period which reflects the past experience |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2015

## 16. Available-for-sale Financial Assets

| | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|
| Unlisted investments: | | |
| – equity security | **16,082** | – |
| Less: Loss on available-for-sale financial assets | **(4,059)** | – |
| Currency realignment | **(172)** | – |
| | **11,851** | – |
| Analysed for reporting purpose as: | | |
| Current assets | **–** | – |
| Non current assets | **11,851** | – |
| | **11,851** | – |

On 6 February 2015, Starry Regent Limited, a wholly owned Subsidiary of the Company, entered into a sales and purchase agreement with an independent third party, pursuant to which Starry Regent Limited agreed to acquired 5.4% equity interest in Peak Zone Group Limited at the consideration of HK$19,200,000 (equivalent to RMB16,082,000). The transaction was completed on 16 February 2015.

Due to significant changes with the performance of the available-for-sale ("AFS") financial assets, the fair value of the available-for-sale financial assets decreased significantly. An loss of approximately RMB4,059,000 was recognised in the Group's consolidated statement of profit or loss during the year ended 31 December 2015.

## 17. Interests in Associates

| | RMB'000 |
|---|---|
| Unlisted share, at cost, as at 8 October 2014 | 289 |
| Goodwill on acquisition | 54,359 |
| Share of post-acquisition profits and other comprehensive income, net of dividend received | 185 |
| At 31 December 2014 and 1 January 2015 | 54,833 |
| Share of post-acquisition profits and other comprehensive income, net of dividend received | 620 |
| Currency realignment | 3,130 |
| At 31 December 2015 | **58,583** |

On 1 September 2014, the Group entered into sale and purchase agreement to acquire of 22.5% equity interest in Sincere Smart International Limited for cash consideration of HK$69,000,000 (equivalent to approximately RMB54,648,000). The acquisition was completed on 8 October 2014. For details, please refer to the announcements of the Company dated 1 September 2014 and 8 October 2014.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2015

## 17. Interests in Associates *(Continued)*

During the year ended 31 December 2015, the Group had interests in the following associates:

| Name of entity | Form of entity, place of incorporation/ registration and operations | Particulars of issued and fully paid share capital/registered capital | Percentage of equity attributable to the Group | Percentage of voting power hold | Principal activities |
|---|---|---|---|---|---|
| Sincere Smart International Limited | Incorporated in BVI | 50,000 ordinary shares of US$1 each | 22.5% | 22.5% | Investment holding |
| Ideal Surplus Inc Limited | Incorporated in Hong Kong | 10,000 ordinary shares of HK$ 1 each | 22.5% | 22.5% | Development and sales of POS |

The summarised financial information in respect of the Group's associates is set out below:

| | **2015 RMB'000** | 2014 RMB'000 |
|---|---|---|
| Total assets | **11,901** | 5,443 |
| Total liabilities | **(7,037)** | (3,336) |
| Net assets | **4,864** | 2,107 |
| Net assets attributable to the Group | **1,094** | 474 |
| Goodwill (note) | **57,489** | 54,359 |
| Carrying amount | **58,583** | 54,833 |
| Revenue | **5,373** | 1,238 |
| Profit for the year | **2,526** | 822 |
| Group's share of profit of associates | **568** | 185 |
| Group's share of other comprehensive income | **52** | – |
| Group's share of total comprehensive income | **620** | 185 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2015

## 17. Interests in Associates *(Continued)*

*Note:* Details of the movement of goodwill as follow:

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| **Cost:** | | |
| At 1 January | 54,359 | – |
| Acquisition | – | 54,359 |
| Currency realignment | 3,130 | – |
| At 31 December | 57,489 | 54,359 |
| **Accumulated impairment loss:** | | |
| At 1 January and 31 December | – | – |
| **Carrying amounts:** | | |
| At 31 December | 57,489 | 54,359 |

Particular of impairment testing on goodwill are disclosed below:

Goodwill has been allocated for impairment testing purposes to the following cash-generating units:

– Provision of cloud platforms application and solutions business

Before recognition of impairment losses, the carrying amount of goodwill was allocated to cash-generating units as follows:

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Provision of cloud platforms application and solutions business | 57,489 | 54,359 |

For the years ended 31 December 2015 and 2014, the recoverable amount of this cash-generating units has been determined based on a value in use calculation which uses cash flow projection based on financial budgets approved by the directors and valued by the professional valuer covering a five year period, and discount rate of 12.47% (2014: 12.42%) per annum. Cash flows beyond that five-year period have been extrapolated using a steady 3.00% (2014: 3.00%) growth rate. This growth rate does not exceed the long-term average growth rate for the market.

Based on the value in use calculation, no impairment on the goodwill associated with the provision of cloud platforms application and solutions business' cash-generating unit was provided for the year ended 31 December 2015 (2014: Nil) due to recoverable amounts of cash generating unit is higher than carrying value.

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

| | |
|---|---|
| Budgeted market shares | Average market share in the period immediately before the budget period. The values assigned to the assumption reflect post experience |
| Budgeted gross margin | Average gross margins achieved in the period immediately before the budget period which reflects the past experience |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2015

## 18. Particulars of Subsidiaries

(a) The particulars of material subsidiaries of the Company at 31 December 2015 were as follows:

| Name of company | Place of incorporation | Particulars of issued and fully paid share capital/ registered capital | Proportion of ownership interest and voting power held by the Company Directly | Indirectly | Principal activities |
|---|---|---|---|---|---|
| Premium Stars Investments Limited | BVI | US$50,000 | 100% | – | Investment holding |
| Perfect Take Group Limited | Hong Kong | HK$10,000 | 100% | – | Management Service |
| Smart Courage Limited | BVI | US$1 | – | 100% | Investment holding |
| Earth Buddy (Intellectual Property) Limited | Hong Kong | HK$10,000 | – | 100% | Sale of biodegradable products |
| Earth Buddy Environmental Limited | Hong Kong | HK$10,000 | – | 100% | Sale of biodegradable products |
| Earth Buddy Materials Limited | Hong Kong | HK$10,000 | – | 100% | Sale of biodegradable products |
| Famous Reliance Limited | BVI | US$50,000 | 100% | – | Investment holding |
| Create Profit Enterprises Limited | Hong Kong | HK$10,000 | – | 100% | Finance and Money lending |
| Leader Joy International Limited | Hong Kong | HK$1 | – | 100% | Investment holding |
| Huge Lucky Limited | Hong Kong | HK$10,000 | – | 100% | Trading and Manufacturing biomass fuel products |
| 佛山市寶地創新科技有限公司 | the PRC | RMB500,000 | – | 100% | Trading and Manufacturing biomass fuel products |
| 德慶縣炬林環保新能源開發有限公司(「炬林環保」) | the PRC | RMB2,000,000 | – | 51% | Trading and Manufacturing biomass fuel products |

The above table lists the subsidiaries of the Group, which, in the opinion of the directors, principally affected the results or assets of the Group. The directors are of the opinion that a complete list of the particulars of all subsidiaries would be of excessive length.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2015

## 18. Particulars of Subsidiaries *(Continued)*

(b) Detail of non-wholly owned subsidiary that has material non-controlling interests

| Name of subsidiary | Place of incorporation | Proportion of ownership interests voting right held by non-controlling interests | | Loss allocated to non–controlling interests | | Accumulated non-controlling interests | |
|---|---|---|---|---|---|---|---|
| | | **2015** | 2014 | **2015 RMB'000** | 2014 RMB'000 | **2015 RMB'000** | 2014 RMB'000 |
| 德慶縣炬林環保新能源開發有限公司(「炬林環保」) | PRC | **49%** | 49% | **(73,716)** | (388) | **31,071** | 104,786 |

(i) 炬林環保

| | **2015 RMB'000** | 2014 RMB'000 |
|---|---|---|
| Current assets | **984** | 4,479 |
| Non-current assets | **91,244** | 225,746 |
| Current liabilities | **(28,818)** | (16,376) |
| Equity attributable to owners of the Company | **32,339** | 109,064 |
| Non-controlling interests | **31,071** | 104,785 |
| Revenue | **454** | 96 |
| Expenses | **(150,893)** | (888) |
| Loss for the year | **(150,439)** | (792) |
| Total comprehensive loss attributable to owners of the Company | **(76,723)** | (404) |
| Total comprehensive loss attributable to owners of the non-controlling interests | **(73,716)** | (388) |
| Total comprehensive loss for the year | **(150,439)** | (792) |
| Net cash generated from operating activities | **15,279** | 11,859 |
| Net cash used in investing activities | **(15,268)** | (11,926) |
| Net cash used in financing activities | **–** | – |
| Net cash inflow/(outflow) | **11** | (67) |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2015

## 19. Inventories

| | **2015** | 2014 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Raw materials | **213** | 218 |
| Work in progress | **71** | 168 |
| Finished goods | **76** | 224 |
| | **360** | 610 |

## 20. Trade, Loan and Other Receivables, Prepayments and Deposits

| | **2015** | 2014 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Trade debtors | **20,411** | 1,499 |
| Loan receivables (note a) | **89,292** | 64,907 |
| Other receivables | **3,942** | 1,350 |
| Trade deposits | **4,188** | 22,103 |
| Rental and other deposits | **1,371** | 548 |
| Prepayments | **733** | 3,878 |
| | **119,937** | 94,285 |
| Less: Non-current portion | | |
| – Loan receivables | **(1,597)** | (17,042) |
| | **118,340** | 77,243 |

Note:

(a) The Group's loan receivables, which arise from the money lending business in Hong Kong, are denominated in Hong Kong dollar. Secured loan receivables are secured by collaterals provided by customers, bear interest and are repayable with fixed terms agreed with the Group's customers.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2015

## 20. Trade, Loan and Other Receivables, Prepayments and Deposits *(Continued)*

### (a) Ageing analysis of trade debtors and loan receivables

Included in trade and other receivables are trade debtors and loan recoverables with the following ageing analysis based on invoice date and inception of such loans as of the end of the reporting period:

| | **2015** **RMB'000** | 2014 RMB'000 |
|---|---|---|
| 0 to 30 days | **1,551** | 17,093 |
| 31 to 60 days | **509** | 6,721 |
| 61 to 90 days | **–** | 11,901 |
| 91 to 180 days | **47,981** | 12,383 |
| 181 to 365 days | **32,689** | – |
| Over 365 days | **26,973** | 18,308 |
| | **109,703** | 66,406 |
| Less: allowance for doubtful debts | **–** | – |
| | **109,703** | 66,406 |

Customers are generally granted with credit term of 90 days and the loan to customers were repaid in accordance with the terms of the loan agreements. Further details on the Group's policy are set out in note 33(b)(i).

### (b) Impairment of trade debtors and loan receivables

In determining the recoverability of the loan receivables, the Group considers any change in the credit quality of the loan receivables from the date of credit was initially granted up to the reporting date.

At the end of each reporting date, the Group's loan receivables were individually assessed for impairment. The Group encountered difficulties in collection of certain loan receivables and appropriate allowance for bad and doubtful debts has been made against these loan receivables. The individually impaired loan receivables are recognised based on the credit history of the borrowers, such as financial difficulties or default in payments, and current market conditions. Consequently, specific allowance for bad and doubtful debts was recognised. There were no impairment loss recognised for the years ended 31 December 2015 and 2014.

The Group has concentration of credit risk from five highest borrowers of RMB 71,181,000 (2014: RMB57,073,000) in total at 31 December 2015.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2015

## 20. Trade, Loan and Other Receivables, Prepayments and Deposits *(Continued)*

### (c) Trade debtors and loan receivables that are not impaired

The ageing analysis of trade debtors and loan receivables that are neither past due nor impaired and that are past due but not impaired are as follows:

| | **2015** **RMB'000** | 2014 RMB'000 |
|---|---|---|
| Neither past due nor impaired | **89,594** | 64,441 |
| Less than 6 months past due | **18,356** | 1,165 |
| More than 6 months past due | **1,753** | 800 |
| | **20,109** | 1,965 |
| Total | **109,703** | 66,406 |

Trade debtors that were neither past due nor impaired relate to a range of customers for whom there was no recent history of default.

Trade debtors that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, 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 fully recoverable. The Group did not hold collaterals from the relevant customers over these balances.

## 21. Financial Assets at Fair Value through Profit or Loss

| | **2015** **RMB'000** | 2014 RMB'000 |
|---|---|---|
| Listed securities: | | |
| Equity securities listed in Hong Kong | **45,216** | 20,456 |

Financial assets at fair value through profit or loss are stated at fair values which are determined with reference to quoted market bid prices.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2015

## 22. Cash and Bank Balances

| | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|
| Cash and bank balances, denominated in | | |
| – Hong Kong dollars and United Sates dollars | **3,400** | 29,396 |
| – Renminbi | **37** | 10 |
| Cash and cash equivalents in consolidated statement of financial position and consolidated statement of cash flows | **3,437** | 29,406 |

Cash and bank balances of approximately RMB37,000 (2014: RMB10,000) are denominated in Renminbi. Renminbi is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government. Cash at banks earn interest at floating rates based on daily bank deposits rate.

## 23. Trade and Other Payables

| | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|
| Trade creditors | **2,661** | 1,273 |
| Accrued expenses and other payables | **24,259** | 38,609 |
| | **26,920** | 39,882 |

Included in trade and other payables are trade creditors with the following ageing analysis:

| | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|
| 0 to 30 days | **–** | – |
| Over 30 days | **2,661** | 1,273 |

The average credit period on purchases of goods is 30 days.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2015

## 24. Convertible Notes

On 3 January 2014, the Company issued 2% coupon convertible notes with a principal amount of HK$116,480,000 (equivalent to approximately RMB91,809,000). Each note entitled the holder to convert into ordinary share of the Company at a conversion price of HK$0.32 per conversion share. The convertible notes were issued as part of the consideration for acquisition of Double Win Internation Investments Limited. The maturity date of the convertible notes is 3 January 2017. The convertible notes were fully converted into 364,000,000 ordinary shares of the Company during the year ended 31 December 2014.

On 1 August 2014 and 13 August 2014, the Company issued convertible notes with a principal amount of HK$200,000,000. Each note entitled the holder to convert into ordinary share of the Company at a conversion price of HK$0.1 per conversion share. In addition, the convertible notes were issued with the entitlement to the bonus warrants at net consideration on the basis of 1 bonus warrant for every 5 conversion shares issued upon exercise of the convertible notes. The convertible notes were fully converted into 3,000,000,000 ordinary shares of the Company together with 400,000,000 bonus warrants.

During the year ended 31 December 2014, the aggregate amount 2,364,000,000 of convertible bonds has been converted. For details, please refer to the announcements of the Company dated 16 January 2014, 25 August 2014, 30 September 2014, 17 October 2014, 22 October 2014 and 31 October 2014.

The Convertible Notes recognised in the statement of financial position was calculated, as follows:

| | **2015**<br>**RMB'000** | 2014<br>RMB'000 |
|---|---|---|
| At 1 January | – | – |
| Issue of convertible notes | – | 235,916 |
| Interest charged | – | 393 |
| Interest paid | – | (245) |
| Conversion | – | (236,064) |
| At 31 December | – | – |

During the year ended 31 December 2014, interest expense on the convertible notes is calculated using the effective interest method by applying the effective interest rate on initial recognition of the liability component. The fair values of the convertible notes has been arrived on the basis of a valuation carried out on the date of issue and at the end of the reporting period by independent professional valuers not connected with the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2015

## 25. Tax Payables

**(a)** Current tax payables in the consolidated statement of financial position represents:

| | **2015** **RMB'000** | 2014 RMB'000 |
|---|---|---|
| Current tax payables for PRC enterprise income tax | **3** | – |
| Current tax payables for Hong Kong profit tax | **718** | 901 |
| | **721** | 901 |

**(b)** **Deferred taxation recognised**

No deferred tax liabilities have been recognised as the Group does not have significant temporary difference for the years ended 31 December 2015 and 2014.

At the end of the reporting period, no deferred tax assets has been recognised in relation to the deductible temporary difference and tax losses as it is not probable that taxable profit will be available against which the deductible temporary difference and tax losses can be utilised (2014: Nil). The Group has tax losses of approximately RMB30,799,000 (2014: RMB15,501,000), which do not expire under current tax legislation.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2015

## 26. Obligations under Finance Leases

| | **Minimum lease payments** | | **Present value of minimum lease payment** | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **RMB** | RMB | **RMB** | RMB |
| Amounts payable under finance leases: | | | | |
| Within one year | **1,022** | 621 | **884** | 609 |
| More than one year and not more than five years | **2,528** | 2,173 | **2,375** | 1,970 |
| In the fifth year | **63** | – | **62** | – |
| | **3,613** | 2,794 | **3,321** | 2,579 |
| Less: Future finance charges | **(292)** | (215) | **–** | – |
| Present value of lease obligations | **3,321** | 2,579 | **3,321** | 2,579 |
| Less: Amount due within one year shown under current liabilities | | | **(884)** | (609) |
| Amount due after one year | | | **2,437** | 1,970 |

The Group has leased the motor vehicles under finance leases. The lease term is 5 years. Interest rates underlying all obligations under finance leases are fixed at respective contract dates ranged 2% to 2.5% per annum. Obligations under finance leases are denominated in Hong Kong dollars.

The obligations under finance leases are secured by the lessor's charge over the leased assets and by the corporate guarantees provided by the Company.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2015

## 27. Capital and Reserves

### (a) Share capital

(i) Authorised and issued share capital

| | Par value of each share HK$ | Number of share '000 | Nominal value HK$'000 |
|---|---|---|---|
| **Authorised** | | | |
| At 31 December 2014 and 1 January 2015 | 0.10 | 10,000,000 | 1,000,000 |
| Sub-division (Note vii) | | 990,000,000 | – |
| Share Consolidation (Note viii) | | (950,000,000) | – |
| At 31 December 2015 | 0.02 | 50,000,000 | 1,000,000 |

| | | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|---|
| | | Number of shares | Nominal value of ordinary shares | | Number of shares | Nominal value of ordinary shares | |
| | | '000 | HK$'000 | RMB'000 | '000 | HK$'000 | RMB'000 |
| **Ordinary share, issued and fully paid:** | | | | | | | |
| At 1 January | | 4,259,002 | 425,898 | 339,771 | 1,824,002 | 182,398 | 146,820 |
| Issue of shares upon conversion of convertible notes | (i) | – | – | – | 364,000 | 36,400 | 28,690 |
| Issue of shares upon conversion of convertible notes | (ii) | – | – | – | 2,000,000 | 200,000 | 158,615 |
| Issue of shares upon exercise of unlisted warrants | (iii) | – | – | – | 50,000 | 5,000 | 3,946 |
| Issue of shares upon exercise of bonus warrants | (iv) | – | – | – | 21,000 | 2,100 | 1,700 |
| Issue of shares upon placing of shares | (vi) | 851,800 | 85,180 | 66,977 | – | – | – |
| Capital reduction | (vii) | – | (505,967) | (402,681) | – | – | – |
| Share consolidation | (viii) | (4,855,262) | – | – | – | – | – |
| | | 255,540 | 5,111 | 4,067 | 4,259,002 | 425,898 | 339,771 |

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2015

## 27. Capital and Reserves *(Continued)*

### (a) Share capital *(Continued)*

(i) On 22 January 2014 and 10 March 2014, convertible notes with the principal amount of HK$116,480,000 issued to the vendors as part of the consideration for the acquisition were converted into 364,000,000 issued shares at the conversion price of HK$0.32 per conversion share.

(ii) On 1 August 2014 and 13 August 2014, convertible notes with the principal amount of HK$200,000,000 were converted into 2,000,000,000 issued shares at the conversion price HK$0.1 per share and related transaction costs attributable to issue share upon convertible notes were approximately HK$5,000,000 (equivalent to approximately RMB4,028,000).

(iii) On 11 September 2014, unlisted warrants with the principal amount of HK$9,000,000 (equivalent to approximately RMB7,127,000) were exercised and converted into 50,000,000 issued shares at the unlisted warrants price HK$0.18 per share.

(iv) On 11 September 2014, partial bonus warrants with the principal amount of HK$2,100,000 (equivalent to approximately RMB1,700,000) were exercised and converted into 21,000,000 issued shares at the conversion price HK$0.1 per share.

(v) Pursuant to an ordinary resolution passed by the shareholders of the Company at an extraordinary general meeting on 24 February 2014, the authorised share capital of the Company was increased from HK$200,000,000 to HK$1,000,000,000 by creation of 8,000,000,000 additional shares.

(vi) On 15 June 2015, the placement of 851,800,000 shares under general mandate granted at an issue price of HK$0.103.

(vii) Pursuant to a special resolution passed by the shareholders of the Company at an extraordinary general meeting on 15 July 2015, the approval from the Grand Court of Cayman Islands ("Court") and a copy of the order granted by the Court and minutes approved by the Court were filed and registered with Registrar of Companies in the Cayman Islands on 15 October 2015 (Cayman time), the paid-up capital of each of the issued shares had been reduced from HK$0.10 each to HK$0.001 each by cancelling paid-up capital to the extent of HK$0.099 per issued share by way of a reduction of capital, so as to form an ordinary share with par value of HK$0.001 each; and immediately following the Capital Reduction, each of the authorised but unissued Shares with par value of HK$0.10 each had been subdivided into one hundred (100) unissued new shares of HK$0.001 each became effective after 4:00 p.m. on 15 October 2015 but before 9:00 a.m. on 16 October 2015, (due to time difference between Hong Kong and Cayman Islands).

(viii) Pursuant to an ordinary resolution passed by the shareholders of the Company at an extraordinary general meeting on 6 November 2015 every 20 issued and unissued shares of HK$0.001 each in share capital of the Company be consolidated into one share of HK$0.02 each with effect from 9 November 2015.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2015

## 27. Capital and Reserves *(Continued)*

### (b) Nature and purpose

#### *(i) Share premium*

Share premium represents the share premium of the Company, the application of which is governed by the Companies Law of the Cayman Islands. Under the Companies Law (2000 revision) of the Cayman Islands, the funds in the share premium account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of the business.

#### *(ii) Capital reduction reserve*

Pursuant to a special resolution passed on 15 July 2015, the issued share capital of the Company was be reduced by cancelling paid up capital to the extent of HK$0.099 on each of the shares in issue such that the nominal value of all the issued shares be reduced (the "Issued Capital Reduction") from HK$0.10 each to HK$0.01 each; and the nominal value of all unissued shares in the authorised share capital of the Company was reduced (the "Authorised Capital Reduction") from HK$0.10 each to HK$0.01 each. Upon the Issued Capital Reduction and the Authorised Capital Reduction becoming effective, the authorised share capital of the Company was HK$1,000,000,000, divided into 1,000,000,000,000 ordinary shares of HK$0.001 each. The Issued Capital Reduction was completed on 16 October 2015.

#### *(iii) Share-based compensation reserve*

Share-based compensation reserve comprises the portion of the grant date fair value of unexercised share options granted to employees and other service providers of the Company that has been recognised in accordance with the accounting policy adopted for share-based payments in note 3(n)(ii).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2015

## 27. Capital and Reserves *(Continued)*

### (b) Nature and purpose *(Continued)*

#### *(iv) General fund reserve*

According to the relevant laws and regulations in the PRC, the subsidiaries established in the PRC, is required to appropriate at least 10% of after-tax profit (after offsetting prior years' losses), based on the PRC statutory financial statements prepared in accordance with the generally accepted accounting principles and financial regulations applicable to the PRC enterprises, to a general fund reserve until the balance of the fund reaches 50% of its registered capital. Thereafter, any further appropriation can be made at the directors' discretion.

The general fund reserve can be utilised to offset the prior years' losses, or be utilised to increase the capital on the condition that the general fund reserve shall be maintained at a minimum of 25% of the registered capital after such increase.

#### *(v) Exchange reserve*

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 3(r).

#### *(vi) Contributed surplus*

The contributed surplus of the Company represents the difference between the aggregate nominal value of the share capital issued by the Company and the net asset value of subsidiaries acquired through an exchange of shares.

Under the Companies Law (2000 Revision) of the Cayman Islands, contributed surplus is distributable to shareholders, subject to the condition that the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if (i) it is, or would after the payment be, unable to pay its liabilities as they become due, or (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued capital account.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2015

## 27. Capital and Reserves *(Continued)*

### (c) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The capital structure of the Group consists of (i) cash and cash equivalents; and (ii) capital, which comprises all components of equity.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions. In order to balance its overall capital structure, the Group may issue new shares, raise new debt financing or sell assets to reduce debt.

The Group monitors its capital structure on the basis of gearing ratio. The Group's gearing ratio as at 31 December 2015 is 9.2% (2014: 10.0%), which is calculated by dividing total liabilities of approximately RMB30,962,000 (2014: RMB43,362,000) over the total assets of approximately RMB335,891,000 (2014: RMB433,800,000).

There were no changes in the Group's approach to capital management during the year.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2015

## 27. Capital and Reserves *(Continued)*

### (d) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

**The Company**

| | Share capital RMB'000 | Share premium RMB'000 | Contributed surplus RMB'000 | Capital reduction reserve RMB'000 | Convertible note equity reserve RMB'000 | Warrants reserve RMB'000 | Share-based compensation reserve RMB'000 | Exchange reserve RMB'000 | Accumulated losses RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2014 | 146,820 | 84,248 | 56,774 | 92,489 | – | – | 36,239 | (4,389) | (390,570) | 21,611 |
| Loss for the year | – | – | – | – | – | – | – | – | (6,933) | (6,933) |
| Other comprehensive loss for the year | | | | | | | | | | |
| Exchange difference | | | | | | | | | | |
| translating into presentation currency | – | – | – | – | – | – | – | (114) | – | (114) |
| Total comprehensive loss for the year | – | – | – | – | – | – | – | (114) | (6,933) | (7,047) |
| Issuance of unlisted warrants | – | – | – | – | – | 1,349 | – | – | – | 1,349 |
| Issuance of convertible notes | – | – | – | – | 8,965 | – | – | – | – | 8,965 |
| Issue of shares upon conversion of convertible notes | 158,615 | – | – | – | (8,965) | 105 | – | – | – | 149,755 |
| Transaction costs attributable to issuance of conversion of convertible notes | – | (4,028) | – | – | – | – | – | – | – | (4,028) |
| Issue of shares upon exercise of bonus warrants | 1,700 | 5 | – | – | – | (5) | – | – | – | 1,700 |
| Issue of shares upon conversion of convertible notes | 28,690 | 63,232 | – | – | – | – | – | – | – | 91,922 |
| Exercise of unlisted warrants | 3,946 | 3,367 | – | – | – | (186) | – | – | – | 7,127 |
| At 31 December 2014 and 1 January 2015 | 339,771 | 146,824 | 56,774 | 92,489 | – | 1,263 | 36,239 | (4,503) | (397,503) | 271,354 |
| Loss for the year | – | – | – | – | – | – | – | – | (91,334) | (91,334) |
| Other comprehensive loss for the year | | | | | | | | | | |
| Exchange difference | | | | | | | | | | |
| translating into presentation currency | – | – | – | – | – | – | – | 22,625 | – | 22,625 |
| Total comprehensive loss for the year | – | – | – | – | – | – | – | 22,625 | (91,334) | (68,709) |
| Issue of shares upon placing of shares | 66,977 | 2,009 | – | – | – | – | – | – | – | 68,986 |
| Transaction cost in relation to issue of shares pursuant to placing of shares | – | (1,035) | – | – | – | – | – | – | – | (1,035) |
| Capital reduction | (402,681) | – | – | 402,681 | – | – | – | – | – | – |
| Release upon lapse of share options | – | – | – | – | – | – | (1,343) | – | 1,343 | – |
| **At 31 December 2015** | **4,067** | **147,798** | **56,774** | **495,170** | **–** | **1,263** | **34,896** | **18,122** | **(487,494)** | **270,596** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2015

## 28. Summarised financial information of the Company

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| **Non-current assets** | | |
| Plant and equipments | **9** | 12 |
| Investments in subsidiaries | **17,956** | 102,457 |
| | **17,965** | 102,469 |
| **Current assets** | | |
| Trade, loan and other receivables, prepayments and deposits | **259,672** | 164,927 |
| Cash and bank balances | **293** | 9,646 |
| | **259,965** | 174,573 |
| **Current liabilities** | | |
| Trade and other payables | **7,334** | 5,688 |
| | **7,334** | 5,688 |
| **Net current assets** | **252,631** | 168,885 |
| **Total assets less current liabilities** | **270,596** | 271,354 |
| **Net assets** | **270,596** | 271,354 |
| **Capital and reserves attributable to owners of the Company** | | |
| Share capital | **4,067** | 339,771 |
| Reserves | **266,529** | (68,417) |
| **Total equity** | **270,596** | 271,354 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2015

## 29. Equity Settled Share-based Transactions

The Company has the New Scheme which was adopted on 24 September 2009 whereby the directors of the Company are authorised, at their discretion, to invite eligible participants of the Group, including the employees and directors of any company in the Group, to take up options at HK$10 consideration to subscribe for shares of the Company. The New Scheme remains in force for a period of 10 years from adoption of such scheme and expires on 23 September 2019. The exercise period of the share options granted is determined by the directors of the Company but not later than 10 years from the date of grant. Each option gives the holder the right to subscribe for one ordinary share in the Company and is settled gross in shares.

The purpose of New Scheme is to provide incentives or rewards to the participants for their contribution to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group.

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

The exercise price must be at least the highest of: (a) the nominal value of the Company's share on the date of grant; (b) the closing price of the Company's share as stated in the daily quotations sheet of the Stock Exchange on the date of grant, which must be a business day; and (c) the average closing price of a share as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant.

An option may be exercised in accordance with the terms of the Scheme at any time during a period to be determined and notified by the Directors of the Company to each grantee of the option which period may commence on a day after the date upon which the option is granted but shall and in any event be not later than ten years from the date of grant. Unless otherwise determined by the Directors of the Company at their sole discretion, there is no requirement of a minimum period for which a share option must be held.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2015

## 29. Equity Settled Share-based Transactions *(Continued)*

| | Date of grant | Exercised price HK$ | Number of share option outstanding at 1 January '000 | Granted during the year '000 | Exercise during the year '000 | Lapsed/ cancelled/ forfeited during the year '000 | Share consolidation '000 | Number of share options outstanding at 31 December '000 |
|---|---|---|---|---|---|---|---|---|
| **2015** | | | | | | | | |
| Directors | 11 November 2009 | | | | | | | |
| | (Adjusted) | 82.64 | 204 | – | – | (204) | – | – |
| | 28 November 2013 | 6.38 | 10,000 | – | – | (5,000) | (4,750) | 250 |
| | | | 10,204 | – | – | (5,204) | (4,750) | 250 |
| Eligible | 11 November 2009 | | | | | | | |
| participants | (Adjusted) | 82.64 | 2,298 | – | – | – | (2,183) | 115 |
| | 28 November 2013 | 6.38 | 169,800 | – | – | – | (161,310) | 8,490 |
| | | | 172,098 | – | – | – | (163,493) | 8,605 |
| | | | 182,302 | – | – | (5,204) | (168,243) | 8,855 |
| Weighted average Exercise price* | | | 7.43 | – | – | 9.37 | 7.37 | 7.37 |

* Weighted average exercise price was adjusted with the share consolidation completed on 9 November 2015.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2015

## 29. Equity Settled Share-based Transactions *(Continued)*

| | Date of grant | Exercised price HK$ | Number of share option outstanding at 1 January '000 | Granted during the year '000 | Exercise during the year '000 | Lapsed/ cancelled/ forfeited during the year '000 | Share consolidation '000 | Adjustment during the year '000 | Number of share options outstanding at 31 December '000 |
|---|---|---|---|---|---|---|---|---|---|
| **2014** | | | | | | | | | |
| Directors | 11 November 2009 (Adjusted) | 4.1320 | 204 | – | – | – | – | – | 204 |
| | 28 November 2013 | 0.3190 | 10,000 | – | – | – | – | – | 10,000 |
| | | | 10,204 | – | – | – | – | – | 10,204 |
| Eligible participants | 11 November 2009 (Adjusted) | 4.1320 | 2,298 | – | – | – | – | – | 2,298 |
| | 28 November 2013 | 0.3190 | 169,800 | – | – | – | – | – | 169,800 |
| | | | 172,098 | – | – | – | – | – | 172,098 |
| | | | 182,302 | – | – | – | – | – | 182,302 |
| Weighted average Exercise price | | | 0.3713 | – | – | – | – | – | 0.3713 |

As at 31 December 2015, the weighted average remaining contractual life of the share option is 2 years (2014: 3 years).

During the year ended 31 December 2015, there were nil (2014: nil) share options granted and nil (2014: nil) share options forfeited.

During the year ended 31 December 2015, there were 5,204,000 share options lapsed. (2014: nil).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2015

## 30. Retirement Benefits Scheme

The Group operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Scheme Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap monthly relevant income of HK$30,000. Contributions to the scheme vest immediately.

Under the above schemes, retirement benefits of existing and retired employees are payable by the relevant scheme administrators and the Group has no further obligations beyond the annual contributions.

The employees in the PRC are members of state-managed retirement benefit scheme operated by the PRC government. The Company's subsidiary operating in the PRC is required to contribute a certain percentage of payroll to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the scheme is to make the required contribution under the scheme.

For the year ended 31 December 2015, the aggregate amount of the Group's contributions to the aforementioned schemes was approximately RMB154,000 (2014: RMB88,000) which was included in the staff costs.

## 31. Material Related Party Transactions

Save as disclosed elsewhere in the consolidated financial statements, the Group has the following material related party transactions:

### (a) Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in Note 9, is as follows:

| | **2015** | 2014 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Short-term employees benefit | **2,305** | 1,619 |
| Retirement scheme contributions | **72** | 44 |
| Total | **2,377** | 1,663 |

Total remuneration is included in "staff cost" (see note 7(b)).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2015

## 32. Commitments

(a) Capital commitments outstanding at 31 December 2015 not provided for in the financial statements were as follows:

| | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|
| Plant and equipments | – | 13,452 |
| | – | 13,452 |

(b) At 31 December 2015, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

| | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|
| Within 1 year | 1,670 | 1,722 |
| After 1 year but within 5 years | – | 1,650 |
| | 1,670 | 3,372 |

The Group leases a number of properties under operating leases. The leases typically run for an initial period of one to three years, with an option to renew the lease when all terms are renegotiated. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

## 33. Financial instruments

### (a) Categories of financial instruments

| | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|
| **Financial assets** | | |
| Loans and receivables (including cash and bank balances) | 119,204 | 90,407 |
| Financial assets at fair value through profit or loss | 45,216 | 20,456 |
| Available-for-sale financial assets | 11,851 | – |
| **Financial liabilities** | | |
| Amortised cost | 30,241 | 42,461 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2015

## 33. Financial instruments *(Continued)*

### (b) Financial Risk Management and Fair Values

#### *Financial risk factors*

The Group's financial assets include cash and cash equivalents, trade, loan receivables and other receivables, prepayments and deposits. The Group's financial liabilities include trade and other payables.

The Group does not have nor has issued financial instruments for trading purposes. Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

#### *(i) Credit risk*

The Group's credit risk is primarily attributable to trade, loan and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

Money lending business

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approval and other monitoring procedures to ensure that follow-up action is taken for the recoverable amount. In addition, the Group reviews the recoverable amount of each individual's loan receivables at the end of each reporting period to ensure that adequate impairment loss are made for irrecoverable amounts. As at 31 December 2015, base on past experience, the directors of the Company are of the opinion that no provision for impairment on individual loans is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

The Group manages and analyses the credit risk for each of their new and existing clients before standard payment terms and conditions are offered. If there is no independent rating, the Group assesses the credit quality of the customer based on the customer's financial position, past experience and other factors. The Group holds collateral against receivable and interest receivables in the form of mortgages over property. Majority of the collateral are residential, properties and all of the collaterals are located in Hong Kong. Individual risk limits are set based on the value of collaterals provided by customers and internal or external ratings in accordance with limits set by the directors. The utilisation of credit limits is regularly monitored.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2015

## 33. Financial instruments *(Continued)*

### (b) Financial Risk Management and Fair Values *(Continued)*

***Financial risk factors*** *(Continued)*

*(i) Credit risk (Continued)*

Other credit risk

In respect of trade and other receivables, credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer. Normally, the Group requests the customers to pay sales deposits to reduce the credit risk exposures.

The Group has a concentration of credit risk in certain individual customers. At the end of each reporting period, the five largest receivable balances accounted for approximately 63.54% (2014: approximately 81.20%) of the trade receivable and the largest trade receivable was approximately RMB16,943,000 (2014: RMB16,544,000) and was approximately 15.44% (2014: approximately 24.91%) of the Group's total trade receivables. The Group seeks to minimize its risk by dealing with counterparties which have good credit history. Majority of the trade receivables that are neither past due nor impaired have no default payment history.

In relation to the Group's deposit with bank, the Group limits its exposure to credit risk by placing deposits with financial institution with high credit rating and no recent history of default. The directors consider that the Group's credit risk on the bank deposits is low. Management continues to monitor the position and will take appropriate action if their ratings are changed. As at 31 December 2015 and 2014, the Group has no significant concentration of credit risk in relation to deposit with bank.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 20.

*(ii) Liquidity risk*

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions and other lenders to meet its liquidity requirements in the short and longer term.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2015

## 33. Financial instruments *(Continued)*

### (b) Financial Risk Management and Fair Values *(Continued)*

***Financial risk factors*** *(Continued)*

*(ii) Liquidity risk (Continued)*

The following tables show the remaining contractual maturities at the end of the reporting period of Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

| | 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Carrying Amount RMB'000 | Total Contractual undiscounted cash flow RMB'000 | Within 1 year or on demand RMB'000 | More than 1 year but less than 2 years RMB'000 | More than 2 years but less than 5 years RMB'000 | Over 5 years RMB'000 |
| Trade and other payables | 26,920 | 26,920 | 26,920 | – | – | – |
| Obligations under finance leases | 3,321 | 3,613 | 1,022 | 1,022 | 1,506 | 63 |
| | 30,241 | 30,533 | 27,942 | 1,022 | 1,506 | 63 |

| | 2014 | | | | | |
|---|---|---|---|---|---|---|
| | Carrying Amount RMB'000 | Total Contractual undiscounted cash flow RMB'000 | Within 1 year or on demand RMB'000 | More than 1 year but less than 2 years RMB'000 | More than 2 years but less than 5 years RMB'000 | Over 5 years RMB'000 |
| Trade and other payables | 39,882 | 39,882 | 39,882 | – | – | – |
| Obligations under finance leases | 2,579 | 2,794 | 621 | 621 | 1,552 | – |
| | 42,461 | 42,676 | 40,503 | 621 | 1,552 | – |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2015

## 33. Financial instruments *(Continued)*

### (b) Financial Risk Management and Fair Values *(Continued)*

***Financial risk factors*** *(Continued)*

*(iii) Interest rate risk*

Sensitivity analysis

At 31 December 2015 and 2014, the Group has no borrowing at variable interest rate and fixed interest rate that expire the Group's cash flow interest rate risk and fair value interest rate risk.

*(iv) Currency risk*

Renminbi is not freely convertible into foreign currencies. All foreign exchange transactions involving Renminbi must take place through the People's Bank of China ("PBOC") or other institutions authorised to buy and sell foreign exchange. The exchange rates adopted for the foreign exchange transactions are the rates of exchange quoted by the PBOC that would be subject to a managed float against an unspecified basket of currencies.

As most of the Group's monetary assets and liabilities are denominated in Renminbi and Hong Kong dollars and the Group conducts its business transactions principally in Renminbi and Hong Kong dollars, the exchange rate risk of the Group is not significant and the Group does not employ any financial instruments for hedging purposes.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2015

## 33. Financial instruments *(Continued)*

### (b) Financial Risk Management and Fair Values *(Continued)*

***Financial risk factors*** *(Continued)*

*(v) Fair values of financial instrument*

The fair values of financial assets and financial liabilities are determined as follows:

(i) the fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and

(ii) the fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The carrying amount of other financial assets and liabilities carried at amortised cost, approximate their respective fair values due to the relatively short-term nature of these financial instruments.

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable as at 31 December 2015 and 2014.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the assets or liability that are not based on observable market data (unobservable inputs).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2015

## 33. Financial instruments *(Continued)*

### (b) Financial Risk Management and Fair Values *(Continued)*

***Financial risk factors*** *(Continued)*

*(v) Fair values of financial instrument (Continued)*

| At 31 December 2015 | Level 1 RMB'000 | Level 2 RMB'000 | Level 3 RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| Financial assets at fair value through profit or loss | **45,216** | **–** | **–** | **45,216** |

| Financial assets | Fair value at | Fair value hierarchy | Valuation technique(s) and key input(s) |
|---|---|---|---|
| Financial assets at fair value through profit or loss | 31/12/15: RMB45,216,000 | Level 1 | Quoted bid prices in active market |

| At 31 December 2014 | Level 1 RMB'000 | Level 2 RMB'000 | Level 3 RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| Financial assets at fair value through profit or loss | 20,456 | – | – | 20,456 |

| Financial assets | Fair value at | Fair value hierarchy | Valuation technique(s) and key input(s) |
|---|---|---|---|
| Financial assets at fair value through profit or loss | 31/12/14: RMB20,456,000 | Level 1 | Quoted bid prices in active market |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2015

## 33. Financial instruments *(Continued)*

### (b) Financial Risk Management and Fair Values *(Continued)*

***Financial risk factors*** *(Continued)*

*(v) Fair values of financial instrument (Continued)*

| Financial assets | Fair value at | For value hierarchy | Valuation technique(s) and key input(s) | Significant unobservable input(s) |
|---|---|---|---|---|
| Private equity investments classified as AFS on the statement of financial position | 31/12/15: 5.4 per cent equity investment in Peak Zone Group Limited engaged in the electronic commerce industry on Provision of integrated application RMB11,851,000 | Level 3 | Income approach – in this approach, the discounted cash flow method was used to capture the present value of the expected future economic benefits to be derived from the ownership of these investees. | Long-term revenue growth of 2.5% taking into account management's experience and knowledge of market conditions of the specific industries<br><br>Weight average cost of capital (WACC), determined using a Capital Asset Pricing Model ranging from of 13.9%<br><br>Discount for lack of marketability of 10.8% |

There were no transfer between Level 1, 2 and 3 in both years.

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The above table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2015

## 34. Accounting Estimates and Judgements

The methods, estimates and judgements the directors used in applying the Group's accounting policies have a significant impact on the Group's financial position and operating results. Some of the accounting policies require the Group to apply estimates and judgements, on matters that are inherently uncertain. The critical accounting judgements in applying the Group's accounting policies are described below.

### (a) Impairment for bad and doubtful debts

The Group estimates impairment losses for bad and doubtful debts resulting from the inability of the customers to make the required payments. The Group bases the estimates on the aging of the trade debtors and loan receivables, customer credit-worthiness, and historical write-off experience. If the financial condition of the customers were to deteriorate, actual write off would be higher than estimated.

### (b) Impairment for non-current assets

If circumstances indicate that the carrying amount of a non-current asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in accordance with IAS 36 "Impairment of Assets". The carrying amounts of non-current assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for the Group's assets are not readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sale volume, selling price and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sale volume, selling price and amount of operating costs.

### (c) Depreciation and amortisation

Plant and equipments are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. Intangible assets except for those with indefinite lives are amortised on a straight-line basis over the estimated useful lives. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation and amortisation expenses to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation and amortisation expenses for future periods are adjusted prospectively if there are significant changes from previous estimates.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2015

## 34. Accounting Estimates and Judgements *(Continued)*

### (d) Provision for income tax

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The management evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised, the management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

### (e) Impairment for goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation requires the Group estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate the present value.

The carrying amount of goodwill as at 31 December 2015 was RMB63,271,000 (2014: RMB213,259,000). Details of the impairment loss calculation are set out in note 15.

### (f) Impairment of intangible assets

Determining whether intangible assets is impaired requires an estimation of the value in use of the cash-generating units. The value in use calculation requires management to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate present value.

## 35. Non-cash Transactions

During the year ended 31 December 2015, additions to plant and equipments of approximately HK$2,494,000 (2014: HK$4,241,000) (equivalent to approximately RMB2,089,000 (2014: RMB3,356,000)) was made under the finance leases.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2015

## 36. Acquisition of Subsidiaries

On 26 November 2013, the Group entered into a sale and purchase agreement ("S&P") to acquired 100% equity interest in Double Win International Investments Limited and its subsidiaries ("Double Win Group") from an independent third party (the "Vendor") at a consideration of HK$130,000,000 (equivalent to approximately RMB102,466,000) The total consideration was satisfied by cash consideration HK$13,520,000 (equivalent to approximately RMB10,657,000) and issue of convertible notes of approximately HK$116,480,000 (equivalent to approximately RMB91,809,000). The acquisition was completed on 3 January 2014. Summary of the effects of the acquisition is as follows:

| | **Acquiree's carrying amount and fair value Total RMB'000** |
|---|---:|
| Plant and equipments | 923 |
| Inventor | 1,134 |
| Trade and other receivables prepayments and deposits | 2,640 |
| Cash and cash balances | 1,097 |
| Trade and other payables | (18,139) |
| | (12,345) |
| Goodwill | 213,259 |
| Non-controlling interests | (98,448) |
| | 102,466 |

The Group were acquired Double Win Group as to new segment business of the Group's biomass fuel products business.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2015

## 36. Acquisition of Subsidiaries *(Continued)*

### Non-controlling interests

The non-controlling interests of 49% in 炬林環保, a subsidiary of Double Win, recognised at the acquisition date was measured by reference to the fair value was estimated by an income approach. The following were the key model inputs used in determining the fair value:

- assumed discount rate of 13%, and
- assumed long-term sustainable growth rate of 2%.

### Goodwill arising on acquisition

| | RMB'000 |
|---|---|
| Consideration transferred | 102,466 |
| Add: non-controlling interests (49% in 炬林環保), including goodwill | 98,448 |
| Add: fair value of identifiable net liabilities acquired | 12,345 |
| | 213,259 |

Goodwill arose in the acquisition of Double Win Group because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of revenue growth and future market development of Double Win Group. These benefits not recognized separately from goodwill because they do not meet the recognition criteria of identifiable intangible assets. None of the goodwill arising on these acquisitions is expected to be deductible for tax purpose.

Included in the loss for the year of approximately RMB2,869,000 and turnover for the year of approximately RMB30,897,000 attributable to the additional business generated by Double Win Group.

Has these business combinations been effected at 1 January 2014, the loss for the year of approximately RMB2,869,000 and turnover for the year of approximately RMB30,897,000 attributable to the continuing operation of Double Win Group.

### Net cash outflow on acquisition of subsidiaries

| | RMB'000 |
|---|---|
| Consideration paid in cash | 10,657 |
| Less: Cash and cash equivalent balance acquired | (1,097) |
| | 9,560 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2015

## 37. Events after the Reporting Period

On 2 December 2015, the Company proposed to raise not less than approximately HK$245,320,000 and not more than approximately HK$287,120,000 before expenses by rights issue, on the basis of six rights shares of HK$0.02 each in the share capital of the Company for every one Share held on 29 January 2016 at the subscription price of HK$0.16 per rights share ("Rights Issue"). The number of rights shares proposed to be issued was not less than 1,533,240,504 new Shares and not more than 1,794,509,862 new Shares ("Rights Shares"). The Company and Grand China Securities Limited ("Underwriter") entered into the underwriting agreement ("Underwriting Agreement"), pursuant to the Underwriting Agreement, the Underwriter has conditionally agreed to underwrite all the Rights Shares subject to the terms and conditions set out in the Underwriting Agreement. Completion of the Rights Issue took place on 29 February 2016. Details of the Rights Issue were set out in the Company's prospectus dated 1 February 2016, the circular dated 28 December 2015 and the Company's announcements dated 2 December 2015, 21 January 2016 and 26 February 2016.

The entire net proceeds from the Rights Issue was approximately HK$241,600,000 and the Company intended to apply net proceeds from the Rights Issue, as to (i) approximately HK$200,000,000 for further development of money lending business; and (ii) approximately HK$41,600,000 for any future acquisition or investments.

## 38. Comparative Figures

Certain comparative figures have been reclassified to conform to the current period's presentation or restated to disclose the impact of the Capital Reduction, the Sub-division, the Share Consolidation and the Rights Issue. These reclassifications have no impact on the Group's loss for the year ended 31 December 2014 and the Group's total equity as at 31 December 2014.

## 39. Authorisation for Issue of the Consolidated Financial Statements

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 29 March 2016.

# FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial year is set out below.

**Consolidated results**

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2015** | 2014 | 2013 | 2012 | 2011 |
| | **RMB'000** | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| | | | | (restated) | (restated) |
| Revenue | **37,209** | 34,685 | 56,351 | 78,127 | 41,165 |
| (Loss)/profit before taxation | **(166,165)** | (12,040) | (118,127) | 18,674 | (47,543) |
| Income tax expense | **(222)** | (976) | (374) | (1,068) | – |
| Net (loss)/profit from ordinary activities for the year | **(166,387)** | (13,016) | (118,501) | 17,606 | (47,543) |
| Attributable to: | | | | | |
| Owners of the Company | **(92,671)** | (12,625) | (118,501) | 17,606 | (47,543) |
| Non-controlling interests | **(73,716)** | (391) | – | – | – |
| | **(166,387)** | (13,016) | (118,501) | 17,606 | (47,543) |

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2015** | 2014 | 2013 | 2012 | 2011 |
| | **RMB'000** | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Non-current assets | **168,538** | 306,085 | 20,863 | 111,314 | 177,927 |
| Current assets | **167,353** | 127,715 | 31,835 | 15,880 | 43,503 |
| Current liabilities | **(28,525)** | (41,392) | (5,440) | (130,923) | (103,846) |
| Net current assets/(liabilities) | **138,828** | 86,323 | 26,395 | (115,043) | (60,343) |
| Non-current liabilities | **(2,437)** | (1,970) | – | (37) | (115,245) |
| Net assets/(liabilities) | **304,929** | 390,438 | 47,258 | (3,766) | 2,339 |