華人策略控股有限公司

# Chinese Strategic Holdings Limited

*(incorporated in Bermuda with limited liability)*

Stock Code: 8089

# 2016

## Annual Report

## 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 Chinese Strategic Holdings Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange ("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

## BOARD OF DIRECTORS

### Executive Directors

Mr. Lam Kwok Hing Wilfred *J.P.* *(Chairman)*
Ms. Chan Shui Sheung Ivy
Mr. Mok Tsan San

### Independent Non-executive Directors

Ms. Yuen Wai Man
Mr. Wang Chin Mong
Mr. Chow Fu Kit Edward

## AUTHORISED REPRESENTATIVES

Mr. Lam Kwok Hing Wilfred *J.P.*
Ms. Chan Shui Sheung Ivy

## AUDIT COMMITTEE

Ms. Yuen Wai Man *(Chairman)*
Mr. Wang Chin Mong
Mr. Chow Fu Kit Edward

## NOMINATION COMMITTEE

Mr. Wang Chin Mong *(Chairman)*
Mr. Lam Kwok Hing Wilfred *J.P.*
Ms. Yuen Wai Man
Mr. Chow Fu Kit Edward

## REMUNERATION COMMITTEE

Ms. Yuen Wai Man *(Chairman)*
Mr. Lam Kwok Hing Wilfred *J.P.*
Mr. Wang Chin Mong
Mr. Chow Fu Kit Edward

## COMPANY SECRETARY

Ms. Cheung Ching Man

## COMPLIANCE OFFICER

Mr. Lam Kwok Hing Wilfred *J.P.*

## REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

# CORPORATE INFORMATION

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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## WEBSITE

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## E-MAIL

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## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM08
Bermuda

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Union Registrars Limited
Suites 3301-04, 33rd Floor
Two Chinachem Exchange Square
338 King's Road
North Point
Hong Kong

## AUDITOR

Asian Alliance (HK) CPA Limited
Suites 313-316, 3/F
Shui On Centre
6-8 Harbour Road
Wanchai
Hong Kong

## PRINCIPAL BANKERS

Bank of Communications Co., Ltd.
The Hongkong and Shanghai Banking Corporation Limited
Fubon Bank (Hong Kong) Limited
Nanyang Commercial Bank, Ltd.

## STOCK CODE

8089

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

The Company and its subsidiaries (together referred to as "Group") is principally engaged in businesses of properties investments, securities trading and loan financing. The revenue of the Group for the year ended 31 December 2016 amounted to approximately HK$8,738,000, representing a decrease of 14.3% as compared with approximately HK$10,191,000 in the preceding financial year.

### Properties Investments

The Group recorded a rental income of approximately HK$2,474,000 for the year ended 31 December 2016 (2015: approximately HK$4,375,000) through properties leasing. The decrease in rental income was mainly due to the disposal of two properties in Mainland China in August 2015. The property market in Hong Kong has experienced rebound in the price since the fourth quarter of 2016, the Group recorded a gain arising from fair value changes of investment properties of approximately HK$5,215,000 (2015: loss approximately HK$400,000).

As at 31 December 2016, the fair value of investment properties of the Group amounted to approximately HK$111,240,000 (31 December 2015: approximately HK$94,900,000).

### Securities Trading

During the year of 2016, the Group intended to reduce the liabilities and faced a tight cashflow position. Through disposal of certain investments held for trading, it recorded a loss of approximately HK$69,431,000 (2015: gain approximately HK$34,466,000). With the volatile securities market, the Group recorded a loss arising from the fair value changes of investments held for trading of approximately HK$9,177,000 (2015: loss approximately HK$63,794,000).

As at 31 December 2016, the Group had investments held for trading amounted to approximately HK$222,868,000, representing 27.9% of the total assets of the Group (31 December 2015: approximately HK$413,950,000).

## BUSINESS REVIEW *(Continued)*

### Securities Trading *(Continued)*

Investments with market value exceeding HK$20,000,000 as at 31 December 2016 are as follows:

| | | | As at 31 December 2016 | | For the year ended 31 December 2016 | |
|---|---|---|---|---|---|---|
| **Hong Kong market** | **Company** | **Industry** | **No. of shares held** | **Approx. percentage of share holdings** | **Stock price performance** | **Price range** |
| | | | | | *(%)* *Approx.* | *(HK$)* *Approx.* |
| Main Board | Company A | Securities & Brokerage | 293,066,000 | 7.26% | 180.70% | 0.085-0.365 |
| Main Board | Company B | Shipping & Port Operation | 259,270,000 | 2.17% | -47.83% | 0.090-0.196 |
| Main Board | Company C | Securities & Brokerage | 12,900,000 | 1.94% | 7.69% | 0.990-3.390 |
| Main Board | Company D | Securities & Brokerage | 29,514,000 | 3.55% | -61.35% | 0.335-2.200 |
| GEM Board | Company E | Restaurants | 239,930,875 | 9.08% | -91.48% | 0.030-0.162 |

### Loan Financing

During the year ended 31 December 2016, the loan financing business continued to tighten the credit policy and was recorded a slight improvement in its performance with a 7.3% increase in the interest income to approximately HK$6,241,000 from HK$5,815,000 in the preceding financial year. An impairment loss on loan and interest receivables of approximately HK$5,227,000 was recorded during the year ended 31 December 2016 (2015: Nil).

## BUSINESS REVIEW *(Continued)*

### Financial Assets

The Group held an investment portfolio, classified as available-for-sale financial assets with carrying value of approximately HK$45,682,000 as at 31 December 2016 (31 December 2015: approximately HK$44,130,000) of which mainly an unlisted investment funds of approximately HK$39,790,000 that are denominated in USD and managed by an international investment bank (2015: approximately HK$38,238,000). In view of the carrying value of the unlisted investment fund compared with its principal amount of HK$15,600,000, it is a good opportunity for the Group to capitalize its capital gain from the investment in available-for-sale financial assets to support the general working capital of the Group. Subsequent to the reporting period, the unlisted investment funds has been redeemed and the net proceeds from the redemption of approximately HK$40,898,000 was received on 17 February 2017.

The Group held certain unlisted instruments issued by a Hong Kong listed company, classified as convertible instruments designated as financial assets at fair value through profit or loss, amounted to approximately HK$38,851,000 as at 31 December 2016 (31 December 2015: approximately HK$45,080,000). The convertible instruments are measured at fair value at the reporting end date. In this regard, a loss arising from fair value changes of convertible instruments designated as financial assets at fair value through profit or loss of approximately HK$6,229,000 was recorded (2015: gain approximately HK$308,000).

The carrying value of the aforesaid investments, representing 10.6% of the total assets of the Group, is mark to market value and its performance is affected by Hong Kong stock market and global economic environment.

## FINANCIAL REVIEW

For the year ended 31 December 2016, the Group recorded a revenue of approximately HK$8,738,000 (2015: approximately HK$10,191,000), representing a decrease of approximately 14.3% as compared with the preceding financial year. The decrease in revenue was mainly due to a drop of 43.5% in rental income.

Administrative expenses for the year ended 31 December 2016 was approximately HK$103,302,000 (2015: approximately HK$88,925,000), representing an increase of 16.2% as compared with the preceding financial year. During the year, administrative expenses including share-based payment expenses of approximately HK$12,524,000 in respect of the share options granted on 23 March 2016 was recorded (2015: Nil).

The Group incurred finance costs of approximately HK$35,019,000 for the year ended 31 December 2016 (2015: approximately HK$26,047,000), which mainly comprised interest on interest bearing bank and other borrowings, margin accounts, convertible loan notes and bonds. The increase in the finance costs by 34.4% was mainly attributable to the increase in other borrowings.

The loss attributable to the owners of the Company for the year ended 31 December 2016 aggregated at approximately HK$350,928,000 (2015: approximately HK$126,304,000). Loss for the year was mainly attributable to the impairment loss on other receivables and loss on disposals of investments held for trading. The basic loss per share for the year ended 31 December 2016 was approximately HK34.47 cents (2015: HK16.48 cents).

# MANAGEMENT DISCUSSION AND ANALYSIS

## OUTLOOK

Despite anticipation of rising interest rates and market cool measurement imposed by government, there is a sharp surge in residential prices in the first quarter of 2017. It is generally expected that properties in Hong Kong are seen as good investments and there is still room for growth on prices. The management remains cautiously optimistic about the property market and will look for desirable property investment opportunities for the benefit of the Company and its shareholders.

Notwithstanding facing sustained strength of the US stock market in these recent months, Hong Kong securities market is affected by a variety of factors. Fund inflows is a major cause which affect and will have stronger impact on the performance of Hong Kong stock market. The management will remain cautious in the securities investment.

It will not be an easy market amid rising interest rates and political tensions both in the United States and Asia. The year of 2017 is challenging. Nevertheless, the Group will continue to explore the feasibility on the expansion into other business segments.

## INTEREST IN A JOINT VENTURE

The Group's investment in the joint venture 長沙賽格發展有限公司 (Changsha Seg Development Co Limited) ("Changsha Seg") performed satisfactorily during the year ended 31 December 2016. The Group's share of result of Changsha Seg amounted to approximately HK$11,323,000 for the year ended 31 December 2016 (2015: approximately HK$11,229,000). The net assets of Changsha Seg was approximately HK$274,758,000 (2015: approximately HK$273,540,000).

Changsha Seg is principally engaged in rental of office premises and a shopping mall in Changsha, the People's Republic of China that is situated at a prime location near the Changsha Railway Station. The Group has been working closely with its partner, Shenzhen Seg Co. Ltd., a company listed on the Shenzhen Stock Exchange, as well as the other shareholders of Changsha Seg, in respect of its operation and development.

## FUND RAISING ACTIVITIES

On 29 February 2016, the Company and the placing agent entered into a placing agreement (as revised and supplemental by the supplemental placing agreement on 31 March 2016). Subsequently, a second supplemental placing agreement was entered into to supersede the placing agreement in entirety on 2 June 2016 which was revised and supplemental by the third supplemental placing agreement on 27 July 2016, to place the convertible bond (the "Revised New CB") in principal amount of up to HK$495,600,000. The Revised New CB, upon full conversion, are convertible into 1,180,000,000 new shares at the Revised New CB conversion price of HK$0.42 per share which shall be allotted and issued by the Company under specific mandate ("Revised New CB Placing"). The maximum gross proceeds from the Revised New CB Placing will be HK$495,600,000. As the condition precedent to the Revised New CB Placing had not been fulfilled on or before the overall completion date on 30 October 2016, the Revised New CB Placing lapsed thereon.

Details of the Revised New CB Placing are set out in the announcements of the Company dated 2 March 2016, 31 March 2016, 3 June 2016, 27 July 2016 and 29 July 2016 and 1 November 2016 and the circular of the Company dated 16 June 2016.

On 17 October 2016, the Company and the placing agent entered into the placing agreement pursuant to which the Company has conditionally agreed to place, through the placing agent on a best effort basis, a maximum of 150,000,000 placing shares at a price of HK$0.24 per placing share to not less than six placees under the general mandate. The placing was completed on 27 October 2016. The net proceeds from the placing amounted to approximately HK$34,980,000 and was used for administrative expenses and settlement of the outstanding operation payables of the Group for the year ended 31 December 2016.

Details of the placing are set out in the announcements of the Company dated 17 October 2016 and 27 October 2016.

## LIQUIDITY AND FINANCIAL RESOURCES

The Group principally finances its operations through a combination of shareholders' equity, internally generated cash flows and borrowings.

As at 31 December 2016, the Group had cash and cash equivalent of approximately HK$34,489,000 (31 December 2015: approximately HK$46,952,000), interest-bearing borrowings of approximately HK$149,807,000 (31 December 2015: approximately HK$168,426,000) and bonds payable of HK$50,000,000 (31 December 2015: HK$50,000,000).

As at 31 December 2016, the gearing ratio (measured as total liabilities to total assets) was approximately 30.5% (31 December 2015: approximately 27%).

## CAPITAL STRUCTURE

As at 31 December 2016, the Company's issued share capital was HK$1,148,783 (31 December 2015: HK$982,494), divided into 1,148,783,425 shares (31 December 2015: 982,494,000 shares) of HK$0.001 each. During the year ended 31 December 2016, the Company allotted and issued 3,000,000 new shares, 13,289,425 new shares and 150,000,000 new shares upon the exercise of share option, pursuant to loan agreement and placing agreement respectively.

## CAPITAL COMMITMENTS

As at 31 December 2016 and 31 December 2015, the Group did not have any capital commitments.

## CONTINGENT LIABILITIES

As at 31 December 2016 and 31 December 2015, the Group did not have any material contingent liability.

## CHARGES ON ASSETS

As at 31 December 2016, loan receivables, investment properties and certain investments held for trading with an aggregate carrying value of approximately HK$193,455,000 (31 December 2015: approximately HK$309,117,000) have been pledged to banks and other financial institutions to secure the credit facilities granted to the Group.

## SIGNIFICANT INVESTMENT

Save as disclosed in this report, the Group did not have any other significant investment during the year ended 31 December 2016.

## EXPOSURE TO FLUCTUATION IN EXCHANGE RATES AND RELATED HEDGES

The reporting currency adopted by the Group is Hong Kong dollars ("HK$"). The majority of the Group's sales, receivables and expenditures are denominated in HK$, United States dollars ("USD") or Renminbi ("RMB"). HK$ is closely linked with USD. Although the exchange rate of HK$ against RMB had steadily depreciated during the year under review, the Directors do not consider that the Group is exposed to any material foreign currency exchange risk. No hedging or other similar device has been implemented. However, the Directors will constantly monitor the Group's foreign exchange exposure and implement foreign currency hedging measures should the need arises.

## MATERIAL ACQUISITIONS AND DISPOSALS

On 25 February 2016, 北京華鼎滙金投資有限責任公司 (Beijing Huading Huijin Investment Company Limited*) as vendor, Selected Team Limited, a wholly-owned subsidiary of the Company as purchaser and the Company (collectively the "Parties") entered into a sale and purchase agreement, pursuant to which the vendor conditionally agreed to sell and the purchaser conditionally agreed to acquire, through a wholly foreign owned enterprise, the 51% equity interest in 金地毯（北京）文化傳媒有限公司 (Gold Carpet (Beijing) Culture Media Limited*) ("Gold Carpet") at the consideration of HK$120,000,000.

On 2 March 2016, an addendum to the sale and purchase agreement was entered into pursuant to which the purchaser agreed to advance a sum of HK$10,000,000 within five days as deposit for the shareholder's loan to Gold Carpet upon execution of the addendum. As at 31 December 2016, the Parties are in discussion and negotiation on the schedule of refund of deposit.

On 29 April 2016, the Parties entered into a supplemental sale and purchase agreement (the "Supplemental Agreement"), pursuant to which the Parties agreed that completion shall not be subject to any conditions precedent and completion shall take place upon the execution of the Supplemental Agreement. The Parties further agreed that the purchaser shall issue an exchangeable note to the vendor to settle the consideration in its entirety. The vendor may exercise its right under the exchangeable note to exchange the exchangeable note for the convertible bonds. The convertible bonds in the principal amount of HK$120,000,000, upon full conversion, are convertible into 240,000,000 new shares of the Company at the conversion price of HK$0.5 per conversion share. On the same date, completion took place and the exchangeable note was issued.

In the event that the vendor exercises its exchange right under the exchangeable note to exchange the exchangeable note for the convertible bonds, the Company will seek approval for, among other things, the specific mandate from the shareholders of the Company at the special general meeting of the Company.

Details of the acquisition are set out in the announcements of the Company dated 25 February 2016, 2 March 2016, 27 April 2016, 28 April 2016, 29 April 2016 and 20 July 2016.

* *For identification purposes only*

# MANAGEMENT DISCUSSION AND ANALYSIS

## EMPLOYEE INFORMATION AND REMUNERATION POLICY

The Group had 48 employees (31 December 2015: 58 employees) in Hong Kong and Mainland China as at 31 December 2016. During the year ended 31 December 2016, the Group incurred staff costs (including Directors' emoluments) of approximately HK$37,562,000 (2015: approximately HK$33,156,000).

The emoluments of the Directors are recommended by the remuneration committee, and approved by the Board, as authorized by the shareholders of the Company in the annual general meeting of the Company, having regard to the respective Directors' skills, knowledge and involvement in the Company's affairs. None of the Directors are involved in deciding their own remuneration.

The employees are remunerated with basic salary, discretionary bonus and share options with reference to corporate and individual's performance during the year. The Group offers competitive remuneration package, including medical and retirement benefits, to eligible employees. Apart from basic salary, executive Directors and employees are eligible to receive a discretionary bonus taking into account factors, such as market conditions as well as corporate and individual's performance during the year.

## LITIGATIONS

Fameway Finance Limited ("Fameway"), a wholly-owned subsidiary of the Company carrying on business as a licensed money lender in Hong Kong, has, as previously disclosed, instituted six (6) sets of proceedings in the Court of First Instance of the High Court of Hong Kong to claim for recovery against the respective borrowers concerned, and has obtained judgments in all such claims. Out of these six (6) claims, five (5) of them have been effectively disposed of while Fameway is embarking on enforcement procedures in the remaining claim in reliance on legal advice.

In a separate litigation matter which has also been previously reported, the Company and King Perfection Limited ("King Perfection") have obtained judgment in a separate matter but one of the judgment debtors has been wound up. The Company and King Perfection will rely on legal advice for further conduct and for protection of their interest.

In relation to the litigation matter in which the Company was sued as the 2nd Defendant under HCA 701 of 2013, the Plaintiff's application to amend its Amended Statement of Claim has been outstanding because the Plaintiff has not taken any step to restore the hearing of the application.

## LITIGATIONS *(Continued)*

Gain Millennia Limited ("Gain Millennia"), an indirect wholly-owned subsidiary of the Company, has, as previously reported, filed complaint for breach of contract in the Superior Court for the Commonwealth of the Northern Mariana Islands ("CNMI") against Hong Kong Entertainment (Overseas) Investments Limited ("Hong Kong Entertainment"). Judgment by Default has been entered against Hong Kong Entertainment on 28 March 2016, and Gain Millennia will rely on legal advice for any possible enforcement.

The Company will announce or disclose the conduct of litigation matters and/or outcome of enforcement wherever appropriate or necessary.

## ADVANCE TO AN ENTITY

On 15 February 2015 and 24 March 2015, HKE and Tinian Entertainment Co., Ltd ("TEC"), a former indirect wholly-owned subsidiary of the Company, entered into a provisional operating agreement and operating agreement respectively ("Operating Agreement") under which HKE intended to lease to TEC and TEC intended to lease from HKE, the leased property comprising of the Dynasty Hotel and the relevant assets at the occupation fees of approximately HK$133,000,000. Upon the entering into the Operating Agreement, TEC has paid HKE a refundable deposit of HK$50,000,000, which has been set off with part of the rental prepayment repayable by HKE.

Following to the term sheet of 7 April 2016 and the restructuring agreement of 29 April 2016 regarding the restructuring of the Hotel-Casino Complex, the total outstanding amount due from HKE to GML and TEC and other moneys payable by HKE to GML and/or its affiliated companies is HK$164,737,720 (the "GML Outstanding Amount"). Pursuant to the restructuring agreement, a new company incorporated by Mr. Chen Chien Yeh ("NewCo") shall issue a convertible bonds in a principal sum of USD21,150,002 to GML or its nominee as a full and final settlement of the GML Outstanding Amount. On 29 June 2016, a supplemental agreement was entered into to extend the long stop date of the restructuring agreement from 30 June 2016 to 30 September 2016. As at 31 December 2016, the net amount due and owing by HKE in the aggregate sum is HK$164,624,000.

An intense tropical cyclone attacked Tinian, CNMI, in mid-2015 and severely damaged the international airport and other infrastructure of Tinian, CNMI, since then, visitors to the island dropped substantially. The Casino was suspended and the hotel closed down eventually in March 2016. Therefore, the management decided to take a prudent approach and make full impairment of the GML Outstanding Amount.

Details are set out in the announcements of the Company dated 23 February 2015, 3 March 2015 and 20 April 2015, 7 April 2016, 29 April 2016, 11 May 2016 and 29 June 2016.

# BOARD OF DIRECTORS

## EXECUTIVE DIRECTORS

**Mr. Lam Kwok Hing Wilfred,** *J.P.* ("Mr. Lam"), aged 57, was appointed as a non-executive Director on 2 September 2013 and has been re-designated as chairman of the Board and an executive Director with effect from 1 January 2014. He has also been appointed as members of the nomination committee and the remuneration committee of the Company, the authorized representative for accepting service of process and notices in Hong Kong on behalf of the Company as required pursuant to Rule 5.24 of the GEM Listing Rules and Part 16 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) and compliance officer of the Company, all with effect from 8 January 2014. Mr. Lam was a joint company secretary of the Company from February 2014 to June 2016 and is currently the director of certain subsidiaries of the Company.

Mr. Lam is a non-executive director (re-designated from an executive director on 1 July 2015) of Hong Kong Resources Holdings Company Limited (stock code: 2882) and The Hong Kong Building and Loan Agency Limited (stock code: 145), both companies listed on the Main Board of the Stock Exchange.

Mr. Lam was initially appointed as an independent non-executive director of National Arts Entertainment and Culture Group Limited (stock code: 8228), a company listed on the GEM of the Stock Exchange, on 13 May 2009 and he resigned from his final positions of vice chairman and non-executive director on 11 July 2014. Mr. Lam was a chairman and an executive director of Lamtex Holdings Limited (formerly known as China New Energy Power Group Limited) (stock code: 1041), a company listed on the Main Board of the Stock Exchange from June 2015 to March 2016, and then was appointed as a consultant thereafter. He was also an independent non-executive director of China Ever Grand Financial Leasing Group Co., Ltd (formerly known as PME Group Limited) (stock code: 379), a company listed on the Main Board of the Stock Exchange from 14 April 2011 to 30 December 2014.

Mr. Lam is a Justice of Peace of the Hong Kong Special Administrative Region and was awarded the Queen's Badge of Honour in January 1997. He holds a bachelor degree of Law with honours from The University of Hong Kong. He is a practising solicitor in Hong Kong and is a consultant lawyer of WT Law Offices and Lam, Lee & Lai Solicitors & Notaries. He also holds a professional qualification of Estate Agent's (Individual) Licence in Hong Kong.

## EXECUTIVE DIRECTORS *(Continued)*

**Ms. Chan Shui Sheung Ivy** ("Ms. Chan"), aged 52, was appointed as an executive Director on 25 August 2008. Ms. Chan graduated from the University of South Australia with a Master of Business Administration degree. Ms. Chan has over 23 years of experience in investment and is currently the director of certain subsidiaries of the Company. Ms. Chan previously served as an executive director of China Ever Grand Financial Leasing Group Co., Ltd. (formerly known as PME Group Limited) (stock code: 379) which is a company listed on the Main Board of the Stock Exchange from 2 May 2007 to 11 June 2014. She is a director of Channel Enterprises (Int'l) Limited.

**Mr. Mok Tsan San** ("Mr. Mok"), aged 45, was appointed as an executive Director on 12 August 2014. Mr. Mok is the managing director of Capital Union Investments Limited, a direct investment firm with a portfolio in Great China and overseas. He is also currently a non-executive director of Casablanca Group Limited (stock code: 2223), a company listed on the Main Board of the Stock Exchange, since 9 April 2015. Mr. Mok was an executive director of Chinese Food and Beverage Group Limited (stock code: 8272), a company listed on the GEM of the Stock Exchange during the period from April 2014 to December 2016. He was also an executive director of Hin Sang Group (International) Holding Co., Ltd. (stock code: 6893) during the period from 1 May 2015 to 30 September 2015 and a non-executive director of Newtree Group Holdings Limited (stock code: 1323) during the period from 27 August 2014 to 28 February 2016, both companies listed on the Main Board of the Stock Exchange. With over 14 years of solid experiences in fund raising and investment syndication in a number of ventures, he has helped, funded, and/or personally invested in and advised in a number of other Silicon Valley companies in Hong Kong, including but not limited to Facebook Inc. and Proteus Digital Health. Mr. Mok began his career in Babtie Asia Limited (now Jacobs Engineering Group Inc.), an international civil engineering consulting firm as an engineer. He holds a Bachelor of Science degree in Civil Engineering from Ohio State University.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Ms. Yuen Wai Man** ("Ms. Yuen"), aged 45, was appointed as an independent non-executive Director on 4 July 2008. She was also appointed as the chairmen of the audit and remuneration committees of the Company and a member of nomination committee of the Company since 4 July 2008. She graduated from The University of Hong Kong with a degree in Business Administration in 1994. She is the fellow member of The Association of Chartered Certified Accountants, fellow member of The Hong Kong Institute of Certified Public Accountants and overseas member of The Chinese Institute of Certified Public Accountants. Ms. Yuen has worked in accounting and auditing area for over 22 years. She is an independent non-executive director of The Hong Kong Building and Loan Agency Limited (stock code: 145), a company listed on the Main Board of the Stock Exchange, since 1 November 2012 and China Eco-Farming Limited (stock code: 8166), a company listed on the GEM of the Stock Exchange, since 1 September 2016. Ms. Yuen was an independent non-executive director of Trillion Grand Corporate Company Limited (formerly known as Tai Shing International (Holdings) Limited) (stock code: 8103), a company listed on the GEM of the Stock Exchange, from 3 April 2014 to 29 December 2014.

**Mr. Wang Chin Mong** ("Mr. Wang"), aged 45, was appointed as an independent non-executive Director and members of audit and remuneration committees of the Company on 10 August 2009. He has also been appointed as the chairman of the nomination committee of the Company since 14 May 2012. Mr. Wang is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants. Mr. Wang has more than 20 years of experience in the fields of auditing, accounting and finance.

**Mr. Chow Fu Kit Edward** ("Mr. Chow"), aged 49, was appointed as an independent non-executive Director on 14 May 2012. He has also been appointed as members of the audit committee, nomination committee and remuneration committee of the Company since 14 May 2012. Mr. Chow has over 22 years of experience in power industry and is specialised in business strategy development, change management, materials procurement and marketing for power company. He holds a Master's degree of Engineering in Mechanical Engineering from The University of Hong Kong and a Master's degree of Business Administration from The Chinese University of Hong Kong. He is a Chartered Engineer, member of Institution of Mechanical Engineers and The Hong Kong Institution of Engineers.

The Board presents this annual report together with the audited consolidated financial statements for the year ended 31 December 2016.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in businesses of property investments, securities trading and loan financing.

## SEGMENT INFORMATION

An analysis of the Group's performance for the year ended 31 December 2016 by business segment is set out in Note 8 to the accompanying financial statements.

## RESULTS

Details of the Group's results for the year ended 31 December 2016 are set out in the consolidated statement of profit or loss and other comprehensive income on pages 60 and 61 of this annual report.

## BUSINESS REVIEW AND COMMENTARY

The business review of the Group for the year ended 31 December 2016 is set out in the section headed "Management Discussion and Analysis" on pages 4 to 6 of this annual report.

### *Environmental performance*

The Company is committed to conserving and protecting the natural resources while minimising impact on the environment. To build a greener future, the Company is committed to implementing policies and measures to foster reduction of the Group's environmental impact. Energy saving and power monitoring systems are in place for various business units to monitor our environmental performance. The Company also strives to follow energy saving practices in office premises where applicable.

For details, please refer to the section headed "Environmental, Social and Governance Report" on pages 46 to 51 of this annual report.

## BUSINESS REVIEW AND COMMENTARY *(Continued)*

***Compliance with laws and regulations***

The Group is committed to complying with the requirements of the Personal Data (Privacy) Ordinance, and ordinance relating to disability, sex, family status and race discrimination, as well as the Employment Ordinance, the Minimum Wage Ordinance and ordinances relating to occupational safety of employees of the Group, so as to safeguard the interests and well-being of its employees.

The Group is also committed to safeguarding the security of personal data. When collecting and processing such data, the Group complies with the Personal Data (Privacy) Ordinance and guidelines issued by the Office of the Privacy Commissioner for Personal Data, with a view to protecting the privacy of its employees and customers, etc.

The Group has also complied with the Stamp Duty Ordinance, Rating Ordinance and Inland Revenue Ordinance in respect of renting of premises during the year ended 31 December 2016.

During the year ended 31 December 2016, the Group was not aware of any non-compliance with any relevant laws and regulations that has a significant impact on it.

For details, please refer to the section headed "Environmental, Social and Governance Report" on pages 46 to 51 of this annual report.

***Key relationships with stakeholders***

The skills and competencies of the staff enable the Group to create value by building the corporate expertise to deliver business objectives.

The Company is committed to maintaining high standards of health and safety for staff. The Company ensures that the operations comply, at a minimum, with local health and safety laws as well as industry best practices. Routine training is provided to the staff to enable effective health and safety management throughout the organisation. Emergency preparation and contingency planning, for example, fire drill, have been developed to ensure incidents are responded to in a timely and effective manner.

## BUSINESS REVIEW AND COMMENTARY *(Continued)*

***Key relationships with stakeholders*** *(Continued)*

Safety is the pre-requisite for the Group to effectively run the business. Ensuring compliance with the required health, safety and labour standards is very important to the Group. The Group is committed to protecting the safety and health of the employees pursuant to relevant regulations and standards.

Employee management focuses on recruiting and growing the right people who add expertise while maintaining a broader outlook in the Company's industry. The Group's success is dependent on retaining employees in key areas of the business, therefore regularly review on remuneration packages to ensure competitiveness and promote training for the Company's staff is important. Staff performance is measured on a regular and structured basis to provide employees with appropriate feedback and to ensure their alignment with the Group's corporate strategy.

Apart from the relationship with employees, building sustainable and long-term relationships with tenants are also one of the Group's primary objectives. The Group strives to provide tenants with quality service and timely response to their enquiries. On-the-job training has been provided to staff to deal with tenants in various scenarios.

For details, please refer to the section headed "Environmental, Social and Governance Report" on pages 46 to 51 of this annual report.

## BUSINESS REVIEW AND COMMENTARY *(Continued)*

***Principal risks and uncertainties***

Part of the Group's revenue is from rental income, therefore the Group is exposed to a risk of loss of major tenants due to changes in the tenants' own strategy or due to competition among landlords. The Company aims to maintain a well-balanced tenant mix and manage tenancy expiries and vacancies.

The Company's decisions to acquire, dispose or develop assets could turn out to be incorrect, or could be adversely affected by unexpected external factors, leading to financial loss. Investment decisions made by the Company are subject to a robust risk and return evaluation by executives and oversight by the Board. All potential investment projects are subject to an extensive due diligence review by internal staff and external advisors. Projects are managed by experienced managers and completed projects are subject to continual monitoring, with periodic reports to the Board on their performance.

The Company is affected by any adverse changes in the economic, political, infrastructure and environmental dynamics of Hong Kong or other potential investing area(s) which could limit the ability of the Group to deliver on its strategies. The Company has continuously monitored the key economic data from various sources, and action is taken where appropriate to adjust the Company's strategies and operations. The Company has also continuously monitored the changes in the political agenda in Hong Kong or other potential investing area(s).

The Company also cautiously review on preventive measures and remedies in relation to safety, human capital, data privacy and cyber-attacks.

For details, please refer to the section headed "Environmental, Social and Governance Report" on pages 46 to 51 of this annual report.

## FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 221 to 223 of this annual report.

## SUBSIDIARIES AND ASSOCIATES

Particulars of the Company's subsidiaries and associates are set out in Notes 49 and 20 to the accompanying financial statements, respectively.

## PLANT AND EQUIPMENT

Details of movements in plant and equipment during the year ended 31 December 2016 are set out in Note 17 to the accompanying financial statements.

## DIVIDEND

The Directors do not recommend payment of final dividend for the year ended 31 December 2016 (2015: nil).

## DONATION

During the year ended 31 December 2016, the Group's charitable donations amounted to HK$100,000.

## SHARE CAPITAL

Details of movements in share capital of the Company are set out in Note 37 to the accompanying financial statements.

## RESERVES

Movements in reserves of the Group during the year ended 31 December 2016 are set out in the section headed "Consolidated Statement of Changes in Equity" on pages 64 to 65 of this annual report.

The Company had no reserves available for distribution to shareholders of the Company as at 31 December 2016 (2015: nil).

## SHARE OPTION SCHEME

The Company adopted a share option scheme on 22 November 2002 which was expired on 21 November 2012 (the "Expired Share Option Scheme"), to allow the Company to grant share options to the participants for the purpose of providing incentives or rewards to the participants for their contribution to the Group. Pursuant to an ordinary resolution passed and approved at the special general meeting of the shareholders of the Company held on 2 April 2014, the Company adopted a new share option scheme to continue to provide incentives and/or rewards to the participants by way of granting options. The general scheme limit of the Company is 67,581,400 shares representing 10% of the issued share capital by the time of passing the relevant resolution and approximately 6% of the issued share capital as at the date of this report. Details of the share options granted and outstanding during the year ended 31 December 2016 were:

| | | Number of share options | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Name of category | Date of grant of share options | Outstanding as at 01.01.2016 | During the year ended 31 December 2016 Granted | Exercised | Lapsed | Cancelled | Outstanding as at 31 December 2016 | Validity period of shares options | Exercise price HK$ |
| Employees | 3/4/2007 | 1,000,000 | – | – | – | – | 1,000,000 | 3/4/2007-2/4/2017 | 7.35 |
| Consultants | 3/4/2007 | 1,200,000 | – | – | – | – | 1,200,000 | 3/4/2007-2/4/2017 | 7.35 |
| Employees | 23/3/2016 | – | 9,820,000 | (3,000,000) | – | – | 6,820,000 | 23/3/2016-22/3/2026 | 0.612 |
| Consultants | 23/3/2016 | – | 19,640,000 | – | – | – | 19,640,000 | 23/3/2016-22/3/2026 | 0.612 |
| Directors | | | | | | | | | |
| Lam Kwok Hing Wilfred | | – | 3,000,000 | – | – | – | 3,000,000 | 23/3/2016-22/3/2026 | 0.612 |
| Chan Shui Sheung Ivy | | – | 3,000,000 | – | – | – | 3,000,000 | 23/3/2016-22/3/2026 | 0.612 |
| Mok Tsan San | | – | 3,000,000 | – | – | – | 3,000,000 | 23/3/2016-22/3/2026 | 0.612 |
| | | 2,200,000 | 38,460,000 | (3,000,000) | – | – | 37,660,000 | | |

A summary of the Expired Share Option Scheme and the new share option scheme of the Company is set out in Note 38 to the accompanying financial statements.

## RETIREMENT BENEFITS SCHEMES

Details of the retirement benefits schemes are set out in Note 40 to the accompanying financial statements.

## PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the bye-laws of the Company (the "Bye-laws") and the laws in Bermuda.

## PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2016.

## EQUITY-LINKED AGREEMENTS

Other than (i) the placing agreement dated 29 February 2016 (as revised and supplemental by the supplemental placing agreement dated 31 March 2016) and (ii) the placing agreement dated 17 October 2016, both as set out in the section headed "Management Discussion and Analysis" and under sub-heading "Fund Raising Activities", (iii) the sale and purchase agreement dated 25 February 2016 (as revised and supplemental by the Supplemental Agreement dated 29 April 2016) as set out in the section headed "Management Discussion and Analysis" and under sub-heading "Material Acquisitions And Disposals", (iv) the loan agreements dated 16 June 2016 as set out in the Note 35(b) to the accompanying financial statements and (v) the share option scheme of the Company as set out in Note 38 to the consolidated financial statements, no equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company or subsisting during the year ended 31 December 2016.

## MANAGEMENT CONTRACT

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2016.

## MAJOR CUSTOMERS AND SUPPLIERS

The percentage of revenue for the year ended 31 December 2016 attributable to the Group's major customers is as follows:

| | Percentage of revenue |
|---|---|
| The largest customer | 37.17% |
| Five largest customers combined | 73.83% |

The principal businesses of the Group are property investments, securities trading and loan financing. In the opinion of the Directors, it is therefore of no value to disclose details of the Group's suppliers.

During the year ended 31 December 2016, none of the Directors, their associates, or any substantial shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the Group's five largest customers and suppliers.

## RELATED PARTY TRANSACTIONS

The related party transactions of the Group are disclosed in Note 41 to the accompanying financial statements.

## DIRECTORS

The Directors who held office during the year ended 31 December 2016 and up to the date of this annual report are:

### Executive Directors

Mr. Lam Kwok Hing Wilfred *J.P. (Chairman)*
Ms. Chan Shui Sheung Ivy
Mr. Mok Tsan San

### Independent Non-executive Directors

Ms. Yuen Wai Man
Mr. Wang Chin Mong
Mr. Chow Fu Kit Edward

Under the Bye-laws, all Directors are subject to retirement by rotation at least once every three years.

## DIRECTORS *(Continued)*

In accordance with Bye-law no. 87(1), Mr. Lam Kwok Hing Wilfred and Mr. Mok Tsan San will retire from office by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting (the "AGM").

Pursuant to Code Provision A.4.3 of the Corporate Governance Code and Corporate Governance Report, (Appendix 15) to the GEM Listing Rules, if an independent non-executive director serves more than 9 years, any further appointment of such independent non-executive director should be subject to a separate resolution to be approved by shareholders. Upon the expiry of the current employment contract, Ms. Yuen Wai Man has served on the Board for more than 9 years. The reasons why the Board believes she is still independent and shall be re-elected would be included in the papers to shareholders accompanying the condition for her re-election. According to the above GEM Listing Rules, Ms. Yuen Wai Man shall retire from office at the forthcoming annual general meeting and, being eligible, will offer herself for re-election at the forthcoming AGM.

The independent non-executive Directors are appointed for a specific term, subject to retirement by rotation in accordance with the Bye-laws.

None of the Directors being proposed for re-elections at the forthcoming AGM has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation other than statutory compensation.

## BOARD OF DIRECTORS' BIOGRAPHIES

Biographical details of the Directors as at the date of this annual report are set out on pages 14 to 16 of this annual report.

## EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID EMPLOYEES

Details of the emoluments of the Directors and the five highest paid employees of the Group are set out in Notes 13 and 14 to the accompanying financial statements, respectively.

## SERVICE CONTRACT AND APPOINTMENT LETTER OF DIRECTORS

Mr. Lam Kwok Hing Wilfred has entered into an appointment letter with the Company effective from 2 September 2013 as a non-executive Director and was terminated on 31 December 2013. He has entered into another appointment letter with the Company effective from 1 January 2014 regarding the re-designation from non-executive Director to executive Director and the appointment as chairman of the Board.

## SERVICE CONTRACT AND APPOINTMENT LETTER OF DIRECTORS *(Continued)*

Ms. Chan Shui Sheung Ivy has entered into an appointment letter with the Company effective from 1 January 2013.

Mr. Mok Tsan San has entered into an appointment letter with the Company effective from 12 August 2014.

Ms. Yuen Wai Man has entered into an appointment letter with the Company for a fixed term from 1 January 2017 to 31 December 2017.

Mr. Wang Chin Mong has entered into an appointment letter with the Company for a fixed term from 1 January 2017 to 31 December 2017.

Mr. Chow Fu Kit Edward has entered into an appointment letter with the Company for a fixed term from 1 January 2017 to 31 December 2017.

## DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance in relation to the Group's business pursuant to which the Company or any of its subsidiaries was a party and in which any of the Directors or Company's members of its management had a material interest, whether directly or indirectly, subsisted at 31 December 2016 or at any time during the year ended 31 December 2016 except the deed of settlement entered into between Rich Best Asia Limited ("Rich Best"), a wholly-owned subsidiary of the Company and One Express Group Limited ("One Express"), a wholly-owned subsidiary of China Ever Grand Financial Leasing Group Co., Ltd. (stock code: 379) (the shares of which are listed on the Main Board of the Stock Exchange) dated 9 November 2016 in relation to, among other things, the settlement of the outstanding indebtedness of HK$32,000,000 due and owing by One Express to Rich Best, in which, Ms. Chan Shui Sheung Ivy, the executive Director, is the director of Rich Best and One Express.

Details of the deed of settlement are set out in the announcement of the Company dated 9 November 2016.

## COMPETING INTERESTS

None of the Directors or any of their respective associates (as defined in the GEM Listing Rules) had any business or interest that competes or may compete with the business of the Group or had any other conflict of interest with the Group during the year ended 31 December 2016.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES OF THE COMPANY

As at 31 December 2016, the interests and short positions of the Directors and the chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")), as recorded in the register required to be kept by the Company under Section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and the chief executives of the Company were deemed or taken to have under such provision of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuer as referred to in Rule 5.46 of the GEM Listing Rules were as follows:

### Long position in shares and underlying shares of the Company

| Name of Director | Type of interests | Number of issued ordinary shares held | Number of underlying shares | Approximate percentage of the issued share capital |
|---|---|---|---|---|
| Lam Kwok Hing Wilfred | Beneficial owner | – | 3,000,000 *(Note)* | 0.26% |
| Chan Shui Sheung Ivy | Beneficial owner | 60,000 | 3,000,000 *(Note)* | 0.27% |
| Mok Tsan San | Beneficial owner | – | 3,000,000 *(Note)* | 0.26% |

*Note:*

All underlying shares are share options granted by the Company on 23 March 2016 under the Company's share option scheme at the exercise price of HK$0.612 per share.

Save as disclosed above, as at 31 December 2016, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the above section headed "Directors' and Chief Executives' Interests in Shares of the Company", at no time during the year ended 31 December 2016 was the Company or any of its subsidiaries a party to any arrangement to enable any of the Directors or the 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, their spouse or their children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year ended 31 December 2016.

## SUBSTANTIAL SHAREHOLDERS

Save as disclosed in the above section headed "Directors' and Chief Executives' Interests in Shares of the Company, the Directors were not aware of any other persons, who had an interest or a short position in the shares or underlying shares of the Company as at 31 December 2016 as recorded in the register required to be kept by the Company under Section 336 of the SFO or as otherwise notified to the Company or the Stock Exchange.

## CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report from pages 30 to 45 of this annual report.

## PERMITTED INDEMNITY PROVISION

Pursuant to the Bye-laws, every Director shall be entitled to 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 may incur or sustain in or about the execution of their duty in their offices.

Such permitted indemnity provision has been in force throughout the year. The Company has arranged appropriate directors' and officers' liability insurance coverage for the directors and officers of the Group.

## PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained sufficient public float throughout the year ended 31 December 2016 as required under the GEM Listing Rules.

## AUDITOR

The consolidated financial statements for the year ended 31 December 2014, 31 December 2015 and 31 December 2016 were audited by Asian Alliance (HK) CPA Limited (formerly known as ZHONGLEI (HK) CPA Company Limited).

On behalf of the Board
**Lam Kwok Hing Wilfred**
*Chairman and Executive Director*

Hong Kong, 17 March 2017

# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions as set out in the Corporate Governance Code and Corporate Governance Report (Appendix 15) to the GEM Listing Rules (the "CG Code") for the year ended 31 December 2016 except for the following deviation:

Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Throughout the year, the Company did not appoint a chief executive. The Board will keep reviewing the current structure from time to time and appoint candidate with suitable knowledge, skill and experience as chief executive of the Company, if identified.

## DIRECTORS' SECURITIES TRANSACTION

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules (the "Code of Conduct"). Following a specific enquiry, all Directors confirmed that they have complied with the Code of Conduct throughout the year ended 31 December 2016.

## BOARD OF DIRECTORS

As at the date of this annual report, the Board consists of six Directors, three of whom are executive Directors, namely Mr. Lam Kwok Hing Wilfred, Ms. Chan Shui Sheung Ivy and Mr. Mok Tsan San, and three of whom are independent non-executive Directors, namely Ms. Yuen Wai Man, Mr. Wang Chin Mong and Mr. Chow Fu Kit Edward.

Biographical details of each Director are set out in the section headed "Board of Directors" from pages 14 to 16 of this annual report.

## BOARD OF DIRECTORS *(Continued)*

The Company is committed to having a diversity of the Board to complement the Company's corporate strategy. The Company considers that having a Board with diverse culture would assure Directors that their views are heard, their concerns are attended to and they serve in an environment where bias, discrimination and harassment on any matter are not tolerated. The Board has adopted a board diversity policy which sets out the approach to achieve diversity on the Board. Board appointments are based on merit and candidates are considered against objective criteria, having due regard for the benefits of diversity on the Board including, but not limited to, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service.

The Board includes a balanced composition of executive Directors and independent non-executive Directors, and possesses a wide spectrum of relevant skills and experience. All executive Directors have given sufficient time and attention to the affairs of the Group. Each executive Director has sufficient experience to hold the position so as to carry out his or her duties effectively and efficiently. The participation of the independent non-executive Directors in the Board brings independent opinion on issues relating to the Group's strategy, performance, conflicts of interest and management process in order to ensure the interests of all shareholders of the Company have been duly considered. To the best knowledge of the Company, there is no financial, business, family or other material/relevant relationship among members of the Board.

Throughout the year ended 31 December 2016, the Board consisted of three independent non-executive Directors, two of them have appropriate professional qualification or accounting or related financial management expertise as required by Rule 5.05(2) of the GEM Listing Rules.

All independent non-executive Directors are appointed for specific terms until 31 December 2017. They are subject to retirement by rotation and re-election at annual general meetings of the Company in accordance with the Bye-laws.

## BOARD OF DIRECTORS *(Continued)*

Pursuant to Rule 5.09 of the GEM Listing Rules, the Company has received a written confirmation from each of the independent non-executive Directors of his/her independence to the Company. The Company considers all independent non-executive Directors to be independent.

The Board is responsible for approving and monitoring business plans, evaluating the performance of the Group and oversight of management. The Board also focuses on overall strategies and policies with particular attention paid to the growth and financial performance of the Group.

The Board delegates day-to-day operations of the Group to the executive Directors and senior management of the Company, while reserving certain key matters for its approval. Decisions of the Board are communicated to the management through the executive Directors who have attended the Board meetings.

During the year ended 31 December 2016, 24 Board meetings, 1 annual general meeting and 1 special general meeting were held. Details of the attendance of the Directors are as follows:

| | Attendance of | |
|---|---|---|
| **Directors** | **Board meetings** | **General meetings** |
| **Executive Directors** | | |
| Mr. Lam Kwok Hing Wilfred *(Chairman)* | 24/24 | 2/2 |
| Ms. Chan Shui Sheung Ivy | 24/24 | 2/2 |
| Mr. Mok Tsan San | 20/24 | 1/2 |
| **Independent Non-executive Directors** | | |
| Ms. Yuen Wai Man | 21/24 | 2/2 |
| Mr. Wang Chin Mong | 23/24 | 2/2 |
| Mr. Chow Fu Kit Edward | 23/24 | 2/2 |

## BOARD OF DIRECTORS *(Continued)*

A meeting of the independent non-executive directors and the chairman of the Company without the presence of executive Directors was held during the year ended 31 December 2016, pursuant to code provision A.2.7 of the CG Code.

Apart from the regular Board meetings, the Board meets on other occasions when a board-level decision on a particular matter is required. Sufficient notice is given for regular Board meetings to all Directors enabling them to attend and reasonable notice will be given in case of special Board meetings. The Directors will receive details of agenda items for decision and summary of the committee meetings held in advance of each Board meeting (if any).

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

Any Director wishing to do so in the furtherance of his or her duties may take independent professional advice at the Company's expense. Directors get familiar with the Group through initial induction, on-going participation at the Board and committee meetings, and meeting with key members of management. The Directors are encouraged to update their skills and knowledge.

## TRAINING FOR DIRECTORS

Each newly appointed director is provided with necessary induction and information to ensure that he/she has a proper understanding of the Company's operations and businesses as well as his/her responsibilities under the relevant statutes, laws, rules and regulations.

The Company provides regular updates and presentations on changes and developments relating to the Group's business and the legislative and regulatory environments to the Directors at regular Board meetings.

## TRAINING FOR DIRECTORS *(Continued)*

The Directors are committed to complying with Code Provision A.6.5 of the CG Code on Directors' training. All Directors have participated in continuous professional development to develop and refresh their knowledge and skills and provided a record of training they received for the year ended 31 December 2016 to the Company.

The individual training record of each Director received for the year ended 31 December 2016 is summarised as follows:

| Directors | Type of continuous professional development programmes |
|---|---|
| **Executive Directors** | |
| Mr. Lam Kwok Hing Wilfred *(Chairman)* | A, B |
| Ms. Chan Shui Sheung Ivy | B |
| Mr. Mok Tsan San | B |
| **Independent Non-executive Directors** | |
| Ms. Yuen Wai Man | A |
| Mr. Wang Chin Mong | A, B |
| Mr. Chow Fu Kit Edward | A, B |

*notes:*

A: attending seminars/forums/workshops/conferences relevant to the business or directors' duties

B: reading regulatory updates

## REMUNERATION COMMITTEE

The remuneration committee of the Company was established on 12 August 2005 with written terms of reference. It currently comprises four members, including three independent non-executive Directors; namely, Ms. Yuen Wai Man, Mr. Wang Chin Mong and Mr. Chow Fu Kit Edward; and one executive Director, Mr. Lam Kwok Hing Wilfred. Ms. Yuen Wai Man is the chairman of this committee.

The role and function written in the terms of reference of the remuneration committee are no less exacting terms than the CG Code. The remuneration committee makes recommendations to the Board on the Company's policy and structure for all remuneration of the Directors and senior management and on the establishment of a formal and transparent procedure for developing remuneration policy. The remuneration committee also reviews and recommends the Board on its proposals relating to the remuneration of the executive Directors with reference to the Board's corporate goal and objectives. No Directors or any of his/her associates can be involved in deciding his/her own remuneration. Factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration are considered by the remuneration committee to determine the remuneration package of individual executive Directors including benefits in kind, pension rights and compensation payments including any compensation payable for loss or termination of their office or appointment; or relating to dismissal or removal for misconduct to ensure that it is consistent with contractual terms and is otherwise fair, not excessive, reasonable and appropriate.

For the year ended 31 December 2016, the remuneration committee of the Company held two meetings to review the policy and structure of the remuneration packages for the Directors and make recommendations to the Board on the review of Directors' salary and housing allowance.

Details of the attendance of the Company's remuneration committee meetings are as follows:

| **Members** | **Attendance** |
|---|---|
| Ms. Yuen Wai Man *(Chairman)* | 2/2 |
| Mr. Lam Kwok Hing Wilfred | 2/2 |
| Mr. Wang Chin Mong | 2/2 |
| Mr. Chow Fu Kit Edward | 2/2 |

## NOMINATION COMMITTEE

The nomination committee of the Company was established on 12 August 2005 with written terms of reference. It currently comprises four members, including three independent non-executive Directors; namely, Ms. Yuen Wai Man, Mr. Wang Chin Mong and Mr. Chow Fu Kit Edward; and one executive Director, Mr. Lam Kwok Hing Wilfred. Mr. Wang Chin Mong is the chairman of this committee.

The nomination committee is responsible for reviewing the structure, size, composition and diversity of the Board annually in order to make recommendations to the Board on any proposed changes in relation to the Directors' appointment, re-appointment and independence of independent non-executive Directors.

The Board has adopted a board diversity policy which sets out the approach to achieve diversity on the Board. Accordingly, selection of candidates to the Board is based on a range of measurable objectives, including but not limited to gender, age, cultural and educational background, professional experience and qualifications, skills, knowledge and length of service, having due regard to the Company's own business model and specific needs from time to time. With the existing Board members coming from a variety of business and professional background, the Company considers that the Board possesses a balance of skills, experience, expertise and diversity of perspectives appropriate to the requirements of the Company's business.

For the year ended 31 December 2016, the nomination committee of the Company held two meetings to make recommendations to the Board on the re-appointment of independent non-executive Directors and the re-election of Directors at the general meeting; to review the structure, size, composition and diversity of the Board members; to assess the independence of the independent non-executive Directors; and to review and consider the vacancy of chief executive of the Company.

Details of the attendance of the Company's nomination committee meetings are as follows:

| **Members** | **Attendance** |
|---|---|
| Mr. Wang Chin Mong *(Chairman)* | 2/2 |
| Mr. Lam Kwok Hing Wilfred | 2/2 |
| Ms. Yuen Wai Man | 2/2 |
| Mr. Chow Fu Kit Edward | 2/2 |

## AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with Rules 5.28 to 5.29 of the GEM Listing Rules. As at the date of this annual report, the Company's audit committee comprises three independent non-executive Directors; namely Ms. Yuen Wai Man, Mr. Wang Chin Mong and Mr. Chow Fu Kit Edward. Ms. Yuen Wai Man is the chairman of this committee.

The primary duties of the audit committee include, among other things, making recommendations to the Board on the appointment, re-appointment and removal of the external auditor whilst getting the way with them to maximize their independence and objectivity and to approve the remuneration and term of engagement of the external auditor; reviewing the Company's financial statements, annual report and accounts, interim report and quarterly reports and financial reporting judgments contained therein; overseeing the effectiveness of the audit financial reporting system, and internal control procedures of the Group; and reviewing the confidential arrangements that employees of the Company may use to report and by way of which facilitating the above-mentioned duties.

For the year ended 31 December 2016, the audit committee of the Company (the "Audit Committee") held five meetings to review and supervise the financial reporting process, to conduct internal control review, and to make recommendation to the Board on (1) the re-appointment of auditor; (2) the engagement of a consultant firm for provision of the Group's internal audit function; (3) enterprise risk assessment of the Group; (4) internal audit work plan; and (5) the adoption of Enterprise Risk Management Policy and Code of Conduct of the Company. They had reviewed the quarterly, interim results and, in conjunction with the external auditor of the Company, reviewed the annual results of the Group and recommended to the Board for their consideration and approval. The Audit Committee was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

### Review of Risk Management and Internal Control Systems

The Audit Committee is delegated by the Board with the responsibility to provide independent oversight of the Group's financial reporting and internal control systems, and the adequacy of the external and internal audits. The Audit Committee reviewed the effectiveness of the Group's risk management and internal control systems by reviewing the reports (including the internal audit workplan) issued by the independent external assurance provider, and the internal control self-assessment from management.

The Audit Committee reviewed and concurred with the management's confirmation that for the year ended 31 December 2016: (i) the Group's risk management and internal control systems were effective and adequate; and (ii) the Group had complied satisfactorily with the requirements of the CG Code in respect of risk management and internal control systems.

## AUDIT COMMITTEE *(Continued)*

### Review of Accounting, Financial Reporting and Internal Audit Functions

The Audit Committee reviewed and was satisfied with the adequacy of the resources, staff qualifications and experience, training programmes, on the Group's accounting, financial reporting and internal audit functions.

The audit committee of the Company also carried out and discharged its other duties as set out in the CG Code.

Details of the attendance of the Company's audit committee meetings are as follows:

| Members | Attendance |
|---|---|
| Ms. Yuen Wai Man *(Chairman)* | 5/5 |
| Mr. Wang Chin Mong | 5/5 |
| Mr. Chow Fu Kit Edward | 5/5 |

The Group's unaudited quarterly and interim results and audited annual results of the year 2016 were reviewed by this committee.

## CORPORATE GOVERNANCE FUNCTION

The Board is also responsible for performing the corporate governance duties with its written terms of reference as set out below:

a) to develop and review the Company's policies and practices on corporate governance;

b) to review and monitor the training and continuous professional development of Directors and senior management;

c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and

e) to review the Company's compliance with the corporate governance code and disclosure in the corporate governance report.

## AUDITOR'S REMUNERATION

During the year ended 31 December 2016, the remuneration paid/payable to the Company's external auditor, Asian Alliance (HK) CPA Limited (formerly known as ZHONGLEI (HK) CPA Company Limited), is set out below:

| | **HK$'000** |
|---|---|
| Services rendered to the Group | |
| – Audit services | 780 |
| – Non-audit services | – |
| | 780 |

## DIRECTORS' RESPONSIBILITY FOR FINANCIAL STATEMENTS

### Annual Report and Financial Statements

All Directors acknowledge their responsibilities to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and in presenting the quarterly, interim and annual financial statements, and announcements to the shareholders of the Company. The Directors aim to present a balanced and understandable assessment of the Group's position and prospects with timely publication of the financial statements of the Group.

The statements of the external auditor of the Company, Asian Alliance (HK) CPA Limited (formerly known as ZHONGLEI (HK) CPA Company Limited), about their reporting responsibilities on the financial statements of the Group are set out in the Independent Auditor's Report on pages 52 to 59 of this annual report.

### Accounting Period

The Directors consider that in preparing the financial statements, the Group uses appropriate accounting policies that are consistently applied, and that all applicable accounting standards are followed.

### Accounting Records

The Directors are responsible for ensuring that the Group had kept the accounting records, which disclose with reasonable accuracy of the financial position of the Group, and also enable the preparation of the financial statements in accordance with the applicable accounting standards.

### Going Concern

The Board, having made appropriate enquiries, considers that the Group has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going-concern basis in preparing the financial statements.

## JOINT COMPANY SECRETARIES

Ms. Cheung Ching Man ("Ms. Cheung"), delegated by an external service provider, was appointed as the Joint Company Secretary on 1 February 2013.

Mr. Lam Kwok Hing Wilfred ("Mr. Lam"), being the chairman of the Board and an executive Director, was appointed as the other Joint Company Secretary on 1 February 2014 to assist Ms. Cheung and act as the external service provider's primary contact person in the Company.

Having confirmed by the Stock Exchange that Ms. Cheung met the requirements to be the sole Company Secretary under the GEM Listing Rules, Mr. Lam resigned as a Joint Company Secretary with effect from 7 June 2016. Following the resignation of Mr. Lam, Ms. Cheung acts as the sole Company Secretary.

Pursuant to Rule 5.15 of the GEM Listing Rules, Ms. Cheung has taken no less than 15 hours of relevant professional training during the year ended 31 December 2016.

## SHAREHOLDERS' RIGHTS

### Right to convene special general meeting

The Directors, on the requisition of shareholder(s) of the Company holding at the date of the 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 rights, by written requisition to the Board or the Company Secretary, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition.

The requisition must state the purposes of the meeting, and must be signed by the requisitionists and deposited at the registered office of the Company in Bermuda for the attention of the Company Secretary.

If the Directors do not within 21 days from the date of the deposit of the requisition proceed duly to convene a meeting, the requisitionists, or any of them representing more than one half of the total voting rights of all of them, may themselves convene a meeting, but any meeting so convened shall not be held after the expiration of three months from the said date.

### Right to put enquiries to the Board

Shareholders have the right to put enquiries to the Board. All enquiries shall be in writing and sent by post to the head office of the Company in Hong Kong or the registered office in Bermuda, or by e-mail to info@chinesestrategic.com for the attention of the Company Secretary.

## SHAREHOLDERS' RIGHTS *(Continued)*

### Right to put forward proposals at general meetings

On the requisition in writing of either (i) any number of shareholder(s) of the Company representing not less than one-twentieth of the total voting rights of all the shareholders having at the date of the requisition a right to vote at the meeting to which the requisition relates; or (ii) not less than 100 shareholders, the Company shall, at the expense of the requisitionists: (a) to give to shareholders of the Company entitled to receive notice of the next annual general meeting notice of any resolution which may properly be moved and is intended to be moved at that meeting; (b) to circulate to shareholders entitled to have notice of any general meeting sent to them any statement of not more than one thousand words with respect to the matter referred to in any proposed resolution or the business to be dealt with at that meeting.

The requisition must be signed by the requisitionists and deposited at the head office and principal place of business in Hong Kong of the Company for the attention of the Company Secretary.

## INVESTORS AND SHAREHOLDERS RELATIONS

The Board recognizes the importance of maintaining clear, timely and effective communication with the shareholders of the Company and investors. The Company has disclosed all necessary information to its shareholders and investors in compliance with the GEM Listing Rules. Moreover, the Board maintains close communications with the shareholders and investors of the Company through a number of formal communication channels which include (i) the publication of the Company's latest business developments and financial performance through its annual, interim and quarterly reports, notices, announcements and circulars; (ii) the general meetings providing an opportunity for the shareholders of the Company to raise comments and exchanging views with the Board; and (iii) the Company's website provides an effective communication platform between the Company and its investors.

There was no significant change in the Company's constitutional documents for the year ended 31 December 2016.

## RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges its responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives, and maintaining sound and effective risk management and internal control systems to safeguard the interests of shareholders and the Group's assets. The Board also acknowledges its responsibility for overseeing the Group's risk management, financing reporting, and internal control systems on an ongoing basis and reviewing their effectiveness at least annually through the audit committee. The audit committee assists the Board in fulfilling its oversight and corporate governance roles in the Group's financial, operational, compliance, risk management and internal controls, and the resourcing of the finance and internal audit functions.

To this end, appropriate policies and controls have been designed and established to ensure that assets are safeguarded against improper use or disposal, relevant rules and regulations are adhered to and complied with, reliable financial and accounting records are maintained in accordance with relevant accounting standards and regulatory reporting requirements, and key risks that may impact on the Group's performance are appropriately identified and managed. Besides, management continues to allocate resources for the risk management and internal control systems to provide reasonable, though not absolute, assurance against material misstatement or loss and to manage rather than eliminate the risk of failure to achieve business objectives.

The Board, through the Audit Committee, has delegated the internal audit function to an independent external assurance provider, who has conducted a review on the adequacy and effectiveness of the Group's risk management and internal control systems for the year ended 31 December 2016. The review, conducted annually, covers all material controls, including financial, operational and compliance controls. The Board considers that the Group's risk management and internal control systems are effective and adequate.

The Board, through the Audit Committee, leads and provides direction to management by laying down strategies and overseeing their implementation by management, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place.

The Board reviewed and was satisfied with the adequacy of the resources, staff qualifications and experience, training programmes, on the Group's accounting, financial reporting and internal audit functions.

The Board, through delegation of its authority to an environmental, social and governance ("ESG") working group, is also responsible for reviewing the Company's corporate social responsibility strategies, principles and policies; setting guidance, direction and overseeing practices and procedures; and monitoring progress on the Company's corporate social responsibility and related activities.

The following highlights the key risk management measures under the Group's "Three Lines of Defence" model for 2016.

## RISK MANAGEMENT AND INTERNAL CONTROL *(Continued)*

### 1st line of defence – Risk management

- Management conducted an annual Internal Control Self-Assessment for 2016. Management confirmed that appropriate internal control policies and procedures have been established and complied with.

- Various policies, procedures and guidelines have been adopted with defined authority for effective segregation of duties, controls and risk management, and they are subject to regular review.

- The Group's anti-bribery and anti-corruption guidelines were adopted to set out minimum standards in recognizing circumstances which may lead to or give the appearance of involving corruption or unethical business conduct, to help avoid conduct which is clearly prohibited, and to encourage everyone in the Group to seek appropriate guidance promptly when needed.

- The Group's whistleblowing policy was adopted to facilitate internal reporting of any malpractice and unethical conduct within the Group without fear of reprisal and victimization.

### 2nd line of defence – Risk oversight

- The Group's Enterprise Risk Management ("ERM") Policy was developed to outline the principles, governance, roles and responsibilities, and approach within a coherent risk management framework that addresses and prioritizes risks that are material and relevant to the Group's corporate goals.

- The Group's ERM Framework was refined to help management assess and manage risks arising from and associated with new business activities and environments, including emerging risks. An integrated risk assessment approach was adopted to address risks across various subsidiaries of the Group, to assess those risks on an integrated group-wide basis.

### 3rd line of defence – Independent assurance

- The external assurance provider takes up the internal audit function, who is responsible for conducting independent reviews of the adequacy and effectiveness of the Group's internal control systems and reporting the review results regularly to the Board through the Audit Committee.

## RISK MANAGEMENT AND INTERNAL CONTROL *(Continued)*

For internal audit, a risk-based approach is adopted. The annual work plan of external assurance provider for internal audit covers major activities and processes of the Group's operations, businesses and service units. The results of these audit activities are communicated to the Audit Committee and key members of senior management of the Group. Audit issues are tracked, followed up for proper implementation, and their progress are reported to the Audit Committee and senior management of the Group (as the case may be) periodically. The external assurance provider for internal audit provides independent assurance to the Board, the Audit Committee and the senior management of the Group on the adequacy and effectiveness of internal controls for the Group.

The Group's ERM Policy was approved by the Board as an effective and adequate approach to be applied across the Group to manage the risks associated with its business and operations. This policy is designed to enhance enterprise risk management of the Group through a holistic and integrated framework so that all material risks faced by the Group are identified and appropriately managed to:

(i) promote consistent risk identification, measurement, reporting and mitigation;

(ii) set a common risk language to avoid any conflicting terminology or confusion in risk reporting;

(iii) develop and communicate policies on enterprise risk management and controls aligned with the business strategy; and

(iv) enhance reporting to provide transparency of risks across the Group.

The Company has adopted policies and procedures for assessing and, where prudent, improving the effectiveness of its risk management and internal control systems, including requiring the management of the Group at least annually to assess whether the risk management and internal control systems are functioning effectively in the belief that this will enhance the corporate governance of the Company and its business practices in the future.

The Company regulates the handling and dissemination of inside information as set out in the Code of Conduct to ensure inside information remains confidential until the disclosure of such information is appropriately approved, and the dissemination of such information is efficiently and consistently made.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE ("ESG") REPORT

This report was approved by the Company's Board of Directors and aims to provide a balanced representation of the Group's effort on the corporate social responsibility in the Marketplace, Workplace, Community and Environment with cover the Group's operations for the financial year ended 31 December 2016.

### Reporting Framework

This report is prepared in accordance with the Environmental, Social and Governance Reporting Guide in Appendix 20 of the GEM Listing Rules.

### ESG Working Group

To demonstrate our commitment to transparency and accountability, the Company has established an ESG working group, which has clear terms of reference that set out the powers delegated to it by the Board.

### Corporate Social Responsibility ("CSR") Vision, Policy and Strategy

The Group adopted the CSR Policy in order to commit to the highest standards of corporate governance, and aims to integrate CSR into the Group's business strategy and management approach.

CSR is viewed as a business philosophy that creates shared sustainable value with its stakeholders in the economic, social and environmental dimensions. The Group's CSR Vision and CSR Policy guide the Group's business and operational decisions to take into account its responsibility to the CSR cornerstones with pragmatic objectives providing guidance on the application of these principles in its daily operations. The Group's CSR Policy describes our long-term approach to specific issues in the four cornerstones: Marketplace, Workplace, Community and Environment, which is instrumental in enabling our business to operate in a sustainable manner. Within each of the cornerstones, core principles and pragmatic objectives provide guidance on practicing CSR in our daily operations.

## MARKETPLACE

The Group endeavoring to provide professional financial services to its clients is well known for its commitment towards a corporate culture that embraces strong principles of business ethics across its organizational hierarchy. The core area under the compliance rules of the Group is the renting of premises, and the Group proudly announced that there was no case of non-compliance with any relevant law that had a significant impact over it for the year 2016. Stamp Duty Ordinance, Rating Ordinance, and Inland Revenue Ordinance were all adhered to by the Group for renting of premises for the year ended 31 December 2016.

### Supply Chain Management

Maintaining an efficient and fair supply chain is a top agenda of the Group which lays a significant attention on its set of suppliers who are considered the harbingers of good reputation for the firm. The associated sustainability impacts on the business operations as well as an enhanced performance are the major outcomes of a cordial relationship with the suppliers. The Group has therefore sought to address the varied needs of the stakeholders by laying a focus on responsible behavior, equality, and sensitivity while undertaking its supplier selection, negotiations, governance, and re-compensations.

### Product Responsibility

Safeguarding personal data and privacy of its customers and employees is among the priority areas of the Group, which has also ensured compliance to a set of security guidelines and ordinances in place. For instance, the Group ensures a strict compliance of all collected and processed data to the Personal Data (Privacy) Ordinance and other guidelines issued by Office of the Privacy Commissioner for Personal Data. The Group also aims to further strengthen its focus on Personal Data Privacy protection by following stringent adherence to such information security controls.

### Anti-corruption

The Group also aims at maintaining a fair internal working environment and cordial relationships among its employees. Anti-corruption measures and laws are enforced within the business arena of the Group as well as its internal working mechanisms to ensure honesty and integrity. The whistle blowing guideline is a good example of an anti-corruption, anti-fraud, and anti-malpractice policy followed by the Group which encourages reporting of any inappropriate behavior through procedures well-in-place.

## WORKPLACE

The Group's Workforce is its greatest asset, and the progress made by the Group over the recent years is a testimony to their dedication and quality efficiency. Valuing diversity, recognizing and rewarding talent, incessantly working towards skill development, and ensuring safety and wellbeing are the basic pillars of the work culture promoted and encouraged by the Group.

### Employment

The Group has several non-discriminatory policies and practices well in place, to ensure equal opportunities across all sexes, ethnicities, races, ages, and religions. Such policies entail the processes of recruitment to promotion, and embark upon a sole focus on the qualifications, experience, and merits of the applicants and staff.

Diversity is another significant asset of the Group which is considered as its greatest strength. As an organization, the Group seeks to respect diversity across all levels and strives towards a work environment offering breakthrough ideas for the clients and development opportunities for the employees.

### Health and Safety

Ensuring a safe working environment has been a priority concern for the Group, which is highly committed to maintaining high standards of health and safety for staff. The Group ensures that the operations at each company location comply, at a minimum, with the local health and safety laws along with a goal to attain the industry best practices as well. It also has its own set of health and safety policies and procedures for its constituent offices and work sites, health and safety management training, along with routine emergency and contingency planning (such as fire drill).

In addition to such routine drills and practices, all permanent staff members of the Group are covered by insurance guided by the Employees' Compensation Ordinance and the Mandatory Provident Fund ("MPF") scheme in accordance with the MPF Schemes Ordinance.

## Development and Training

Aiming at a strong, stable, and effective workforce, the Group ensures the provision of appropriate training and development opportunities to its employees. Programs such as on-the-job training, management training, occupational health and safety management, and other compliance and policies training have been included under its training development framework designed for the employees working at different positions. A regular evaluation of the training programs is also done to ensure their effectiveness. These programs are aimed at supporting the staff training, individual staff's personal growth, as well as a long-term career development planning.

The Group has also made a recent provisioning of a 1 week to 2 weeks on-the-job training for the new hires to enable them to learn about company ethics and equip relevant business skills. Other than the newly hired staff, around 24% of staff received skills-based trainings relating to core job responsibilities, cross-job functions and life skills for personal development during the year ended 31 December 2016.

## Labor Standards

Another step taken for a motivated and enthusiastic work force is the provision of competitive remuneration and welfare packages to the employees. Appropriate promotion opportunities, salary adjustments, rewards and recognition are ensured through a robust system of remunerations and associated benefits. The aim is to aptly repay the performance of each individual to retain the talent for Group's development.

The Group is strongly committed to ensuring strict adherence to the Personal Data (Privacy) Ordinance, the Employment Ordinance, the Minimum Wage Ordinance, and other ordinances relating to occupational safety, as well as disability, sex, family status, and race discrimination. The Employee Handbook provided by the Group mentions all about the non-discrimination statement and statement on work hours to ensure the adherence to all human rights.

## COMMUNITY

Community occupies a significant position for the long-term success of the Group. It is for this reason that the Group puts additional efforts in being recognized as a responsible corporate citizen. The Group sought to present its activities being based on the sense of a shared value by not only being an active supporter of charitable organizations itself, but also encouraging its employees to spend time for charitable activities with which they associate themselves. Particularly, the Group has maintained reserved funds for supporting social services which can be witnessed by way of the contribution made by the group by donating HK$100,000 and 60 hours for charitable purposes. In addition to this, the Group has actively encouraged a sense of responsibility among the staff members and their families towards the society, needy and particularly the physically disabled. Such an attitude has been deemed to be based on the values of harmony, equality, and fairness. Thereby indicating that such active engagement on the part of the employees is a determinant of increased loyalty towards the organization.

## ENVIRONMENT

The Group also lays focus on the preservation of the natural environment by adhering to the laws and regulations adopted by the local authorities to curtail the high emissions of greenhouse gas. The Group and its members are well aware of its social and environmental responsibilities towards environment friendly operations in order to build a sustainable working and living environment. It thus, ensures that the activities and businesses of the Group do not cause any significant harm to the environment.

Conservation and preservation of the natural resources is a major focus area for the Group. It follows a strict adherence to a set of guidelines, policies, and measures for minimizing its impact on the environment. Along with this, the Group also has energy saving and power monitoring systems well in place for its constituent business units.

The Group was well appreciated in 2016 for its environmental performance since it had no confirmed non-compliance incidents. The Group is thus, committed towards building an environmentally sustainable workplace by complying with all environmental quality standards.

### Emission

The major source of emission of Green House Gas (GHG) by the Group is its electricity usage. The Group has therefore, directed efforts to monitor its electricity usage on the workplace by the application of power-saving office facilities and encouraging employees to reduce their energy consumption under its overall environmental management agenda.

## Hazardous and non-hazardous waste

The Group follows proper waste management both within its workplace, and outside. There is no generation of any kind of hazardous waste in the workplace. Proper reuse and recycle guidelines are followed for the disposal of non-hazardous waste which is segregated into paper and tins. Reusing the waste products and duplex print is also strongly encouraged by the Group.

華融(香港)會計師事務所有限公司
Asian Alliance (HK) CPA Limited

**TO THE MEMBERS OF**
**CHINESE STRATEGIC HOLDINGS LIMITED**
*(Incorporated in Bermuda with limited liability)*

## OPINION

We have audited the consolidated financial statements of Chinese Strategic Holdings Limited (the "Company") and its subsidiary (collectively referred to as the "Group") set out on pages 60 to 220, which comprise the consolidated statement of financial position as at 31 December 2016, 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standard of Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### 1. Valuation of investment property

Management has estimated the fair value of the Group's investment properties to be HK$111,240,000 as at 31 December 2016 with a revaluation gain for the year ended 31 December 2016 recorded in the consolidated statement of profit or loss of HK$5,215,000. Independent external valuations were obtained in respect of 100% of the portfolio in order to support management's estimates. The valuations are dependent on certain key assumptions that require significant management judgement. The investment properties comprise 13.91% of the total assets as at 31 December 2016. The resulting change in fair values has a significant impact on the consolidated equity and loss for the year.

Due to management judgements involved about the estimates used in determining fair values and the significant carrying amounts involved, valuation of investment properties is considered a key audit matter for the Group.

***How our audit addressed the key audit matter***

We have evaluated the independent external valuers' competence, capabilities and objectivity.

We have assessed the methodologies used and the appropriateness of the key assumptions based on our knowledge of the property industry.

We have checked the accuracy and relevance of the input data used.

## 2. Impairment assessment of loan and interest receivables

The Group has been engaged in loan financing business in Hong Kong. As disclosed in Note 24 to the consolidated financial statements, as at 31 December 2016, the Group had outstanding loan and interest receivables, net of accumulated impairment losses, of approximately HK$71,789,000. During the year ended 31 December 2016, interest income of approximately HK$6,241,000 has been recognised. For the year ended 31 December 2016, impairment loss of approximately HK$5,227,000 has been recognised on certain loan and interest receivables that had been due and had been outstanding for a certain period of time.

The impairment assessment of the loan and interest receivables requires exercise of significant judgement by management of the Company and is subjective and we have identified the impairment assessment of the Group's loan and interest receivables as a key audit matter.

***How our audit addressed the key audit matter***

We discussed with the management of the Company the procedures it had taken before it advanced loans to customers.

Further, we discussed with the management of the Company its impairment policy (i.e. when and how impairment was determined) and assessed whether sufficient impairment losses has been recongised.

Specifically, with regards to outstanding loan and interest receivable as at 31 December 2016 that had been past due, we had discussed with the management of the Company a number of factors, including the financial position of the borrowers, the fair value of collaterals, the financial position of the guarantor, as well as subsequent settlement, if any, etc. and challenged the management of the Company the sufficiency of impairment loss and appropriateness of recognition of interest income based on the specific facts and circumstances.

We also compared the recoverable amounts of the loan and interest receivable estimated by the management of the Company with the carrying amounts recognised in the Group's consolidated statement of financial position.

## 3. Valuation of convertible instruments designated as financial assets at fair value through profit or loss ("FVTPL")

As at 31 December 2016, the Group held two convertible bonds issued by a listed entity in Hong Kong with the aggregate principal amounts of HK$46,500,000 as disclosed in Note 25 to the consolidated financial statements. These convertible bonds had been designated by the management of the Company as at financial assets at fair value through profit or loss on the initial recognition. As at 31 December 2016, the aggregate fair value of these convertible bonds amounted to HK$38,851,000, with fair value loss of HK$6,229,000 being recognised in the profit or loss for the year ended 31 December 2016. One of the convertible bonds with the principal amount of HK$23,000,000 would be due for repayment on 31 March 2017.

The determination of the fair value of convertible instruments is complex and requires exercise of significant judgment by the management of the Company and accordingly the valuation of the convertible instruments as at 31 December 2016 was considered as one of key audit matters.

***How our audit addressed the key audit matter***

We read the terms of the convertible instruments to identify the key terms. We discussed with the valuer regarding the appropriateness of methodology and assumptions being used in the valuation.

With regard to the input data, we performed certain substantive testing to the sourced data.

Further, given the issuer was a listed entity in Hong Kong, we had read the latest published financial information of the issuer and had discussed with the management of the Company the recoverability of the instruments taking into account the latest available financial position of the issuer.

We compared the fair value of the instruments stated in the valuation report with the carrying amounts recognised in the Group's consolidated statement of financial position.

### 4. Impairment assessment of deposits paid for acquisition of potential investments

During the year ended 31 December 2016, impairment loss of approximately HK$164,624,000 has been recognised in relation to deposits paid for acquisition of potential investments included in prepayments, deposits and other receivables as disclosed in Note 26 to the consolidated financial statements. Details are set out in Notes 26(b)(ii) and 43(v) to the consolidated financial statements. The impairment assessment of such deposits paid requires exercise of significant judgement by management of the Company. In exercising its judgement, management had sought and relied upon advices from legal advisers concerning the likely outcomes of court proceedings.

We have identified the impairment assessment of such deposits paid as a key audit matter in view of the subjectivity of management judgement and degree of estimation uncertainty involved in the process.

***How our audit addressed the key audit matter***

We have discussed the status and update of such acquisition of potential investments with the management and its internal legal counsel.

We have obtained letters from the entity's external legal advisors regarding the conduct of litigations matters and likely outcome of the enforcement.

We have assessed the reasonableness of management's impairment assessment and the adequacy of provision and challenged the key assumptions made by the management of the Company concerning the likely outcomes of uncertain events, based on the currently known facts and circumstances.

## OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion, solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatements when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**Asian Alliance (HK) CPA Limited**
*Certified Public Accountants (Practising)*
**Lam Chik Tong**
Practising Certificate Number: P05612

Suites 313-316
3/F., Shui On Centre
6-8 Harbour Road
Wan Chai
Hong Kong

17 March 2017

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

**FOR THE YEAR ENDED 31 DECEMBER 2016**

| | Notes | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|---|
| Revenue | 7 | **8,738** | 10,191 |
| Cost of sales | | **(271)** | (346) |
| Gross profit | | **8,467** | 9,845 |
| Other income and gains | 9 | **16,090** | 3,702 |
| Administrative expenses | | **(103,302)** | (88,925) |
| Changes in fair values of investment properties, net | 19 | **5,215** | (400) |
| Changes in fair values of investments held for trading | | **(9,177)** | (63,794) |
| (Loss) gain on disposals of investments held for trading | | **(69,431)** | 34,466 |
| Changes in fair values of convertible instruments designated as financial assets at fair value through profit or loss | 25 | **(6,229)** | 308 |
| Changes in fair values of derivative financial liabilities | 31 | **–** | (4,525) |
| Gain arising from derecognition of derivative financial liabilities | 31 | **8,125** | 3,156 |
| Gain (loss) on disposal of a subsidiary | 46 | **2,340** | (2,432) |
| Gain on deemed disposal of subsidiaries | 46 | **5** | – |
| Loss on deregistration of a subsidiary | | **–** | (1,042) |
| Loss on early redemption of convertible loan notes | | **(1,315)** | – |
| Loss on settlement of other payables | | **(1,063)** | – |
| Gain on bargain purchase | 44 | **–** | 2,818 |
| Impairment loss on loan and interest receivables | 24 | **(5,227)** | – |
| Impairment loss on other receivables | 26 | **(169,517)** | – |
| Share of gains (losses) of associates | 20 | **14** | (218) |
| Share of profit of a joint venture | 21 | **11,323** | 11,229 |
| Operating loss | | **(313,682)** | (95,812) |
| Finance costs | 10 | **(35,019)** | (26,047) |
| Loss before tax | | **(348,701)** | (121,859) |
| Income tax expense | 12 | **(213)** | (2,467) |
| Loss for the year | 11 | **(348,914)** | (124,326) |

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

| | Notes | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|---|
| **Other comprehensive expense** | | | |
| ***Items that may be reclassified subsequently to profit or loss:*** | | | |
| Exchange differences arising on translating foreign operations | | **(5)** | (5,356) |
| Release of translation reserve upon disposal of subsidiaries | *46* | **–** | (6,100) |
| Fair value gain on available-for-sale financial assets | *23* | **1,552** | 2,484 |
| Share of translation reserve of a joint venture | *21* | **(10,665)** | (7,772) |
| Other comprehensive expense for the year, net of income tax | | **(9,118)** | (16,744) |
| Total comprehensive expense for the year | | **(358,032)** | (141,070) |
| (Loss) profit for the year attributable to: | | | |
| Owners of the Company | | **(350,928)** | (126,304) |
| Non-controlling interests | | **2,014** | 1,978 |
| | | **(348,914)** | (124,326) |
| Total comprehensive (expense) income attributable to: | | | |
| Owners of the Company | | **(360,046)** | (141,609) |
| Non-controlling interests | | **2,014** | 539 |
| | | **(358,032)** | (141,070) |
| Loss per share | *16* | | |
| Basic (HK cents) | | **(34.47) cents** | (16.48) cents |
| Diluted (HK cents) | | **N/A** | N/A |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2016

| | Notes | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Plant and equipment | 17 | **5,365** | 7,467 |
| Convertible instruments designated as financial assets at fair value through profit or loss | 25 | **17,184** | 45,080 |
| Prepaid lease payment – non-current portion | 18 | **19,501** | 20,329 |
| Investment properties | 19 | **111,240** | 94,900 |
| Interests in associates | 20 | **176** | 162 |
| Interest in a joint venture | 21 | **166,278** | 165,620 |
| Club debentures | 22 | **2,690** | 2,690 |
| Available-for-sale financial assets | 23 | **45,682** | 44,130 |
| | | **368,116** | 380,378 |
| **CURRENT ASSETS** | | | |
| Loan and interest receivables | 24 | **71,789** | 61,693 |
| Amount due from an associate | 20 | **10,026** | – |
| Convertible instruments designated as financial assets at fair value through profit or loss | 25 | **21,667** | 4,200 |
| Prepayments, deposits and other receivables | 26 | **70,501** | 265,525 |
| Prepaid lease payment – current portion | 18 | **389** | 390 |
| Investments held for trading | 27 | **222,868** | 413,950 |
| Bank balances and cash | 28 | **34,489** | 46,952 |
| | | **431,729** | 792,710 |
| **CURRENT LIABILITIES** | | | |
| Accruals and other payables | 29 | **29,132** | 22,389 |
| Borrowings | 30 | **149,807** | 168,426 |
| Derivative financial liabilities | 31 | **–** | 8,125 |
| Convertible loan notes | 35 | **–** | 52,895 |
| Obligations under finance leases – current portion | 36 | **658** | 382 |
| Tax liabilities | | **12,052** | 12,052 |
| | | **191,649** | 264,269 |
| **NET CURRENT ASSETS** | | **240,080** | 528,441 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **608,196** | 908,819 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2016

| | Notes | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|---|
| **NON-CURRENT LIABILITIES** | | | |
| Bond payables | *32* | **50,000** | 50,000 |
| Obligations under finance leases | | | |
| – non-current portion | *36* | **1,154** | 1,006 |
| Deferred tax liabilities | *33* | **1,180** | 967 |
| | | **52,334** | 51,973 |
| **NET ASSETS** | | **555,862** | 856,846 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | *37* | **1,149** | 982 |
| Reserves | | **524,480** | 827,645 |
| Equity attributable to owners of the Company | | **525,629** | 828,627 |
| Non-controlling interests | *49* | **30,233** | 28,219 |
| **TOTAL EQUITY** | | **555,862** | 856,846 |

The consolidated financial statements on pages 60 to 220 were approved and authorised for issue by the Board of Directors on 17 March 2017 and are signed on its behalf by:

**Lam Kwok Hing Wilfred**
*Director*

**Chan Shui Sheung Ivy**
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

**FOR THE YEAR ENDED 31 DECEMBER 2016**

| | Attributable to owners of the Company | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 | Share premium HK$'000 | Contributed surplus HK$'000 | Share options reserve HK$'000 | Investment revaluation reserve HK$'000 | Warrants reserve HK$'000 | Convertible loan notes reserve HK$'000 | Translation reserve HK$'000 | Accumulated losses HK$'000 | Total HK$'000 | Non-controlling interests HK$'000 | Total HK$'000 |
| At 1 January 2015 | 676 | 2,901,300 | 7,914 | 3,590 | 20,268 | 1,350 | – | 19,536 | (2,127,622) | 827,012 | 25,255 | 852,267 |
| (Loss) profit for the year | – | – | – | – | – | – | – | – | (126,304) | (126,304) | 1,978 | (124,326) |
| Other comprehensive (expense) income for the year, net of income tax | | | | | | | | | | | | |
| *Items that may be subsequently reclassified to profit or loss:* | | | | | | | | | | | | |
| Exchange differences arising on translating foreign operations | – | – | – | – | – | – | – | (3,917) | – | (3,917) | (1,439) | (5,356) |
| Release of translation reserve upon disposal of subsidiaries (Note 46(c)) | – | – | – | – | – | – | – | (6,100) | – | (6,100) | – | (6,100) |
| Fair value gain on available-for-sale financial assets | – | – | – | – | 2,484 | – | – | – | – | 2,484 | – | 2,484 |
| Share of translation reserve of a joint venture | – | – | – | – | – | – | – | (7,772) | – | (7,772) | – | (7,772) |
| | – | – | – | – | 2,484 | – | – | (17,789) | – | (15,305) | (1,439) | (16,744) |
| Total comprehensive income (expense) for the year | – | – | – | – | 2,484 | – | – | (17,789) | (126,304) | (141,609) | 539 | (141,070) |
| Issue of convertible loan notes (Note 35) | – | – | – | – | – | – | 4,630 | – | – | 4,630 | – | 4,630 |
| Transaction cost attributable to issue of convertible loan notes (Note 35) | – | – | – | – | – | – | (139) | – | – | (139) | – | (139) |
| Conversion of convertible loan notes (Note 35) | 10 | 18,743 | – | – | – | – | (1,123) | – | – | 17,630 | – | 17,630 |
| Exercise of warrants (Note 34) | 134 | 28,132 | – | – | – | (1,346) | – | – | – | 26,920 | – | 26,920 |
| Cancellation of warrants upon expiration (Note 34) | – | – | – | – | – | (4) | – | – | 4 | – | – | – |
| Issue of shares (Note 37) | 162 | 96,782 | – | – | – | – | – | – | – | 96,944 | – | 96,944 |
| Placing expenses | – | (2,761) | – | – | – | – | – | – | – | (2,761) | – | (2,761) |
| Deregistration of a subsidiary | – | – | – | – | – | – | – | – | – | – | 2,284 | 2,284 |
| Acquisition of a subsidiary (Note 44(a)) | – | – | – | – | – | – | – | – | – | – | 141 | 141 |
| At 31 December 2015 | 982 | 3,042,196 | 7,914 | 3,590 | 22,752 | – | 3,368 | 1,747 | (2,253,922) | 828,627 | 28,219 | 856,846 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

**FOR THE YEAR ENDED 31 DECEMBER 2016**

| | Attributable to owners of the Company | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 | Share premium HK$'000 | Contributed surplus HK$'000 | Share options reserve HK$'000 | Investment revaluation reserve HK$'000 | Warrants reserve HK$'000 | Convertible loan notes reserve HK$'000 | Translation reserve HK$'000 | Accumulated losses HK$'000 | Total HK$'000 | Non-controlling interests HK$'000 | Total HK$'000 |
| At 1 January 2016 | 982 | 3,042,196 | 7,914 | 3,590 | 22,752 | – | 3,368 | 1,747 | (2,253,922) | 828,627 | 28,219 | 856,846 |
| (Loss) profit for the year | – | – | – | – | – | – | – | – | (350,928) | (350,928) | 2,014 | (348,914) |
| Other comprehensive (expense) income for the year, net of income tax | | | | | | | | | | | | |
| *Items that may be subsequently reclassified to profit or loss:* | | | | | | | | | | | | |
| Exchange differences arising on translating foreign operations | – | – | – | – | – | – | – | (5) | – | (5) | – | (5) |
| Fair value gain on available-for-sale financial assets | – | – | – | – | 1,552 | – | – | – | – | 1,552 | – | 1,552 |
| Share of translation reserve of a joint venture | – | – | – | – | – | – | – | (10,665) | – | (10,665) | – | (10,665) |
| | – | – | – | – | 1,552 | – | – | (10,670) | – | (9,118) | – | (9,118) |
| Total comprehensive income (expense) for the year | – | – | – | – | 1,552 | – | – | (10,670) | (350,928) | (360,046) | 2,014 | (358,032) |
| Exercise of share option (Note 38) | 3 | 2,810 | – | (977) | – | – | – | – | – | 1,836 | – | 1,836 |
| Issuance of shares upon placing (Note 37) | 150 | 35,850 | – | – | – | – | – | – | – | 36,000 | – | 36,000 |
| Transaction cost attributable to issue of shares upon placing | – | (1,020) | – | – | – | – | – | – | – | (1,020) | – | (1,020) |
| Settle other payables upon issue of shares (Note 35) | 14 | 7,694 | – | – | – | – | – | – | – | 7,708 | – | 7,708 |
| Early redemption of convertible loan notes (Note 35) | – | – | – | – | – | – | (3,368) | – | 3,368 | – | – | – |
| Recognition of share-based payment expenses (Note 38) | – | – | – | 12,524 | – | – | – | – | – | 12,524 | – | 12,524 |
| **At 31 December 2016** | 1,149 | 3,087,530 | 7,914 | 15,137 | 24,304 | – | – | (8,923) | (2,601,482) | 525,629 | 30,233 | 555,862 |

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2016

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Loss before tax | (348,701) | (121,859) |
| Adjustments for: | | |
| Finance costs | 35,019 | 26,047 |
| Interest income | (159) | (1,863) |
| Gain on settlement of other receivables | (15,678) | – |
| Depreciation of plant and equipment | 2,649 | 2,609 |
| Amortisation of prepaid lease payment | 388 | 388 |
| Impairment loss of prepaid lease payment | 441 | – |
| Gain on disposal of plant and equipment | – | (470) |
| Loss on written-off of plant and equipment | 594 | 426 |
| Impairment loss on loan and interest receivables | 5,227 | – |
| Impairment loss on other receivables | 169,517 | – |
| Gain on disposal of a subsidiary | (2,340) | – |
| Share of profit of a joint venture | (11,323) | (11,229) |
| Share of (gains) loss of associate | (14) | 218 |
| Changes in fair values of investment properties, net | (5,215) | 400 |
| Changes in fair values of convertible instruments designated as financial assets at fair value through profit or loss | 6,229 | (308) |
| Changes in fair values of derivative financial liabilities | – | 4,525 |
| Gain arising from derecognition of derivative financial liabilities | (8,125) | (3,156) |
| Changes in fair values of investments held for trading | 9,177 | 63,794 |
| Loss on early redemption of convertible loan notes | 1,315 | – |
| Loss on settlement of other payables | 1,063 | – |
| Loss on disposal of subsidiaries | – | 2,432 |
| Gain on deemed disposal of a subsidiary | (5) | – |
| Gain on bargain purchase | – | (2,818) |
| Share-based payment expenses | 12,524 | – |
| Loss on deregistration of a subsidiary | – | 1,042 |
| **Operating cash flows before movements in working capital** | (147,417) | (39,822) |
| Increase in loan and interest receivables | (15,323) | (35,877) |
| Increase in amount due to an associate | (10,026) | – |
| Increase in prepayments, deposits and other receivables | (13,851) | (75,162) |
| Decrease (increase) in investments held for trading | 232,303 | (93,621) |
| Increase (decrease) in accruals and other payables | 22,917 | (33,024) |
| **NET CASH FROM (USED IN) OPERATING ACTIVITIES** | 68,603 | (277,506) |

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2016

| | Notes | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|---|
| **INVESTING ACTIVITIES** | | | |
| Interest received | | **159** | 4 |
| Purchase of plant and equipment | | **(61)** | (590) |
| Proceeds from disposal of plant and equipment | | **–** | 470 |
| Net cash inflow arising on deemed disposal of a subsidiary | | **4** | – |
| Acquisition of a subsidiary | | **–** | (8) |
| Acquisition of an associate | *20* | **–** | (380) |
| Net cash outflow arising on acquisition of assets through acquisition of a subsidiary | | **(17)** | – |
| Proceeds from disposal of subsidiaries | *46* | **–** | 46,595 |
| Acquisition of convertible instruments designated as financial assets at fair value through profit or loss | | **–** | (5,000) |
| **NET CASH FROM INVESTING ACTIVITIES** | | **85** | 41,091 |
| **FINANCING ACTIVITIES** | | | |
| Proceeds from exercise of share option | | **1,836** | – |
| Proceeds from issue of convertible loan notes | *35* | **–** | 76,000 |
| Transaction cost attributable to issue of convertible loan notes | *35* | **–** | (2,280) |
| Proceeds from issue of option to subscribe convertible bonds | *31* | **–** | 3,600 |
| Proceeds from issue of bonds | | **–** | 150,000 |
| Proceeds from exercise of non-listed warrants | | **–** | 26,920 |
| Proceeds from placing of new shares, net of issuance cost | *37* | **34,980** | 94,183 |
| Repayment of obligation under finance lease | | **(656)** | (291) |
| Repayment of bonds | | **–** | (110,000) |
| Borrowings raised | | **33,103** | 99,083 |
| Repayment of borrowings | | **(118,180)** | (46,524) |
| Interest paid | | **(32,229)** | (24,751) |
| **NET CASH (USED IN) FROM FINANCING ACTIVITIES** | | **(81,146)** | 265,940 |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | | **(12,458)** | 29,525 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR** | | **46,952** | 17,303 |
| **EFFECT OF CHANGES IN FOREIGN EXCHANGE RATE** | | **(5)** | 124 |
| **CASH AND CASH EQUIVALENTS AT END OF THE YEAR** represented by bank balances and cash | | **34,489** | 46,952 |

## 1. GENERAL

Chinese Strategic Holdings Limited (the "Company") is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 18 May 2000. The address of the registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda, and its principal place of business is located at 2nd Floor, SBI Centre, Nos. 54-58 Des Voeux Road Central, Hong Kong.

The principal activity of the Company is investment holding and the principal activities of its subsidiaries are set out in Note 49.

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

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

### Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied a number of amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are mandatorily effective for an accounting period that begins on or after 1 January 2016. These amendments have been applied by the Group for the first time in the current year unless otherwise specified. The impacts of these amendments are described below.

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

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

### Amendments to HKFRSs that are mandatorily effective for the current year *(Continued)*

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

***Amendments to HKFRS 11 Accounting for Acquisitions of Interests in Joint Operations***

The amendments provide guidance on how to account for the acquisition of a joint operations that constitute a business as defined in HKFRS 3 Business Combinations. Specifically, the amendments state that the relevant principles on accounting for business combinations in HKFRS 3 and other standards should be applied. The amendments also require that a joint operator to disclose the relevant information required by HKFRS 3 and other standards for business combinations. The amendments have been applied prospectively to acquisitions of interests in joint operations (in which the activities of the joint operations constitute business as defined in HKFRS 3) occurring from the beginning of the current year.

The same requirements should applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation.

A joint operator is also required to disclose the relevant information required by HKFRS 3 and other standards for business combinations.

The Group did not have any such transactions in the current year and hence the application of these amendments has had no impact on the Group's consolidated financial statements.

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

### Amendments to HKFRSs that are mandatorily effective for the current year *(Continued)*

***Amendments to HKAS 1 Disclosure Initiative***

The amendments clarify that an entity need not provide a specific disclosure required by a HKFRS if the information resulting form that disclosure is not material (even if the HKFRS contains a list of specific requirements or describes them as minimum requirements). The amendments also give guidance on the bases of aggregating and disaggregating information for disclosure purposes. The amendments emphasise that an entity should consider whether to provide additional disclosures when compliance with the specific requirements in HKFRSs is insufficient to enable users of financial statements to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance. Furthermore, the amendments require that an entity's share of the other comprehensive income of associates and joint ventures accounted for using the equity method should be presented separately from those arising from the Group, and should be separated into the share of items that, in accordance with other HKFRSs: (i) will not be reclassified subsequently to profit or loss; and (ii) will be reclassified subsequently to profit or loss when specific conditions are met.

As required by the amendments, the share of other comprehensive income of associates and joint ventures had been separately presented and had been separated into (i) will not be reclassified subsequently to profit or loss; and (ii) will be reclassified subsequently to profit or loss when specific conditions are met. Other than such a change in presentation, the application of these amendments has not resulted in any impact on the financial performance or financial position of the Group.

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

### Amendments to HKFRSs that are mandatorily effective for the current year *(Continued)*

***Amendments to HKAS 16 and HKAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation***

The amendments to HKAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to HKAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. The amendments states that such a presumption can only be rebutted in the following two limited circumstances:

- when the intangible asset is expressed as a measure of revenue; or
- when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

With regard to the Group's property, plant and equipment, the Group did not use revenue-based depreciation method and hence the amendments have not have any impact on the Group's financial position and financial performance. Rather, the Group has been using the straight-line method for depreciation and amortisation for its property, plant and equipment.

***Amendments to HKFRS 10, HKFRS 12 and HKAS 28 Investment Entities: Applying the Consolidation Exception***

The amendments mainly clarify that the exemption from preparing consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with HKFRS 10. Also, given that the Company is a listed entity, the consolidation exception set out in the amendments will not be applicable to the Company and hence the application of these amendments has had no impact on the Group's consolidated financial statements.

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

### Amendments to HKFRSs that are mandatorily effective for the current year *(Continued)*

***Annual Improvements to HKFRSs 2012-2014 Cycle***

The Annual Improvements to HKFRSs 2012-2014 Cycle include a number of amendments to various HKFRSs, which are summarised below.

Firstly, the amendments to HKFRS 5 introduce specific guidance for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa). The amendments clarify that such a change should be considered as a continuation of the original plan of disposal and hence requirements set out in HKFRS 5 regarding the change of sale plan do not apply.

Secondly, the amendments to HKFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets.

Thirdly, the amendments to HKAS 19 clarify that the rate used to discount post-employment benefit obligations should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The assessment of the depth of a market for high quality corporate bonds should be at the currency level (i.e. the same currency as the benefits are to be paid). For currencies for which there is no deep market in such high quality corporate bonds, the market yields at the end of the reporting period on government bonds denominated in that currency should be used instead. The Group did not have any defined benefit scheme.

The application of these amendments has had no effect on the Group's consolidated financial statements.

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

### New and amendments to HKFRSs in issued but not yet effective

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

| | |
|---|---|
| HKFRS 9 | Financial Instruments[1] |
| HKFRS 15 | Revenue from Contracts with Customers and related Amendments[1] |
| HKFRS 16 | Leases[2] |
| Amendments to HKFRS 2 | Clarification and Measurement of Share-based Payment Transactions[1] |
| Amendments to HKFRS 4 | Applying HKFRS 9 *Financial Instruments* with HKFRS 4 *Insurance Contracts*[1] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3] |
| Amendments to HKAS 7 | Disclosure Initiative[4] |
| Amendments to HKAS 12 | Recognition of Deferred Tax Assets for Unrealised Losses[4] |

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

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

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

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

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

### New and amendments to HKFRSs in issued but not yet effective *(Continued)*

***HKFRS 9 Financial Instruments***

HKFRS 9 has introduced new requirements for a) classification and measurement of financial assets; b) impairment of financial assets; and c) general hedge accounting.

Specifically, with regard to the classification and measurement of financial assets, HKFRS 9 requires all recognised financial assets that are within the scope of HKFRS 9 to be subsequently measured at amortised cost or fair value. 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 each of the subsequent accounting periods. Debt investments 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 are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income ("FVTOCI"). All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. Further, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 applies) in other comprehensive income, with only dividend income generally recognised in profit or loss and that cumulative fair value changes will not be reclassified to profit or loss upon derecognition of the investment.

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

### New and amendments to HKFRSs in issued but not yet effective *(Continued)*

***HKFRS 9 Financial Instruments*** *(Continued)*

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

With regard to impairment of financial assets, HKFRS 9 has adopted an expected credit loss model, as opposed to an incurred credit loss model required under HKAS 39. In general, the expected credit loss model requires an entity to assess the change in credit risk of the financial asset since initial recognition at each reporting date and to recognise the expected credit loss depending on the degree of the change in credit risk.

With regard to the general hedge accounting requirements, HKFRS 9 retains the three types of hedge accounting mechanisms currently available in HKAS 39. Under HKFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an "economic relationship". Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The Group is still in the process of assessing the impact of HKFRS 9. The directors of the Company (the "Directors") believe that it is impractical to disclose the impact in these consolidated financial statements until the Group has completed the assessment.

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

### New and amendments to HKFRSs in issued but not yet effective *(Continued)*

***HKFRS 15 Revenue from Contracts with Customers***

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

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

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

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

The Group is still in the process of assessing the impact of HKFRS 15. The Directors believe that it is impractical to disclose the impact in these consolidated financial statements until the Group has completed the assessment.

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

### New and amendments to HKFRSs in issued but not yet effective *(Continued)*

***HKFRS 16 Leases***

HKFRS 16 will supersede the current lease guidance including HKAS 17 Leases and the related interpretations when it becomes effective.

With regard to lessee accounting, the distinction of operating leases and finance leases, as required by HKAS 17, has been replaced by a model which requires a right-of-use asset and a corresponding liability to be recognised for all leases by lessees except for short-term leases and leases of low value assets. Specifically, the right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any re-measurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments. Furthermore, the classification of cash flows will also be affected as operating lease payments under HKAS 17 are presented as operating cash flows; whereas, under the HKFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

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

Furthermore, extensive disclosure are required by HKFRS 16.

The Group is in the process of assessing the impact of HKFRS 16. The Directors believe that it is impractical to disclose the impact in these consolidated financial statements until the Group has completed the assessment.

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

### New and amendments to HKFRSs in issued but not yet effective *(Continued)*

***Amendments to HKFRS 2 Classification and Measurement of Share-based Payment Transactions***

The amendments clarify the following:

- In estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity-settled share-based payments.

- Where tax law or regulation requires an entity to withhold a specified number of equity instruments equal to the monetary value of the employee's tax obligation to meet the employee's tax liability which is then remitted to the tax authority, i.e. the share-based payment arrangement has a "net settlement feature", such an arrangement should be classified as equity-settled in its entirely, provided that the share-based payment would have been classified as equity-settled had it not included the net settlement feature.

- A modification of a share-based payment that changes the transaction from cash-settled to equity-settled should be accounted for as follows: the original liability is derecognised. The equity-settled share-based payment is recognised at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to the modification date and the amount recognised in equity should be recognised in profit or loss immediately.

The Group does not have any cash-settled share-based payment arrangements or any withholding tax arrangements with tax authorities in relation to share-based payments and hence the Directors do not anticipate that the application of the amendments in the future will have a significant impact on the Group's consolidated financial statements.

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

### New and amendments to HKFRSs in issued but not yet effective *(Continued)*

***Amendments to HKFRS 10 and HKAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture***

The amendments to HKFRS 10 and HKAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the re-measurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The Group did not enter into these transactions in the current year. The Directors anticipate that the application of these amendments may have an impact on the Group's consolidated financial statements in future periods should such transactions arise.

***Amendments to HKAS 7 Disclosure Initiative***

The amendments require an entity to make disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. The Directors do not anticipate that the application of these amendments will have a material impact on the Group's consolidated financial statements.

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

### New and amendments to HKFRSs in issued but not yet effective *(Continued)*

***Amendments to HKAS 12 Recognition of Deferred Tax Assets for Unrealised Losses***

The amendments provide a number of guidance to help entities assess and estimate whether sufficient taxable profits will be available against which it can utilise a deductible temporary difference. The Directors do not anticipate that the application of these amendments will have a material impact on the Group's consolidated financial statements.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the "Listing Rules") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis, except for investment properties and certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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.

The principal accounting policies are set out below.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Basis of consolidation

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

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

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

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

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing 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 relevant components of equity including reserves 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 after re-attribution of the relevant equity component, 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, a gain or loss is recognised in profit or loss and 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 carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). 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 HKAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

### Business combinations

Acquisition 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Business combinations *(Continued)*

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

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;

- 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 HKFRS 2 *Share-based Payment* at the acquisition date (see accounting policy below); and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current 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 amounts of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net amount 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 relevant subsidiary'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.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 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 made 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 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 to fair value at subsequent reporting dates, 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), and 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Acquisition of a subsidiary not constituting a business

When the Group acquires a group of assets that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to the financial assets and financial liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to the other individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

### Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The associate and joint venture uses accounting policies that differ from those of the Group for like transactions and events in similar circumstances, for example, the investment properties are stated at cost and amortized over the lease term. Appropriate adjustments have been made to conform the associate's and the joint venture's accounting policies to those of the Group. Under the equity method, an investment in an associate or a joint venture is 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 associate or joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), 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 or joint venture.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Investments in associates and joint ventures *(Continued)*

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee 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 and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

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

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset within the scope of HKAS 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate or joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture 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 the equity method is discontinued.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Investments in associates and joint ventures *(Continued)*

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate.

There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

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

### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for rebates and other similar allowances.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

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

Dividend income from investments is recognised when the shareholder's right to receive payment have been established.

The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy for leasing below.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Leasing

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

***The Group as lessor***

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset. Other than investment properties measured under fair value model, such costs are recognised as an expense on a straight-line basis over the lease term.

***The Group as lessee***

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

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

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

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Leasing *(Continued)*

***Leasehold land and building***

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease.

### Plant and equipment

Plant and equipment are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values. All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are classified and accounted for as investment properties and are measured using the fair value model. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

### Intangible asset

***Intangible asset acquired separately***

Intangible asset with indefinite useful lives that are acquired separately (including club debentures) are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

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

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on 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 arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

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

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

### Borrowing costs

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

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Retirement benefits costs and termination benefits

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

A liability for a termination benefit is recognised at the earlier of when the group entity can no longer withdraw the offer of the termination benefit and when it recognises any related restructuring costs.

***Short-term and other long-term employee benefits***

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. Any changes in the liabilities' carrying amounts resulting from service cost, interest and remeasurements are recognised in profit or loss except to the extent that another HKFRS requires or permits their inclusion in the cost of an asset.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Share-based payment arrangements

***Equity-settled share-based payment transactions***

*Share options granted to employees*

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share options reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share options reserve. For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to accumulated losses.

*Share options granted to consultants*

Equity-settled share-based payment transactions with parties other than employees are measured at the fair values of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service. The fair values of the goods or services received are recognised as expenses, unless the goods or services qualify for recognition as assets.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Taxation

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

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Taxation *(Continued)*

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

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

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

For the purposes of measuring deferred taxes for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

### Cash and cash equivalents

Bank balances and cash in the consolidated statement of financial position comprise cash at banks and on hand.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Provisions

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

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

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

***Financial assets***

Financial assets are classified into the following specified categories: financial assets at fair value through profit or loss ("FVTPL"), loans and receivables and available-for-sale ("AFS") financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial instruments *(Continued)*

***Financial assets*** *(Continued)*

*Effective interest method*

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

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL, of which interest income is included in net gains or losses.

*Financial assets at FVTPL*

Financial assets are classified as at FVTPL when the financial asset is (i) held for trading, (ii) it is designated as at FVTPL or (iii) contingent consideration that may be received by an acquirer as part of a business combination to which HKFRS 3 applies.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a 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
- it is a derivative that is not designated and effective as a hedging instrument.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial instruments *(Continued)*

***Financial assets*** *(Continued)*

*Financial assets at FVTPL (Continued)*

A financial asset other than a financial asset held for trading or contingent consideration that may be received by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- 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
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (assets or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising from remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets and is included in the "Changes in fair values of investments held for trading", "Changes in fair values of convertible instruments designated as financial assets at fair value through profit or loss" and "Changes in fair values of derivative financial liabilities" line items. Fair value is determined in the manner described in Note 6(c) to the consolidated financial statements.

Convertible instruments acquired by the Group (including related embedded derivates) are designated as financial assets at FVTPL on initial recognition. Subsequent to initial recognition, the entire convertible bonds are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise and is included in the "Changes in fair values of convertible instruments designated as financial assets at fair value through profits or loss" line item.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial instruments *(Continued)*

***Financial assets*** *(Continued)*

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including loan and interest receivables, deposits and other receivables and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment (see accounting policy on impairment loss on financial assets below).

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

*AFS 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 or (b) financial assets at FVTPL. The Group designated unlisted investment in funds and unlisted equity investments as AFS financial assets in initial recognition.

Equity and debt securities held by the Group that are classified as AFS 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 AFS monetary financial assets relating to interest income calculated using the effective interest method, and changes in foreign exchange rates, if applicable are recognised in profit or loss. Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial instruments *(Continued)*

***Financial assets*** *(Continued)*

*AFS financial assets (Continued)*

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less any identified impairment losses at the end of each reporting period (see accounting policy in respect of impairment loss on financial assets below).

*Impairment on financial assets*

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

For AFS 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:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- disappearance of an active market for that financial asset because of financial difficulties.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial instruments *(Continued)*

***Financial assets*** *(Continued)*

*Impairment on financial assets (Continued)*

For certain categories of financial assets, such as loan and interest receivables and other 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, 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 the 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 (see the accounting policy below).

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

When an AFS 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial instruments *(Continued)*

***Financial assets*** *(Continued)*

*Impairment on financial assets (Continued)*

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses 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 AFS 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 investments revaluation reserve. In respect of AFS 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***

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

*Equity instruments*

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

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial instruments *(Continued)*

***Financial liabilities and equity instruments*** *(Continued)*

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Interest expense is recognised on an effective interest basis other than those financial liabilities classified as at FVTPL, of which the interest expense is included in net gains or losses.

*Financial liabilities at FVTPL*

Financial liabilities are classified as at FVTPL when the financial liability is (i) held for trading, (ii) it is designated as at FVTPL or (iii) contingent consideration that may be paid by an acquirer as part of a business combination to which HKFRS 3 applies.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or

- on initial recognition it is a 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

- it is a derivative that is not designated and effective as a hedging instrument.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial instruments *(Continued)*

***Financial liabilities and equity instruments*** *(Continued)*

*Financial liabilities at FVTPL (Continued)*

A financial liability other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability 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
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are measured 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 excludes any interest paid on the financial liabilities and is included in the "Changes in fair values of derivative financial liabilities" line item. Fair value is determined in the manner described in Note 6(c) to the consolidated financial statements.

*Financial liabilities at amortised cost*

Other financial liabilities including accruals and other payables, borrowings, obligations under finance leases and bond payables are subsequently measured at amortised cost, using the effective interest method.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial instruments *(Continued)*

***Financial liabilities and equity instruments*** *(Continued)*

*Convertible loan notes*

Convertible loan notes contain liability and equity components.

The component parts of the convertible loan notes issued by the Company are classified separately as financial liability and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. A 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 by measuring the fair value of similar liability that does not have an associated equity component.

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial instruments *(Continued)*

***Financial liabilities and equity instruments*** *(Continued)*

*Derivative financial instruments*

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

*Warrants*

Warrants issued by the Company that will be settled by the exchange of a fixed amount of cash for a fixed number of the Company's own equity instruments are classified as an equity instrument.

For warrants issued to subscribers for subscription of the Company's shares, the fair value of warrants on the date of issue is recognised in equity (warrant reserve). The warrant reserve will be transferred to share capital and share premium upon exercise of the warrants. Where the warrants remain unexercised at the expiry date, the amount previously recognised in warrant reserve will be transferred to accumulated losses.

***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. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial instruments *(Continued)*

***Derecognition*** *(Continued)*

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

On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

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

### Impairment on tangible and intangible assets

At the end of the 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). 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Impairment on tangible and intangible assets *(Continued)*

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

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rate basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduce below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rate to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where 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.

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3 to the consolidated financial statements, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

### Critical judgements in applying accounting policies

The followings are the critical judgements, apart from those involving estimations (see below), that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

***Deferred taxation on investment properties***

For the purposes of measuring deferred tax liabilities arising from investment properties that are measured using the fair value model, the Directors have reviewed the Group's investment property portfolios and concluded that the Group's investment properties are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time. Therefore, in determining the Group's deferred taxation on investment properties, the Directors have determined that the presumption that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale is not rebutted. The Group has not recognised any deferred taxes on changes in fair value of investment properties located in Hong Kong as the Group is not subject to any income taxes on the fair value changes of the investment properties located in Hong Kong on disposal.

The Group recognised deferred taxes in respect of those investment properties situated in the People's Republic of China ("PRC") which are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time and are subject to land appreciation tax on disposal of these investment properties.

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

### Critical judgements in applying accounting policies *(Continued)*

***Classification of Changsha Seg Development Co. Limited ("Changsha Seg") as a joint venture***

Changsha Seg is a limited liability company incorporated in the PRC whose legal form confers separation between the parties to the joint arrangement and the company itself. Furthermore, there are no contractual arrangements or any other facts and circumstances that indicate that the parties to the joint arrangement have rights to the assets and obligations for the liabilities of the joint arrangement. Accordingly, Changsha Seg is classified as a joint venture of the Group. For details, please refer to Note 21 to the consolidated financial statements.

### Key sources of estimation uncertainty

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

***Estimated impairment loss on loan and interest receivables***

In determining collective impairment allowances, management uses estimates based on historical experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experiences.

As at 31 December 2016, the carrying amount of loan and interest receivables were approximately HK$71,789,000 (2015: HK$61,693,000), net of accumulated impairment losses of HK$302,982,000 (2015: HK$345,015,000).

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

### Key sources of estimation uncertainty *(Continued)*

***Fair value of convertible instruments designated as financial assets at FVTPL***

The fair value of the convertible instruments involves assumptions on the issuer's credit spread, discount rate, expected credit rating and future cash flows. Should these assumptions change, there would be material changes to the fair value. The carrying amount of the convertible instruments designated as financial assets at FVTPL as at 31 December 2016 was approximately HK$38,851,000 (2015: HK$49,280,000).

***Fair value of investment properties***

At the end of the reporting period, investment properties are stated at fair value based on the valuation performed by the independent professional valuers. In determining the fair value, the independent professional valuers have based on a method of valuation which involves certain estimates of market conditions. In relying on the valuation report, the Directors have exercised their judgements and are satisfied that the assumptions used in valuation have reflected the current market conditions. Changes to these assumptions would result in changes in the fair values of the Group's investment properties being recognised in profit or loss. The carrying amount of investment properties measured at fair value at 31 December 2016 was HK$111,240,000 (2015: HK$94,900,000).

***Estimated impairment loss on interest in a joint venture***

Determining whether the interest in a joint venture is impaired requires an estimation of the future cash flows expected to arise and expected dividend yield from the joint venture and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. The carrying amount of the Group's joint venture as at 31 December 2016 was approximately HK$166,278,000 (2015: HK$165,620,000). No impairment loss was recognised for the years ended 31 December 2016 and 2015.

## 5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes borrowings, convertible loan notes, obligations under finance leases and bond payables, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, reserves and accumulated losses.

The Group is not subject to any externally imposed capital requirements. The Directors review the capital structure on an annual basis. As part of this review, the Directors consider the cost of capital and risks associates with each class of capital. Based on recommendations of the Directors, the Group will balance its overall capital structure through new share issues as well as the issue of new debt or the redemption of existing debt.

## 6. FINANCIAL INSTRUMENTS

### a. Categories of financial instruments

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| **Financial assets** | | |
| Available-for-sale financial assets: | | |
| – at cost | 5,892 | 5,892 |
| – at fair value | 39,790 | 38,238 |
| | 45,682 | 44,130 |
| Financial assets at FVTPL: | | |
| – investments held for trading | 222,868 | 413,950 |
| – convertible instruments designated as financial assets at FVTPL | 38,851 | 49,280 |
| | 261,719 | 463,230 |
| Loans and receivables (including bank balances and cash) | 174,706 | 370,103 |
| **Financial liabilities** | | |
| Financial liabilities at FVTPL: | | |
| – derivative financial liabilities | – | 8,125 |
| Convertible loan notes | – | 52,895 |
| Other financial liabilities measured at amortised cost | 230,751 | 242,203 |
| | 230,751 | 303,223 |

## 6. FINANCIAL INSTRUMENTS *(Continued)*

### b. Financial risk management objectives and policies

The Group's major financial instruments include loan and interest receivables, deposits and other receivables, bank balances and cash, financial assets at FVTPL (including investments held for trading and convertible instruments designated as financial assets at FVTPL), AFS financial assets, derivative financial liabilities, accruals and other payables, bond payables, convertible loan notes, obligations under finance leases and borrowings. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

There has been no change to the types of the Group's exposure in respect of financial instruments or the manner in which it manages and measures the risks.

***Market risk***

*(i)* *Currency risk*

The functional currency of certain subsidiaries established in the PRC is Renminbi ("RMB"). The RMB is not freely convertible into other currencies however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business. The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date, that are denominated in currencies other than the functional currency of the relevant group entities were mainly denominated in United States dollars ("USD").

| | Assets | |
|---|---|---|
| | **2016** | 2015 |
| | **HK$'000** | HK$'000 |
| USD | **39,801** | 38,329 |

## 6. FINANCIAL INSTRUMENTS *(Continued)*

### b. Financial risk management objectives and policies *(Continued)*

***Market risk*** *(Continued)*

*(i) Currency risk (Continued)*

Other than the above, the Group did not have significant exposure to risk resulting from changes in foreign currency exchange rates. The Group currently does not have any policy to hedge its exposure to currency risk.

No sensitivity analysis was prepared for USD because HK$ is pegged to USD and no sensitivity analysis was prepared for RMB. The fluctuation and impact is considered immaterial.

*(ii) Interest rate risk*

The Group's income and operating cash flows would be affected by the changes of market interest rates. The Group's exposure to market risk for changes in interest rates mainly arises from borrowings. Borrowings arranged at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. At 31 December 2016, approximately 23% (2015: 71%) of the borrowings bore interest at floating rates. The interest rate and repayment terms of the borrowings outstanding at year end are disclosed in Note 30.

The Group has exposure at cash flow interest rate risk through the impact of the rate changes on bank balances and bank borrowings which are carried at variable interest rate.

Loan and interest receivables, bond payables, convertible loan notes, obligations under finance leases and convertible instruments designated as financial assets at FVTPL at fixed rates expose the Group to fair value interest-rate risk. The Group has not formulated a policy to manage the interest rate risk. The Group has not used any derivative contracts or formulated any policy to hedge its exposure to interest rate risk as the exposure is considered to be insignificant.

## 6. FINANCIAL INSTRUMENTS *(Continued)*

### b. Financial risk management objectives and policies *(Continued)*

***Market risk*** *(Continued)*

*(ii) Interest rate risk (Continued)*

Sensitivity analysis

Bank balances are excluded from sensitivity analysis as the Directors consider that the exposure of cash flow interest risk arising from variable-rate bank balances is insignificant.

If the interest rates had been increased/decreased by 100 basis points in borrowings arranged at variable rates and assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year and all other variables were held constant, the Group's post-tax loss for the year ended 31 December 2016 (2015: post-tax loss) would increase/decrease (2015: increase/decrease) by approximately HK$351,000 (2015: HK$1,202,000). The assumed changes have no impact on the Group's other components of equity. This is mainly attributable to the Group's exposure with respect to interest rate on its variable-interest rate borrowings. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates.

*(iii) Other price risk*

The Group is exposed to equity price risk through its investments in listed equity securities, unlisted investments in funds and convertible instruments designated as financial assets at FVTPL. The management manages this exposure by maintaining a portfolio of investments with different risks. The Group's other price risk is mainly concentrated on instruments quoted on the Stock Exchange and on fund investments quoted by the financial institutions.

## 6. FINANCIAL INSTRUMENTS *(Continued)*

### b. Financial risk management objectives and policies *(Continued)*

***Market risk*** *(Continued)*

*(iii) Other price risk (Continued)*

Sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to equity price risks at the reporting date.

If the prices of the respective equity securities included in investments held for trading had been 10% (2015: 10%) higher/lower, the post-tax loss for the year ended 31 December 2016 would decrease/increase by approximately of HK$22,287,000 (2015: HK$41,395,000) as a result of the changes in financial assets at FVTPL.

For unlisted investments in funds included in AFS financial assets, if the prices of the respective equity instruments had been 10% (2015: 10%) higher/lower, the investment revaluation reserve as at 31 December 2016 would increase/decrease by approximately of HK$3,979,000 (2015: HK$3,824,000).

For convertible instruments designated as financial assets at FVTPL, if the prices of the respective convertible instruments had been 10% (2015: 10%) higher/lower, the post-tax loss for the year ended 31 December 2016 would decrease by approximately HK$328,000 (2015: decrease by HK$387,000) or increase by approximately HK$320,000 (2015: increase by HK$367,000) respectively, arising from the changes in fair value of convertible instruments designated as financial assets at FVTPL.

## 6. FINANCIAL INSTRUMENTS *(Continued)*

### b. Financial risk management objectives and policies *(Continued)*

***Credit risk***

As at 31 December 2016, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual receivable at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

In respect of loan and interest receivables, representing financing advances to customers under the Group's loan financing business, individual credit evaluations are performed on all customers. These evaluations focus on the customer's financial background and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry in which customers operate also has an influence on credit risk but to a lesser extent.

## 6. FINANCIAL INSTRUMENTS *(Continued)*

### b. Financial risk management objectives and policies *(Continued)*

***Credit risk*** *(Continued)*

In respect of the loan and interest receivables arising from the Group's loan financing business, 31% (2015: 42%) of the total gross loan and interest receivables as at 31 December 2016 was due from the Group's largest customer and 82% (2015: 72%) of the total gross loan and interest receivables as at 31 December 2016 was due from the Group's five largest customers for the Group's loan financing business.

The Group's largest customer is a private limited company incorporated in Hong Kong, which is principally engaged in property investment. The Group's remaining four largest customers include an individual and companies incorporated in British Virgin Islands and Hong Kong with limited liability, which are principally engaged in property investment and investment holding. These loans are secured by properties, unlisted shares and guaranteed by a listed company.

In respect of the convertible instruments designated as financial assets at FVTPL, representing two convertible bonds issued by a Hong Kong listed company (the "Bonds Issuer"), credit evaluation, including the Bonds Issuer's financial background and current ability to pay, is performed.

The Directors consider the credit risk under control since the management exercise due care in granting credit and check the financial background of these customers on a regular basis.

## 6. FINANCIAL INSTRUMENTS *(Continued)*

### b. Financial risk management objectives and policies *(Continued)*

***Credit risk*** *(Continued)*

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Group's concentration of credit risk by geographical locations is mainly in Hong Kong, which accounted for 100% of loan and interest receivables as at 31 December 2016 and 2015.

***Liquidity risk***

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of borrowings and ensures compliance with loan covenants.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted contractual cash flows of the financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, borrowings with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on agreed repayment dates.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

## 6. FINANCIAL INSTRUMENTS *(Continued)*

### b. Financial risk management objectives and policies *(Continued)*

***Liquidity risk*** *(Continued)*

**At 31 December 2016**

| | Weighted average effective interest rate % | On demand or within one year HK$'000 | More than one year but not more than two years HK$'000 | More than two years but not more than five years HK$'000 | More than five years HK$'000 | Total undiscounted cash flows HK$'000 | Carrying amounts HK$'000 |
|---|---|---|---|---|---|---|---|
| **Non-derivative financial liabilities** | | | | | | | |
| Accruals and other payables | N/A | 29,132 | – | – | – | 29,132 | 29,132 |
| Borrowings | 11.85% | 167,559 | – | – | – | 167,559 | 149,807 |
| Bond payables | 7.60% | 3,800 | 3,800 | 57,600 | – | 65,200 | 50,000 |
| Obligations under finance leases | 2.78% | 710 | 564 | 631 | – | 1,905 | 1,812 |
| | | 201,201 | 4,364 | 58,231 | – | 263,796 | 230,751 |

# 6. FINANCIAL INSTRUMENTS *(Continued)*

## b. Financial risk management objectives and policies *(Continued)*

***Liquidity risk*** *(Continued)*

**At 31 December 2015**

| | Weighted average effective interest rate % | On demand or within one year HK$'000 | More than one year but not more than two years HK$'000 | More than two years but not more than five years HK$'000 | More than five years HK$'000 | Total undiscounted cash flows HK$'000 | Carrying amounts HK$'000 |
|---|---|---|---|---|---|---|---|
| **Non-derivative financial liabilities** | | | | | | | |
| Accruals and other payables | N/A | 22,389 | – | – | – | 22,389 | 22,389 |
| Borrowings | 8.42% | 182,607 | – | – | – | 182,607 | 168,426 |
| Convertible loan notes | 12.00% | 62,130 | – | – | – | 62,130 | 52,895 |
| Bond payables | 7.60% | 3,800 | 3,800 | 61,400 | – | 69,000 | 50,000 |
| Obligations under finance leases | 2.86% | 416 | 393 | 653 | – | 1,462 | 1,388 |
| | | 271,342 | 4,193 | 62,053 | – | 337,588 | 295,098 |

## 6. FINANCIAL INSTRUMENTS *(Continued)*

### b. Financial risk management objectives and policies *(Continued)*

***Liquidity risk*** *(Continued)*

Bank loans with a repayment on demand clause are included in the "on demand or within one year" time band in the above maturity analysis. As at 31 December 2016, the aggregate undiscounted principal amounts of these borrowings amounted to approximately HK$149,807,000 (2015: HK$168,426,000). Included in bank borrowings of the Group are mortgage loans with an aggregate principal of approximately HK$25,004,000 (2015: HK$26,350,000) of which the respective loan agreements contain a repayment on-demand clause giving the bank the unconditional right to call the loans at any time. Taking into account the Group's financial position, the Directors do not believe that it is probable that the financial institutions will exercise their discretionary right to demand immediate repayment. The Directors believe that such borrowings will be repaid by monthly installments in the next 15 years (2015: 16 years) after the end of the reporting period in accordance with the scheduled repayment dates set out in the loan agreements. At that time, the aggregate principal and interest cash outflows of such borrowings will amount to approximately HK$29,844,000 (2015: HK$31,810,000).

The amounts included above for variable interest rate instruments for non-derivation financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rate determined at the end of the reporting period.

### c. Fair value measurements of the financial instruments

***(i) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis***

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

## 6. FINANCIAL INSTRUMENTS *(Continued)*

### c. Fair value measurements of the financial instruments *(Continued)*

#### (i) *Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis* *(Continued)*

| Financial assets/ Financial liabilities | Fair value as at 31.12.2016 | Fair value as at 31.12.2015 | Fair value hierarchy | Valuation technique(s) and key input(s) | Significant unobservable input(s) |
|---|---|---|---|---|---|
| Investments held for trading | Assets- approximately HK$222,868,000 | Assets- approximately HK$413,950,000 | Level 1 | Quoted bid prices in an active market | N/A |
| Convertible instruments designated as financial assets at FVTPL (Note) | Assets- approximately HK$38,851,000 | Assets- approximately HK$45,080,000 | Level 3 | Discount rate and volatility levels determined using a Binominal Option Pricing Model | Liquidity risk premium and credit rating assessment |
| Convertible instruments designated as financial assets at FVTPL | Assets – Nil | Assets- approximately HK$4,200,000 | Level 3 | Discount rate determined using Capital Asset Pricing Model | Weighted average cost of capital, determined using Capital Pricing Model ranging from 22.27% to 22.46% |
| Unlisted investment funds classified as AFS financial assets | Assets- approximately HK$39,790,000 | Assets- approximately HK$38,238,000 | Level 2 | Determined based on public information of quoted net asset value of the relevant fund investments | N/A |
| Derivative financial liabilities | Liabilities – Nil | Liabilities- approximately HK$8,125,000 | Level 3 | Discount rate and volatility levels determined using a Binominal Option Pricing Model | Liquidity risk premium and credit rating assessment |
| Convertible loan notes | Liabilities – Nil | Liabilities- approximately HK$52,895,000 | Level 3 | Discount rate and volatility levels determined using a Binominal Option Pricing Model | Liquidity risk premium and credit rating assessment |

Note: An increase in discount rate used in valuation would result in a decrease in fair value measurement of the convertible instrument, and vice versa. A 10% increase/decrease in discount rate and holding all other variables constant would decrease/increase the carrying amount of the convertible instrument by HK$319,000 and HK$330,000 respectively (2015: HK$372,000 and HK$381,000).

There were no transfers between levels of fair value hierarchy in the current and prior year.

## 6. FINANCIAL INSTRUMENTS *(Continued)*

### c. Fair value measurements of the financial instruments *(Continued)*

#### *(i) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis* *(Continued)*

| | Fair value hierarchy as at 31 December 2016 | | | |
|---|---|---|---|---|
| | Level 1 HK$'000 | Level 2 HK$'000 | Level 3 HK$'000 | Total HK$'000 |
| **Financial assets at FVTPL** | | | | |
| – listed equity securities held for trading | 222,868 | – | – | 222,868 |
| – convertible instruments designated as financial assets at FVTPL | – | – | 38,851 | 38,851 |
| **AFS financial assets** | | | | |
| – unlisted investment funds | – | 39,790 | – | 39,790 |
| | 222,868 | 39,790 | 38,851 | 301,509 |

## 6. FINANCIAL INSTRUMENTS *(Continued)*

### c. Fair value measurements of the financial instruments *(Continued)*

#### *(i)* ***Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis*** *(Continued)*

| | Fair value hierarchy as at 31 December 2015 | | | |
|---|---|---|---|---|
| | Level 1<br>HK$'000 | Level 2<br>HK$'000 | Level 3<br>HK$'000 | Total<br>HK$'000 |
| **Financial assets at FVTPL** | | | | |
| – listed equity securities held for trading | 413,950 | – | – | 413,950 |
| – convertible instruments designated as financial assets at FVTPL | – | – | 49,280 | 49,280 |
| **AFS financial assets** | | | | |
| – unlisted investment funds | – | 38,238 | – | 38,238 |
| | 413,950 | 38,238 | 49,280 | 501,468 |
| **Financial liabilities** | | | | |
| **Financial liabilities at FVTPL** | | | | |
| – derivative financial liabilities | – | – | 8,125 | 8,125 |
| – convertible loan notes | – | – | 52,895 | 52,895 |
| | – | – | 61,020 | 61,020 |

The fair values of the financial assets and financial liabilities included in level 2 and level 3 categories above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis with the most significant inputs being the discount rate that reflects the credit risk of counterparties.

## 6. FINANCIAL INSTRUMENTS *(Continued)*

### c. Fair value measurements of the financial instruments *(Continued)*

#### *(ii) Reconciliation of Level 3 fair value measurements of financial assets and financial liabilities on recurring basis:*

| | Convertible instruments designated as financial assets at FVTPL HK$'000 | Derivative financial liabilities HK$'000 | Convertible loan notes HK$'000 |
|---|---|---|---|
| At January 2015 | – | (3,156) | – |
| Addition | 49,280 | (3,600) | – |
| Issue of convertible loan notes | – | – | (71,370) |
| Transaction cost | – | – | 2,141 |
| Effective interest expense | – | – | (1,296) |
| Conversion | – | – | 17,630 |
| Expiration | – | 3,156 | – |
| Change in fair value | – | (4,525) | – |
| At 31 December 2015 | 49,280 | (8,125) | (52,895) |
| Effective interest expense (Note 10) | – | – | (2,790) |
| Loss on early redemption | – | – | (1,315) |
| Early redemption | – | – | 57,000 |
| Change in fair value | (6,229) | – | – |
| Expired and reclassified as other receivables | (4,200) | – | – |
| Expiration | – | 8,125 | – |
| At 31 December 2016 | 38,851 | – | – |

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

## 7. REVENUE

Revenue represents the aggregate of rental income, interest income from loan financing and dividend income from investments held for trading during the year. The following is an analysis of the Group's revenue:

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Rental income | 2,474 | 4,375 |
| Interest income from the provision of loan financing | 6,241 | 5,815 |
| Dividend income from investments held for trading | 23 | 1 |
| | 8,738 | 10,191 |

## 8. SEGMENT INFORMATION

Information reported to the executive Directors, being the chief operating decision makers, for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. No operating segments identified by the chief operating decision makers have been aggregated in arriving at the reportable and operating segments of the Group.

Specifically, the Group's reportable and operating segments under HKFRS 8 are as follows:

1. Properties investments – investment in properties for rental income purpose

2. Securities trading – trading of securities and dividend income from investments held for trading

3. Loan financing – provision of financing services

## 8. SEGMENT INFORMATION *(Continued)*

### Segment revenue and results

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

| | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|
| **Segment revenue** | | |
| – Properties investments | 2,474 | 4,375 |
| – Securities trading | 23 | 1 |
| – Loan financing | 6,241 | 5,815 |
| | 8,738 | 10,191 |
| **Segment profit (loss)** | | |
| – Properties investments | 15,709 | 9,994 |
| – Securities trading | (94,336) | (35,838) |
| – Loan financing | 3,458 | 5,022 |
| | (75,169) | (20,822) |
| Unallocated corporate expenses | (78,463) | (84,187) |
| Unallocated corporate income | 16,090 | 3,702 |
| Changes in fair values of convertible instruments designated as financial assets at FVTPL | (6,229) | 308 |
| Changes in fair values of derivative financial liabilities | – | (4,525) |
| Gain arising from derecognition of derivative financial liabilities | 8,125 | 3,156 |
| Impairment loss on loan and interest receivables | (5,227) | – |
| Impairment loss on other receivables | (169,517) | – |
| Share-based payment expenses | (12,524) | – |
| Gain (loss) on disposal of a subsidiary | 2,340 | (9) |
| Loss on deregistration of a subsidiary | – | (1,042) |
| Loss on early redemption of convertible loan notes | (1,315) | – |
| Loss on settlement on other payables | (1,063) | – |
| Gain on bargain purchase | – | 2,492 |
| Gain on deemed disposal of subsidiary | 5 | – |
| Share of gains (losses) of associates | 14 | (218) |
| Unallocated finance costs | (25,768) | (20,714) |
| Loss before tax | (348,701) | (121,859) |

## 8. SEGMENT INFORMATION *(Continued)*

### Segment revenue and results *(Continued)*

Segment revenue reported above represents revenue generated from external customers. There was no intra-segment sale in the current year.

The accounting policies of the operating segment are the same as the Group's accounting policies described in Note 3. Segment profit (loss) represents the profit earned by (loss) from each segment without allocation of central administration costs, directors' emoluments, changes in fair values of convertible instruments designated as financial assets at FVTPL, impairment loss on loan and interest receivable and other receivables, share-based payment expenses, loss on early redemption of convertible loan notes, loss on settlement on other payable, gain arising from derecognition and changes in fair values of derivative financial liabilities, certain gain (loss) on disposal of subsidiaries, loss on deregistration of a subsidiary, certain gain on bargain purchase, share of (gains) losses of associates and certain finance costs. This is the measure reported to the chief operating decision makers for the purposes of resource allocation and performance assessment.

### Segment assets and liabilities

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

| | **2016**<br>**HK$'000** | 2015<br>HK$'000 |
|---|---|---|
| **Segment assets** | | |
| – Properties investments | **279,025** | 261,190 |
| – Securities trading | **225,167** | 417,622 |
| – Loan financing | **109,375** | 44,615 |
| Total segment assets | **613,567** | 723,427 |
| Unallocated corporate assets | **186,278** | 449,661 |
| Consolidated assets | **799,845** | 1,173,088 |
| **Segment liabilities** | | |
| – Properties investments | **69,981** | 58,926 |
| – Securities trading | **15,269** | 94,695 |
| – Loan financing | **135** | 16 |
| Total segment liabilities | **85,385** | 153,637 |
| Unallocated corporate liabilities | **158,598** | 162,605 |
| Consolidated liabilities | **243,983** | 316,242 |

## 8. SEGMENT INFORMATION *(Continued)*

### Segment assets and liabilities *(Continued)*

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

- all assets are allocated to operating segments other than AFS financial assets, certain plant and equipment, prepaid lease payment, interests in and amount due from associates, club debentures, convertible instruments designated as financial assets at FVTPL, certain loan and interest receivables, bank balances and cash and certain prepayments, deposits and other receivables; and

- all liabilities are allocated to operating segments other than certain accruals and other payables, certain borrowings, derivative financial liabilities, convertible loan notes, obligations under finance leases, tax liabilities, bond payables and deferred tax liabilities.

### Other segment information

***For the year ended 31 December 2016***

| | Properties investments HK$'000 | Securities trading HK$'000 | Loan financing HK$'000 | Unallocated HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|
| Amounts included the measure of segment profit or loss or segment assets: | | | | | |
| Depreciation on plant and equipment | 1 | 6 | – | 2,642 | 2,649 |
| Additions to plant and equipment | 4 | – | – | 1,137 | 1,141 |
| Share of profit of a joint venture | (11,323) | – | – | – | (11,323) |
| Fair value (gain) loss on: | | | | | |
| – investments properties | (5,215) | – | – | – | (5,215) |
| – investments held for trading | – | 9,177 | – | – | 9,177 |
| Loss on disposals of investments held for trading | – | 69,431 | – | – | 69,431 |
| Gain on disposal of a subsidiary | – | – | – | (2,340) | (2,340) |
| Gain on deemed disposal of a subsidiary | – | – | – | (5) | (5) |
| Finance costs | – | 9,251 | – | 25,768 | 35,019 |

## 8. SEGMENT INFORMATION *(Continued)*

### Other segment information *(Continued)*

***For the year ended 31 December 2015***

| | Properties investments HK$'000 | Securities trading HK$'000 | Loan financing HK$'000 | Unallocated HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|
| Amounts included the measure of segment profit or loss or segment assets: | | | | | |
| Depreciation on plant and equipment | 92 | – | 4 | 2,513 | 2,609 |
| Additions to plant and equipment | – | – | 16 | 2,253 | 2,269 |
| Share of profit of a joint venture | (11,229) | – | – | – | (11,229) |
| Fair value loss on: | | | | | |
| – investment properties | 400 | – | – | – | 400 |
| – investments held for trading | – | 63,794 | – | – | 63,794 |
| Gain on disposals of investments held for trading | – | (34,466) | – | – | (34,466) |
| Gain on bargain purchase | (326) | – | – | (2,492) | (2,818) |
| Loss on disposal of subsidiaries | 2,423 | – | – | 9 | 2,432 |
| Finance costs | – | 5,333 | – | 20,714 | 26,047 |

Amounts regularly provided to the chief operating decision makers but not included in the measure of segment profit or loss or segment assets:

| | | | | | |
|---|---|---|---|---|---|
| Changes in fair values of convertible instruments designated as financial assets at FVTPL | – | (1,755) | – | 1,447 | (308) |

## 8. SEGMENT INFORMATION *(Continued)*

### Geographical information

The Group's operations are located in the PRC, Hong Kong and the Commonwealth of the Northern Mariana Islands ("CNMI").

Information about the Group's revenue from external customers is presented based on the location of the operations. Information about the Group's non-current assets, excluding financial instruments, is presented based on the geographical location of the assets:

| | Revenue from external customers | | Non-current assets | |
|---|---|---|---|---|
| | **2016** **HK$'000** | 2015 HK$'000 | **2016** **HK$'000** | 2015 HK$'000 |
| Hong Kong | **8,738** | 8,260 | **119,471** | 105,219 |
| PRC | **–** | 1,931 | **166,278** | 165,620 |
| CNMI | **–** | – | **19,501** | 20,329 |
| | **8,738** | 10,191 | **305,250** | 291,168 |

### Information about major customers

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

| | **2016** **HK$'000** | 2015 HK$'000 |
|---|---|---|
| Customer A[1] | **N/A*** | 1,032 |
| Customer B[2] | **–** | 3,911 |
| Customer C[1] | **–** | 1,801 |
| Customer D[1] | **1,020** | 1,020 |
| Customer E[2] | **3,248** | N/A |

1 Revenue from properties investments
2 Revenue from loan financing
* The corresponding revenue did not contribute over 10% of the total revenue of the Group.

## 9. OTHER INCOME AND GAINS

The analysis of the Group's other income and gains are as follow:

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Bank interest income | 3 | 4 |
| Gain on disposal of plant and equipment | – | 470 |
| Interest on convertible instruments designated as financial assets at FVTPL | 156 | 187 |
| Others (Note) | 15,931 | 3,041 |
| | 16,090 | 3,702 |

Note: Included in other income for the year ended 31 December 2016 is an amount of approximately HK$15,678,000 regarding gain on settlement of other receivables of HK$32,000,000 with listed shares at HK$0.31 each (Note 26(b)(i)).

## 10. FINANCE COSTS

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Interest on: | | |
| Bank borrowings | 491 | 643 |
| Other loans | 18,608 | 11,240 |
| Bond payables | 3,800 | 7,505 |
| Convertible loan notes at effective interest rates (Note 35) | 2,790 | 1,296 |
| Obligations under finance leases | 79 | 30 |
| Margin accounts | 9,251 | 5,333 |
| | 35,019 | 26,047 |

## 11. LOSS FOR THE YEAR

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Loss for the year has been arrived at after charging (crediting): | | |
| Staff costs including directors' emoluments: | | |
| Salaries and allowances | 30,539 | 32,406 |
| Contributions to retirement benefits scheme | 624 | 750 |
| Share-based payment expenses | 6,399 | – |
| | 37,562 | 33,156 |
| Auditor's remuneration | | |
| – Current year | 780 | 780 |
| – Under provided for the previous year | 21 | – |
| – Disbursement | 53 | 91 |
| Depreciation of plant and equipment | 2,649 | 2,609 |
| Amortisation of prepaid lease payment | 388 | 388 |
| Impairment loss of prepaid lease payment | 441 | – |
| Loss on written-off of plant and equipment | 594 | 426 |
| Minimum lease payments under operating leases | 7,345 | 7,460 |
| Development cost | – | 1,553 |
| Legal and professional fees | 13,196 | 7,644 |
| Share-based payment expenses – consultants | 6,125 | – |
| Consultancy fees | 7,841 | 12,310 |
| Gross rental income | (2,474) | (4,375) |
| Less: outgoings (included in cost of sales) | 271 | 346 |
| Net rental income | (2,203) | (4,029) |

## 12. INCOME TAX EXPENSE

| | **2016** | 2015 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Current tax: | | |
| Hong Kong | **–** | 2,156 |
| Over-provision in prior year | **–** | (106) |
| | **–** | 2,050 |
| Deferred taxation (Note 33) | **213** | 417 |
| | **213** | 2,467 |

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for both years ended 31 December 2016 and 2015.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both years ended 31 December 2016 and 2015.

Taxation arising in other jurisdictions is calculated at the rate prevailing in the relevant jurisdictions.

## 12. INCOME TAX EXPENSE *(Continued)*

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

| | **2016** **HK$'000** | 2015 HK$'000 |
|---|---|---|
| Loss before tax | **(348,701)** | (121,859) |
| Tax at the domestic income tax rate of 16.5% (2015: 16.5%) | **(57,536)** | (20,107) |
| Tax effect of share of result of a joint venture | **(1,401)** | (1,853) |
| Tax effect of expenses not deductible for tax purpose | **63,172** | 22,329 |
| Tax effect of income not taxable for tax purpose | **(12,180)** | (2,609) |
| Effect of different tax rates arising in other jurisdictions | **(467)** | 46 |
| Tax effect on investment properties for deferred tax purpose | **213** | 417 |
| Tax effect of tax loss not recognised | **8,412** | 8,768 |
| Utilisation of tax losses previously not recognised | **–** | (4,418) |
| Over-provision in prior year | **–** | (106) |
| Income tax expenses for the year | **213** | 2,467 |

## 13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

Directors' and chief executive's remuneration for the years disclosed pursuant to the applicable Listing Rules and Hong Kong Companies Ordinance, is as follows:

| | **2016** **HK$'000** | 2015 HK$'000 |
|---|---|---|
| Executive directors and chief executive: | | |
| Salaries and allowances (note) | **5,495** | 5,524 |
| Contributions to retirement benefits scheme | **54** | 54 |
| Share-based payment expenses | **3,336** | – |
| | **8,885** | 5,578 |
| Independent non-executive directors | | |
| Fees | **993** | 993 |
| | **9,878** | 6,571 |

Note: Allowances include housing allowance.

The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group.

The independent non-executive directors' emoluments shown above were mainly for their services as directors of the Company.

No directors and chief executive waived their emoluments for each of the years ended 31 December 2016 and 2015. No emoluments have been paid to the directors and chief executive as an inducement to join or upon joining the Group or as compensation for loss of office during the years ended 31 December 2016 and 2015.

## 13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS *(Continued)*

The details of the directors' remuneration of each director and chief executive for the years ended 31 December 2016 and 2015 are set out below:

### Year ended 31 December 2016

| Name of directors | Fees HK$'000 | Salaries and allowances HK$'000 | Contributions to retirement benefits scheme HK$'000 | Share-based payment expenses HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **Executive directors** | | | | | |
| Lam Kwok Hing Wilfred | – | 2,557 | 18 | 1,112 | 3,687 |
| Chan Shui Sheung Ivy | – | 1,937 | 18 | 1,112 | 3,067 |
| Mok Tsan San | – | 1,001 | 18 | 1,112 | 2,131 |
| **Independent non-executive directors** | | | | | |
| Yuen Wai Man | 331 | – | – | – | 331 |
| Wang Chin Mong | 331 | – | – | – | 331 |
| Chow Fu Kit Edward | 331 | – | – | – | 331 |
| | 993 | 5,495 | 54 | 3,336 | 9,878 |

## 13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS *(Continued)*

### Year ended 31 December 2015

| Name of directors | Fees HK$'000 | Salaries and allowances HK$'000 | Contributions to retirement benefits scheme HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| **Executive directors** | | | | |
| Lam Kwok Hing Wilfred | – | 2,586 | 18 | 2,604 |
| Chan Shui Sheung Ivy | – | 1,937 | 18 | 1,955 |
| Mok Tsan San | – | 1,001 | 18 | 1,019 |
| **Independent non-executive directors** | | | | |
| Yuen Wai Man | 331 | – | – | 331 |
| Wang Chin Mong | 331 | – | – | 331 |
| Chow Fu Kit Edward | 331 | – | – | 331 |
| | 993 | 5,524 | 54 | 6,571 |

The Company did not appoint any chief executive during the years ended 31 December 2016 and 2015. The executive directors performed the duties of chief executive. Their emoluments disclosed above include those services rendered by the executive directors.

## 14. FIVE HIGHEST PAID EMPLOYEES

During the year, the five highest paid employees included three directors (2015: two directors) of the Company, details of whose emoluments of the Group are set out in Note 13 to the consolidated financial statements. The emoluments of the remaining two highest paid employees (2015: three highest paid employees) who are neither a director nor chief executive of the Company for the years ended 31 December 2016 and 2015 were as follows:

| | **2016 HK$'000** | 2015 HK$'000 |
|---|---|---|
| Salaries and allowances | **3,784** | 5,594 |
| Contributions to retirement benefits scheme | **54** | 72 |
| Share-based payment expenses | **3,063** | – |
| | **6,901** | 5,666 |

The number of the highest paid employees who are not the Directors whose emoluments fell within the following bands is as follows:

| | **2016 Number of employees** | 2015 Number of employees |
|---|---|---|
| HK$1,000,001 to HK$1,500,000 | **–** | 1 |
| HK$1,500,001 to HK$2,000,000 | **1** | 1 |
| HK$2,000,001 to HK$2,500,000 | **–** | 1 |
| HK$4,500,001 to HK$5,000,000 | **1** | – |

## 15. DIVIDEND

No dividend was paid or proposed for ordinary shares of the Company during the year, nor has any dividend been proposed since the end of the reporting period (2015: Nil).

## 16. LOSS PER SHARE

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

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| **Loss** | | |
| Loss for the year attributable to owners of the Company for the purpose of basic loss per share | **(350,928)** | (126,304) |
| Effect of dilutive potential ordinary shares – Interest expense on convertible loan notes | **N/A** | N/A |
| Loss for the purpose of diluted loss per share | **(350,928)** | (126,304) |

| | 2016<br>'000 | 2015<br>'000 |
|---|---|---|
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purpose of basic loss per share | **1,018,133** | 766,346 |
| Effect of dilutive potential ordinary shares | **N/A** | N/A |
| Weighted average number of ordinary shares for the purpose of diluted loss per share | **1,018,133** | 766,346 |

The computation of diluted loss per share for the years ended 31 December 2016 and 31 December 2015 does not assume the exercise of the Company's share options, the options to subscribe convertible bonds and the conversion of the Company's outstanding convertible loan notes, since it would result in a decrease in loss per share for the year which is regarded as anti-dilutive.

## 17. PLANT AND EQUIPMENT

| | Leasehold improvements | Furniture, fixtures and office equipment | Motor vehicles | Vessel | Total |
|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **COST** | | | | | |
| At 1 January 2015 | 1,581 | 2,799 | 2,952 | 14,461 | 21,793 |
| Additions | 324 | 270 | 1,675 | – | 2,269 |
| Disposal | – | – | (1,841) | – | (1,841) |
| Disposal of subsidiaries | – | (915) | (1,098) | – | (2,013) |
| Written-off | (384) | (521) | – | – | (905) |
| At 31 December 2015 and 1 January 2016 | 1,521 | 1,633 | 1,688 | 14,461 | 19,303 |
| Additions | – | 61 | 1,080 | – | 1,141 |
| Written-off | – | (1,115) | – | – | (1,115) |
| **At 31 December 2016** | 1,521 | 579 | 2,768 | 14,461 | 19,329 |
| **ACCUMULATED DEPRECIATION** | | | | | |
| At 1 January 2015 | 319 | 1,871 | 2,058 | 8,624 | 12,872 |
| Charge for the year | 448 | 276 | 447 | 1,438 | 2,609 |
| Eliminated on disposal | – | – | (1,841) | – | (1,841) |
| Disposal of subsidiaries | – | (849) | (476) | – | (1,325) |
| Eliminated on written-off | (83) | (396) | – | – | (479) |
| At 31 December 2015 and 1 January 2016 | 684 | 902 | 188 | 10,062 | 11,836 |
| Charge for the year | 275 | 187 | 749 | 1,438 | 2,649 |
| Eliminated on written-off | – | (521) | – | – | (521) |
| **At 31 December 2016** | 959 | 568 | 937 | 11,500 | 13,964 |
| **CARRYING VALUES** | | | | | |
| **At 31 December 2016** | 562 | 11 | 1,831 | 2,961 | 5,365 |
| At 31 December 2015 | 837 | 731 | 1,500 | 4,399 | 7,467 |

## 17. PLANT AND EQUIPMENT *(Continued)*

The above items of plant and equipment are depreciated on a straight-line method at the following rates per annum:

| | |
|---|---|
| Leasehold improvements | 20% |
| Furniture, fixtures and office equipment | 20% – 30% |
| Motor vehicles | 30% |
| Vessel | 10% |

As at 31 December 2016, the carrying amounts of motor vehicles of approximately HK$1,831,000 (2015: HK$1,500,000) in respect of assets held under finance leases (Note 36).

## 18. PREPAID LEASE PAYMENT

| | **2016** **HK$'000** | 2015 HK$'000 |
|---|---|---|
| Analysed for reporting purposes as: | | |
| Current assets | **389** | 390 |
| Non-current assets | **19,501** | 20,329 |
| | **19,890** | 20,719 |

Note:

The land is located at CNMI. The Group acquired the land use right through an acquisition of a subsidiary during the year ended 31 December 2014.

The management has assessed the recoverable amount of the land by reference to its fair values, which is determined by Grant Sherman Appraisal Limited ("Grant Sherman"), an independent qualified professional valuers not connected with the Group. Grant Sherman has appropriate qualifications and recent experiences in the valuation of similar premises in the relevant locations.

The valuation using direct comparison approach and made reference to the recent transactions for similar premises in the proximity. Impairment loss on prepaid lease payment of approximately HK$441,000 (2015: Nil) was recognised during the year ended 31 December 2016.

## 19. INVESTMENT PROPERTIES

| | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|
| **Fair value** | | |
| At 1 January | **94,900** | 226,538 |
| Acquired on an acquisition of a subsidiary (Note 44 (a)) | **–** | 7,970 |
| Acquired on acquisition of assets through acquisition of a subsidiary (Note 45) | **11,125** | – |
| Net increase (decrease) in fair value recognised in profit or loss | **5,215** | (400) |
| Disposal of subsidiaries (Note 46 (c)) | **–** | (132,516) |
| Exchange adjustments | **–** | (6,692) |
| At 31 December | **111,240** | 94,900 |
| Unrealised gain (loss) on properties revaluation included in profit or loss | **5,215** | (400) |

The fair value of the Group's investment properties at 31 December 2016 and 2015 have been arrived at on the basis of a valuation carried out on the respective dates by Jointgoal Surveyors Limited ("Jointgoal Surveyors") and Avista Valuation Advisory Limited ("Avista"), independent qualified professional valuers not connected with the Group. Jointgoal Surveyors and Avista have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations.

The valuation using market comparable approach was arrived at by reference to market evidence of recent transaction prices for similar properties in the similar locations and conditions if such information is available.

## 19. INVESTMENT PROPERTIES *(Continued)*

For properties without market transaction prices information, the fair value was determined based on the income approach, where the market rentals of all lettable units of the properties are assessed and discounted at the market yield expected by investors for this type of properties. The market rentals are assessed by reference to the rentals achieved in the lettable units of the properties as well as other lettings of similar properties in the neighbourhood. The capitalisation rate is determined by reference to the yields derived from analysing the sales transactions of similar commercial properties in related location and adjusted to take into account the market expectation from property investors to reflect factors specific to the Group's investment properties.

There has been no change from the valuation technique used in the prior year.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

As at 31 December 2016, the Group's investment properties with carrying amounts of HK$111,240,000 (2015: HK$94,900,000) has been pledged to secure borrowings granted to the Group (Note 30).

Details of the Group's investment properties and information about the fair value hierarchy as at 31 December 2016 and 31 December 2015 are as follows:

| | **Level 3**<br>HK$'000 | **Fair value**<br>HK$'000 |
|---|---|---|
| **2016** | | |
| Investment properties | **111,240** | **111,240** |
| 2015 | | |
| Investment properties | 94,900 | 94,900 |

## 19. INVESTMENT PROPERTIES *(Continued)*

There were no transfers into or out of Level 3 during the year ended 31 December 2016.

Information about Level 3 fair value measurements of investment properties:

| Valuation technique | Key input | Significant unobservable inputs | |
|---|---|---|---|
| | | 2016 | 2015 |
| Market comparable approach (Note 1) | Recent sale price of comparable properties, time factor and discount or premium on quality of properties | Average rate of (discount) premium on quality of properties at (5%) to 12.7% | Average rate of (discount) premium on quality of properties at (22.5%) to 6.8% |
| Income approach (Note 2) | Rental yield, time factor and capitalisation rates | Capitalisation rates at 1.9% | Capitalisation rates at 2.2% |

Notes:

1. The fair values of certain investment properties located in Hong Kong amounting to HK$56,400,000 (2015: HK$44,500,000) are determined using market comparable approach by reference to recent sales price of comparable properties on a price square foot basis using market date which is publicly available. Higher discount for lower quality properties will result in a lower fair value measurement.

2. The fair value measurement of investment properties located in Hong Kong amounting to HK$54,840,000 (2015: HK$50,400,000) based on income approach determined by using discounted cash flow is positively correlated to the rental yield, and negatively correlated to the capitalisation rates. A slight increase in capitalisation rate used would result in a significant decrease in fair value measurement of the properties, vice versa.

## 19. INVESTMENT PROPERTIES *(Continued)*

Reconciliation of Level 3 fair value measurements of investment properties on recurring basis:

| | **Investment properties classified as Level 3** HK$'000 |
|---|---|
| 1 January 2015 | 226,538 |
| Net decrease in fair value recognised in profit or loss | (400) |
| Acquired on an acquisition of a subsidiary (Note 44(a)) | 7,970 |
| Disposal of subsidiaries (Note 46 (c)) | (132,516) |
| Exchange adjustments | (6,692) |
| At 31 December 2015 and 1 January 2016 | 94,900 |
| Net increase in fair value recognised in profit or loss | 5,215 |
| Acquired on acquisition of assets through acquisition of a subsidiary (Note 45) | 11,125 |
| **At 31 December 2016** | **111,240** |

The above net increase (decrease) in fair value recognised in profit or loss are included in the consolidated statement of profit or loss and other comprehensive income and is attributable to the change in fair values of investment properties at the end of the reporting period.

## 20. INTERESTS IN ASSOCIATES/AMOUNT DUE FROM AN ASSOCIATE

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Cost of investments in unlisted associates | 380 | 380 |
| Share of post-acquisition losses and other comprehensive expense – Oriental Tours | (297) | (218) |
| Impairment | (83) | – |
| Share of post-acquisition profits and other comprehensive income – Wisdom Team Limited ("Wisdom Team") | 176 | – |
| | 176 | 162 |

On 4 January 2016, the Group entered into a share purchase agreement with an independent third party pursuant to which the Group has agreed to sell 51% issued share capital of Wisdom Team, a wholly owned subsidiary of the Group, at a consideration of USD510 (equivalent to HK$3,978). After the completion of the deemed disposal, the Group owns 49% issued share capital of Wisdom Team and Wisdom Team became the associate of the Group. Details of the deemed disposal are set out in Note 46(b) to the consolidated financial statements.

During the year ended 31 December 2016, the Group advanced approximately HK$10,034,000 to Wisdom Team for the purpose of provision of operating fund for its future business development. The amount was interest-free, unsecured and repayable on demand, and the amount due from Wisdom Team at the end of the reporting period was neither past due nor impaired.

## 20. INTERESTS IN ASSOCIATES/AMOUNT DUE FROM AN ASSOCIATE

*(Continued)*

Details of each of the Group's associates at the end of the reporting period are as follow:

| Name of entity | Place of incorporation | Principal place of operations | Proportion of ownership interest held by the Group | | Proportion of voting rights interest held by the Group | | Principal activity |
|---|---|---|---|---|---|---|---|
| | | | 2016 | 2015 | 2016 | 2015 | |
| Oriental Tours & Travel Co. Limited ("Oriental Tours") (Note a) | Hong Kong | Hong Kong | 38% | 38% | 38% | 38% | Travel agent business |
| Wisdom Team (Note b) | British Virgin Islands | British Virgin Islands | 49% | 100% | 49% | 100% | Inactive |

Notes:

(a) During the year ended 31 December 2015, the Group acquired 38% equity interests of Oriental Tours at a consideration of HK$380,000.

(b) 51% issued share capital has been disposed of and became an associate of the Group during the year ended 31 December 2016 (Note 46(b)).

## 20. INTERESTS IN ASSOCIATES/AMOUNT DUE FROM AN ASSOCIATE *(Continued)*

### Summarised financial information of the associates

Summarised financial information for the years ended 31 December 2016 and 2015 in respect of the Group's associates are set out below.

The summarized financial information for the years ended 31 December 2016 and 2015 represents amounts shown in the associates' financial statements prepared in accordance with HKFRSs.

The associates are accounted for using the equity method in these consolidated financial statements.

***Oriental Tours***

| | **2016** **HK$'000** | 2015 HK$'000 |
|---|---|---|
| Current assets | **617** | 1,349 |
| Current liabilities | **(1,083)** | (1,142) |
| Revenue | **2,683** | 2,995 |
| Loss and total comprehensive expense for the year/period | **(673)** | (574) |
| Dividend received from Oriental Tours during the year/period | **–** | – |

## 20. INTERESTS IN ASSOCIATES/AMOUNT DUE FROM AN ASSOCIATE *(Continued)*

### Summarised financial information of the associates *(Continued)*

***Oriental Tours*** *(Continued)*

Reconciliation of the above summarized financial information to the carrying amount of the interest in Oriental Tours recognised in the consolidated financial statements for the years ended 31 December 2016 and 2015:

| | **2016 HK$'000** | 2015 HK$'000 |
|---|---|---|
| Net (liabilities) assets of Oriental Tours | **(466)** | 207 |
| Proportion of the Group's ownership interest in Oriental Tours | **38%** | 38% |
| Goodwill | **–** | 83 |
| Impairment | **(83)** | – |
| Carrying amount of the Group's interest in Oriental Tours | **–** | 162 |

The Group discontinued recognising its share of further losses which exceeds its interest in Oriental Tours.

***Wisdom Team***

| | **2016 HK$'000** |
|---|---|
| Current assets | **10,394** |
| Current liabilities | **(10,034)** |

## 20. INTERESTS IN ASSOCIATES/AMOUNT DUE FROM AN ASSOCIATE *(Continued)*

### Summarised financial information of the associates *(Continued)*

***Wisdom Team*** *(Continued)*

| | 4 January 2016 to 31 December 2016 HK$'000 |
|---|---|
| Revenue | – |
| Profit and total comprehensive income for the period | 360 |
| Dividend received from Wisdom Team during the period | – |

Reconciliation of the above summarised financial information to the carrying amount of the interest in Wisdom Team in the consolidated financial statements for the year ended 31 December 2016:

| | 2016 HK$'000 |
|---|---|
| Net assets of Wisdom Team | 360 |
| Proportion of the Group's ownership interest in Wisdom Team | 49% |
| Carrying amount of the Group's interest in Wisdom Team | 176 |

## 21. INTEREST IN A JOINT VENTURE

| | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|
| Cost of investment in an unlisted joint venture in the PRC | **96,719** | 96,719 |
| Share of post-acquisition profits | **78,077** | 66,754 |
| Exchange adjustments | **(8,518)** | 2,147 |
| | **166,278** | 165,620 |

Details of each of the Group's joint venture at the end of the reporting period are as follow:

| Name of entity | Form of entity | Place of Incorporation | Principal place of operations | Issued and fully paid registered capital | Proportion of ownership interest held by the Group | | Proportion of voting rights held by the Group | | Principal activities |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | **2016** | 2015 | **2016** | 2015 | |
| Changsha Seg Development Co. Limited ("Changsha Seg") | Incorporated | PRC | PRC | Registered capital of RMB35,000,000 | **54%** | 54% | **54%** | 54% | Rental of office premises and properties investment |

Note: The Group holds 54% of the equity interests capital of Changsha Seg, however, the Group only have joint control over the composition of the board of directors of Changsha Seg which is therefore classified as a joint venture of the Group.

Included in the cost of investment in the joint venture as at 31 December 2016 is goodwill of HK$17,909,000 (2015: HK$17,909,000) arising on the acquisition. There are no movements in the goodwill during each of the reporting period.

## 21. INTEREST IN A JOINT VENTURE *(Continued)*

### Summarised financial information of the joint venture

Summarised financial information for the years ended 31 December 2016 and 2015 in respect of the Group's joint venture is set out below.

The summarised financial information for the years ended 31 December 2016 and 2015 below represents amounts shown in the joint venture's financial statements prepared in accordance with HKFRSs.

The joint venture is accounted for using the equity method in these consolidated financial statements.

***Changsha Seg***

| | **2016** | 2015 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Current assets | **27,964** | 18,405 |
| Non-current assets | **331,567** | 345,281 |
| Current liabilities | **(84,773)** | (90,146) |
| The above amounts of assets and liabilities include the followings: | | |
| Cash and cash equivalents | **14,909** | 4,331 |
| Current financial liabilities (excluding trade and other payables and provisions) | **–** | – |

## 21. INTEREST IN A JOINT VENTURE *(Continued)*

### Summarised financial information of the joint venture *(Continued)*

***Changsha Seg*** *(Continued)*

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Revenue | **28,044** | 28,870 |
| Profit and total comprehensive income for the year | **20,968** | 20,795 |
| Dividends received from Changsha Seg during the year | **–** | – |

The above profit for the year including the following:

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Depreciation and amortisation | **1,195** | 4,031 |
| Interest income | **(904)** | (16) |
| Interest expense | **–** | – |
| Income tax expense | **2,595** | 7,181 |

Reconciliation of the above summarised financial information to the carrying amount of the interest in Changsha Seg recognised in the consolidated financial statements:

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Net assets of Changsha Seg | **274,758** | 273,540 |
| Proportion of the Group's ownership interest in Changsha Seg | **54%** | 54% |
| Goodwill | **17,909** | 17,909 |
| Carrying amount of the Group's interest in Changsha Seg | **166,278** | 165,620 |

## 22. CLUB DEBENTURES

| | **2016** **HK$'000** | 2015 HK$'000 |
|---|---|---|
| Club debentures, at cost | **2,690** | 2,690 |

Club debentures represents entrance fees paid to clubs for subscriber memberships with indefinite useful lives. The Directors consider no impairment identified with reference with market prices of the club debentures.

## 23. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets comprise:

| | **2016** **HK$'000** | 2015 HK$'000 |
|---|---|---|
| Unlisted investment funds, at fair value | **39,790** | 38,238 |
| Unlisted equity investments in Hong Kong, at cost | **6,392** | 6,392 |
| Less: accumulated impairment loss | **(500)** | (500) |
| | **5,892** | 5,892 |
| | **45,682** | 44,130 |

## 23. AVAILABLE-FOR-SALE FINANCIAL ASSETS *(Continued)*

The Group's investment in the unlisted equity investments represented (i) 3.08% (2015: 3.08%) equity interest in a Hong Kong private limited company engaged in the retailing of watches and clocks in Hong Kong; and (ii) 5% (2015: 5%) equity interest in a Hong Kong private company engaged in investment holding. These investments are measured at cost less accumulated impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the Directors are of the opinion that the fair value cannot be measured reliably. No impairment loss was recognised in respect of the investment of 3.08% in the company engaged in the business of watches and clocks. Included in unlisted equity investments, the investment of 5% equity interest in a Hong Kong private company of HK$500,000 had been fully impaired since 2013.

The Group's unlisted investment funds is measured at fair value and is classified as Level 2 fair value measurement (see Note 6(c)). Fair value gain of approximately HK$1,552,000 (2015: HK$2,484,000) was recognised in other comprehensive income during the year ended 31 December 2016.

Unlisted investment funds that are denominated in currencies other than the functional currency of the relevant group entities is as follows:

| | **2016**<br>**HK$'000** | 2015<br>HK$'000 |
|---|---|---|
| USD | **39,790** | 38,238 |

## 24. LOAN AND INTEREST RECEIVABLES

| | **2016** | 2015 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Fixed rate loan and interest receivables arising from loan financing business (Note a): | | |
| Secured loan and interest receivables | **196,685** | 183,541 |
| Unsecured loan and interest receivables | **3,427** | 48,508 |
| Less: accumulated impairment loss recognised | **(143,816)** | (187,649) |
| | **56,296** | 44,400 |
| Other loan and interest receivables: | | |
| Amount due from a former subsidiary (Note b) | **151,980** | 151,980 |
| Other unsecured loan receivable (Note c) | **1,800** | 1,800 |
| Other secured loan and interest receivable (Note d) | **20,879** | 20,879 |
| | **174,659** | 174,659 |
| Less: accumulated impairment loss recognised | **(159,166)** | (157,366) |
| | **15,493** | 17,293 |
| | **71,789** | 61,693 |

Notes:

(a) As at 31 December 2016, the secured loan and interest receivables arising from loan financing business are secured by listed equity shares, unlisted shares, private car and properties located in Hong Kong and corporate guarantee granted by a listed company in Hong Kong and bear interest at fixed interest rate ranging from 10% to 20% (2015: 10% to 30%) per annum.

As at 31 December 2016, the unsecured loan and interest receivables arising from loan financing business bear interest at fixed interest rate of 12% (2015: 10% to 14%) per annum.

## 24. LOAN AND INTEREST RECEIVABLES *(Continued)*

Notes: *(Continued)*

(a) *(Continued)*

The following table illustrates the ageing analysis, based on the loan drawn down date, of the loan and interest receivables (net of accumulated impairment loss) arising from loan financing business outstanding at the end of the reporting period:

| | **2016 HK$'000** | 2015 HK$'000 |
|---|---|---|
| Less than 3 months | **34,039** | – |
| More than 3 months but less than 6 months | **–** | 36,449 |
| More than 12 months | **22,257** | 7,951 |
| | **56,296** | 44,400 |

The Group's loan financing customers included in the loan and interest receivables are due for settlement at the dates specified in the respective loan agreements. Further details on the Group's credit policy are set out in Note 6 to the consolidated financial statements.

The ageing analysis of loan and interest receivables which were past due but not impaired is as follows:

| | **2016 HK$'000** | 2015 HK$'000 |
|---|---|---|
| Less than 3 months | **22,257** | – |
| More than 3 months but less than 6 months | **–** | – |
| More than 6 months but less than 12 months | **–** | 4,397 |
| | **22,257** | 4,397 |

## 24. LOAN AND INTEREST RECEIVABLES *(Continued)*

Notes: *(Continued)*

(a) *(Continued)*

Included in the Group's loan and interest receivables balances are debtors with aggregate carrying amount of approximately HK$22,257,000 (2015: HK$4,397,000) which are past due but not impaired as at 31 December 2016. The Group holds properties and listed securities as collateral over those balances. Management believes that no impairment is necessary in respect of these balances as those borrowers repay the loan continuously and there has not been a significant change in the credit quality and the balances are considered fully recoverable.

During the years ended 31 December 2016 and 2015, impairment loss of approximately HK$3,427,000 (2015: Nil) on loan and interest receivables was recognised in the consolidated statement of profit or loss and other comprehensive income.

The Group held certain equity securities listed on the Stock Exchange with fair value of approximately HK$12,167,400 (2015: HK$11,520,000) as at 31 December 2016 as collateral over the secured loan and interest receivables.

The movement of accumulated impairment loss of the loan and interest receivables during the reporting period is as follows:

| | **2016**<br>**HK$'000** | 2015<br>HK$'000 |
|---|---|---|
| At 1 January | **187,649** | 212,289 |
| Addition | **3,427** | – |
| Written off | **(47,260)** | (24,640) |
| At 31 December | **143,816** | 187,649 |

Included in the impairment loss recognised at 31 December 2016 was individually impaired loan and interest receivables with a carrying amount of approximately HK$143,816,000 (2015: HK$187,649,000) before impairment.

## 24. LOAN AND INTEREST RECEIVABLES *(Continued)*

Notes: *(Continued)*

(b) Amount due from a former subsidiary is unsecured, non-interest bearing and repayable on demand. The balance has been fully impaired.

(c) Other unsecured loan receivable is unsecured and the full loan amount of HK$1,800,000 was fully impaired during the year.

(d) As at 31 December 2016, the balance represented the principal loan amount of HK$10,038,000 and interest receivable of approximately HK$10,841,000, net of accumulated impairment loss of approximately HK$5,386,000, which is secured by a property located in Hong Kong and bear fixed interest rate at 20% per annum.

The movement of accumulated impairment loss of the other loan and interest receivables during the reporting period is as follows:

| | **2016**<br>**HK$'000** | 2015<br>HK$'000 |
|---|---|---|
| At 1 January | **157,366** | 151,980 |
| Addition | **1,800** | – |
| Acquisition of a subsidiary (Note 44(b)) | **–** | 5,386 |
| At 31 December | **159,166** | 157,366 |

## 25. CONVERTIBLE INSTRUMENTS DESIGNATED AS FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | Notes | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|---|
| **Unlisted instruments issued by Hong Kong listed companies:** | | | |
| China Eco-Farming Limited ("CEF") convertible bonds | (a) | **38,851** | 45,080 |
| Homely Manufacturing Limited ("HML") convertible bonds | (b) | **–** | 4,200 |
| | | **38,851** | 49,280 |
| **Analysed for reporting purpose as:** | | | |
| Non-current assets | | **17,184** | 45,080 |
| Current assets | | **21,667** | 4,200 |
| | | **38,851** | 49,280 |

Notes:

(a) CEF convertible bonds

On 29 May 2015, Rich Best Asia Limited ("Rich Best"), a directly wholly-owned subsidiary of the Company, entered into the sale and purchase agreement with Delightful Hope Limited (the "Purchaser"), pursuant to which Rich Best has agreed to sell and the Purchaser has agreed to purchase the entire equity interest in China Smart Asia Limited ("China Smart"), which was an indirectly wholly-owned subsidiary of the Company, at consideration of HK$93,000,000, which is settled by way of (i) cash of HK$46,500,000; (ii) convertible bonds A of CEF with principal amount of HK$23,000,000 ("CEF CBs A"); and (iii) convertible bonds B of CEF with principal amount of HK$23,500,000 ("CEF CBs B"). Details of the disposal are disclosed in Note 46(c) to the consolidated financial statements.

## 25. CONVERTIBLE INSTRUMENTS DESIGNATED AS FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS *(Continued)*

Notes: *(Continued)*

(a) CEF convertible bonds *(Continued)*

The CEF CBs A and the CEF CBs B, both with conversion price of HK$0.25 per conversion share, are non-interest bearing and will be expired on 31 March 2017 and 30 September 2018, respectively. On 20 August 2015, i.e. the issue date, the fair values of the CEF CBs A and the CEF CBs B are HK$22,964,000 and HK$23,563,000, respectively.

As at 31 December 2016, the fair value of the CEF CBs A and the CEF CBs B are HK$21,667,000 (2015: HK$22,780,000) and HK$17,184,000 (2015: HK$22,300,000), respectively. The loss arising from the fair value changes of the CEF CBs A and the CEF CBs B of HK$1,113,000 (2015: HK$184,000) and HK$5,116,000 (2015: HK$1,263,000), respectively were recognised in profit or loss for the year ended 31 December 2016.

(b) During the year ended 31 December 2015, Magic Red Limited ("Magic Red"), an indirectly wholly-owned subsidiary of the Company acted as a subscriber, and Mr. Yeung Kui Wong, the guarantor and the shareholder of HML, entered into the subscription agreement pursuant to which Magic Red has agreed to subscribe for the convertible bonds which were issued by HML in the principal amount of (i) HK$3,000,000 which are matured on 23 June 2016 ("HML CBs A"); and (ii) HK$1,200,000 which are matured on 5 October 2016 ("HML CBs B"). Both HML CBs A and HML CBs B bear 5% coupon rate over the prime rate per annum. Assuming the conversion rights attaching to the convertible bonds are exercised in full at the conversion price of HK$1 per conversion share, up to 4,200,000 conversion shares of HML will be allotted and issued. HML is an investment holding company and its subsidiaries is engaged in trading of electrical appliances and kitchenware. As at 31 December 2015, the fair values of the HML CBs A and the HML CBs B were same as their principal amounts and no fair value changes were recognised in profit or loss for the year ended 31 December 2015.

The HML CBsA and HML CBsB were expired and reclassified as other receivables and the outstanding balances had been fully impaired for the year ended 31 December 2016. Details are disclosed in Note 26(b)(v) to the consolidated financial statements.

A fair value (loss) gain on the convertible instruments designated as financial assets at FVTPL of approximately HK$6,229,000 (2015: HK$308,000) in aggregate was recognised for the year ended 31 December 2016. There was no redemption of convertible bonds during the year ended 31 December 2016 (2015: Nil).

## 25. CONVERTIBLE INSTRUMENTS DESIGNATED AS FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS *(Continued)*

Notes: *(Continued)*

The fair values of the convertible instruments designated as financial assets at FVTPL were valued by Grant Sherman Appraisal Limited ("Grant Sherman"), an independent qualified professional valuer not connected with the Group, using the Binominal Option Pricing Model and Capital Asset Pricing Model. The inputs into the model of each convertible bond as at 31 December 2016 and 2015 were as follows:

**As at 31 December 2016**

| | **CEF CBs A** | **CEF CBs B** |
|---|---|---|
| Valuation model | **Binominal Option Pricing Model** | **Binominal Option Pricing Model** |
| Stock price | **HK$0.113** | **HK$0.113** |
| Conversion price | **HK$0.25** | **HK$0.25** |
| Volatility | **51.39%** | **59.04%** |
| Dividend yield | **0%** | **0%** |
| Option life (years) | **0.25** | **1.75** |
| Risk free rate | **1.02%** | **1.93%** |

As at 31 December 2015

| | CEF CBs A | CEF CBs B | HML CBs A | HML CBs B |
|---|---|---|---|---|
| Valuation model | Binominal Option Pricing Model | Binominal Option Pricing Model | Capital Asset Pricing Model | Capital Asset Pricing Model |
| Stock price | HK$0.145 | HK$0.145 | N/A | N/A |
| Conversion price | HK$0.25 | HK$0.25 | HK$1 | HK$1 |
| Volatility | 70.95% | 58.51% | N/A | N/A |
| Dividend yield | 0% | 0% | N/A | N/A |
| Option life (years) | 1.25 | 2.75 | 1 | 1 |
| Risk free rate | 0.241% | 0.685% | 1.82% | 1.53% |

* The information are extracted from the valuation report performed by Grant Sherman.

Details of the fair value measurement for the convertible instruments designated as financial assets at FVTPL are disclosed in Note 6(c).

## 26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | **2016** **HK$'000** | 2015 HK$'000 |
|---|---|---|
| Deposits paid for acquisition of potential investments (Note a) | **20,000** | 20,000 |
| Accumulated impairment loss on the deposits paid for acquisition of potential investments | **(20,000)** | (20,000) |
| | **–** | – |
| Prepayments | **2,073** | 4,067 |
| Rental and utility deposits | **1,592** | 2,978 |
| Other receivables (Note b) | **236,036** | 254,910 |
| | **239,701** | 261,955 |
| Accumulated impairment loss | **(169,517)** | – |
| | **70,184** | 261,955 |
| Cash balance in securities account | **317** | 3,570 |
| | **70,501** | 265,525 |

Notes:

(a) During the year ended 31 December 2011, King Perfection Limited ("King Perfection"), a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Peak Prosper Holdings Limited ("PPH"), an independent third party, for a conditional purchase of the convertible bonds in the principal amount of HK$110,040,000, which are convertible into 70 shares in the share capital of Precise Billion Limited ("PBL"), a wholly owned subsidiary of PPH, for a total consideration of HK$220,000,000. Deposit of HK$20,000,000 was paid by the Group to PPH in September 2011.

However, the conditions of the agreement had not been fulfilled before the long stop date and King Perfection is entitled to the refund of the deposit paid pursuant to the agreement. Management considers that the recoverability of the deposit paid was uncertain and impairment loss on the full amount of the deposit paid of HK$20,000,000 was made during the year ended 31 December 2011.

On 9 March 2012, King Perfection issued a writ of summons in the Court of First Instance against PPH, claiming for the refund of the deposit in the sum of HK$20,000,000. Judgment was arranged by the court on 22 February 2013 which PPH has to pay King Perfection (a) the sum of HK$20,000,000, (b) damages to be assessed and (c) costs to be taxed. As at the date of this report, no amount has been received. Details of the litigation are set out in Note 43(ii) to the consolidated financial statements.

## 26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(Continued)*

Notes: *(Continued)*

(a) *(Continued)*

The movements in provision for impairment losses of the deposit paid for acquisition of potential investments were as follows:

| | **2016** | 2015 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| At 1 January and 31 December | **20,000** | 20,000 |

(b) Other receivables

(i) Included in other receivables as at 31 December 2015 is an amount of HK$32,000,000 due from an independent third party. It was unsecured, non-interest bearing and repayable on demand. During the year ended 31 December 2016, the other receivables was settled with listed shares (Note 9).

(ii) Included in other receivables as at 31 December 2016 is an amount of approximately HK$151,638,000 (2015: HK$151,638,000) regarding an agency agreement (the "Agency Agreement") entered into between Gain Millennia Limited (the "GML"), a wholly-owned subsidiary of the Company, Hong Kong Entertainment (Overseas) Investments Limited ("HKE") and Well Target Limited ("WTL") on 17 July 2014. Pursuant to the Agency Agreement, GML, as preferred agent, would render the agency services of and for the guest rooms of and in the Dynasty Hotel in Tinian, the CNMI, and GML shall pay to HKE a refundable prepayment in the total sum of approximately HK$151,638,000 ("Rental Prepayment") which shall be settled upon the execution of the Agency Agreement. Subsequently, GML considered it is inappropriate and undesirable to continue with the Agency Agreement. On 9 December 2014, GML, WTL and HKE entered into a deed of settlement (the "Deed of Settlement"), in which both parties agree to terminate the Agency Agreement.

On 15 February 2015 and 24 March 2015, HKE and Tinian Entertainment Co., Ltd ("TEC"), an indirect wholly owned subsidiary of the Company, entered into a provisional operating agreement and an operating agreement respectively (collectively referred to as the "Operating Agreements"). Pursuant to the Operating Agreements, HKE intended to lease to TEC the leased property comprising of the Tinian Dynasty Hotel & Casino and the relevant assets and the lease shall commence on 30 June 2015. The Group agreed to pay HK$50,000,000 to HKE, by set off against part of the Rental Prepayment, as refundable deposit. However, the lease had not been commenced on 30 June 2015.

On 6 July 2015, HKE and TEC entered into another operating agreement ("Another Operating Agreement"). Pursuant to the Another Operating Agreement, TEC has paid a refundable deposit of USD3,000,000 (equivalent to approximately HK$23,290,000) to HKE. The Another Operating Agreement has not yet been commenced as at 31 December 2015.

## 26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(Continued)*

Notes: *(Continued)*

(b) *(Continued)*

(ii) On 23 February 2016, legal action has been taken by the Group in respect of claiming for the refundable deposit. Details of the litigation are set out in Note 43(v) to the consolidated financial statements.

On 7 April 2016, the Parties (as defined in Note 29) entered into an agreement to agree to offset certain part of the refundable deposit against other payables of approximately HK$11,256,000. After the offset, the net amount due from HKE to the Group was approximately of HK$164,624,000. Details of the offset are set out in Note 29 to the consolidated financial statements.

As at 31 December 2016, the amount due from HKE to the Group was, in aggregate, approximately HK$164,624,000 (2015: HK$174,928,000).

In the opinion of the Directors, the recoverability of refundable deposit is remote and approximately of HK$164,624,000 was fully impaired during the year ended 31 December 2016.

(iii) Included in other receivables, the Group subscribed for a promissory notes with the principal amount of HK$41,000,000 during the year ended 31 December 2015. As at 31 December 2015, the promissory notes were unsecured and bear fixed interest rate at 12% per annum based on the principal amount. On 20 December 2016, the Group and the issuer have entered into a repayment schedule and the balance is repayable during the year ending 31 December 2017.

(iv) Included in other receivables as at 31 December 2016 is an amount of HK$10,000,000 lent to 金地毯（北京）文化傳媒有限公司 (transliterated as Gold Carpet (Beijing) Culture Media Limited ("Gold Carpet").

On 25 February 2016, 北京華鼎滙金投資有限責任公司 (transliterated as Beijing Huading Huijin Investment Company Limited) as vendor (the "Vendor"), Selected Team Limited, a newly incorporated wholly-owned subsidiary of the Company (the "Purchaser") and the Company entered into a sale and purchase agreement, pursuant to which the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to acquire, through a wholly foreign owned enterprise, the 51% equity interests in Gold Carpet at the consideration of HK$120,000,000, which shall be satisfied by the issue of the convertible bonds by the Purchaser. The convertible bonds in the principal amount of HK$120,000,000, upon full conversion, are convertible into 240,000,000 new shares, which is issued and allotted by the Company under the specific mandate, at the conversion price of HK$0.5 per conversion share.

Pursuant to the sale and purchase agreement, the Purchaser warrants that upon the completion of the acquisition, it will provide shareholder's loan to Gold Carpet under the sale and purchase agreement. The amount of such shareholder's loan shall not be more than RMB20,000,000.

## 26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(Continued)*

Notes: *(Continued)*

(b) *(Continued)*

(iv) *(Continued)*

On 2 March 2016, the Purchaser and the Vendor entered into an Addendum (the "Addendum") to the sale and purchase agreement, pursuant to which the Purchaser agreed to advance a sum of HK$10,000,000 within five days as deposit for the shareholder's loan to Gold Carpet upon execution of the Addendum. As at 31 December 2016, the deposit for the shareholder's loan of HK$10,000,000 is unsecured, non-interest bearing and repayable on demand.

On 29 April 2016, the Purchaser and the Vendor entered into a supplemental sale and purchase agreement (the "Supplemental Agreement"), pursuant to which the Purchaser and the Vendor agreed that the Purchaser shall, in place of issuing the convertible bonds, issue an exchangeable note to the Vendor. The Purchaser further undertakes that upon fulfillment of all the conditions stated in Supplemental Agreement by no later than 30 June 2017 or such later date as agreed in writing by the Purchaser and the Vendor, the Vendor may exercise its right under the exchangeable note to exchange the exchangeable note for the convertible bonds.

(v) Included in other receivable as at 31 December 2016 were an amount of HK$4,200,000 which was reclassified from HML CBsA and HML CBsB (Note 25(b)). On 29 July 2016, the Group issued a writ of summon in respect of claiming for the principal of HK$4,200,000. In the opinion of the Directors, the recoverability of the receivables is remote and the other receivables was fully impaired during the year ended 31 December 2016.

The movements in provision for impairment losses of the other receivables were as follows:

| | **2016<br>HK$'000** | 2015<br>HK$'000 |
|---|---|---|
| At 1 January | **–** | – |
| Impairment losses recognised | **169,517** | – |
| At 31 December | **169,517** | – |

## 27. INVESTMENTS HELD FOR TRADING

Investments held for trading consisted of:

| | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|
| Listed securities held for trading, at fair value | | |
| – Equity securities listed in Hong Kong | **222,868** | 413,950 |

As at 31 December 2016, the carrying amount of the investments held for trading which has been pledged as security for margin accounts (Note 30(b)), is approximately HK$66,722,000 (2015: HK$198,953,000).

## 28. BANK BALANCES AND CASH

Bank balances carry interest at market rates ranging from 0.01% to 0.05% (2015: 0.01% to 0.05%) per annum.

The bank balances are deposited with creditworthy banks with no recent history of default.

Included in bank balances and cash are the following amount which are subject to foreign exchange control regulations or not freely transferable:

| | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|
| Amounts denominated in: | | |
| RMB | **88** | 122 |

## 29. ACCRUALS AND OTHER PAYABLES

| | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|
| Accruals | **26,987** | 8,609 |
| Other payables (Note) | **2,145** | 13,780 |
| | **29,132** | 22,389 |

Note: On 7 April 2016, GML, HKE, Tinian Realty International Co., Ltd ("TRI"), a wholly-owned subsidiary of the Company, and an independent third party (collectively the "Parties") entered into an agreement, pursuant to which the Parties agreed to offset the amounts due to each others. After the offset, certain part of other payables of approximately HK$11,256,000 was set off against the refundable deposit included in other receivables (Note 26(b)(ii)).

## 30. BORROWINGS

| | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|
| Secured: | | |
| Bank borrowings (Note a) | **25,004** | 26,350 |
| Other loans (Note a) | **64,700** | 48,200 |
| Margin accounts (Note b) | **10,103** | 93,876 |
| | **99,807** | 168,426 |
| Unsecured: | | |
| Other borrowing (Note c) | **50,000** | – |
| | **149,807** | 168,426 |

## 30. BORROWINGS *(Continued)*

| | **2016** **HK$'000** | 2015 HK$'000 |
|---|---|---|
| Carrying amount repayable: | | |
| Within one year | **126,187** | 143,424 |
| More than one year but not exceeding two years | **1,445** | 1,380 |
| More than two years but not more than five years | **8,475** | 4,342 |
| More than five years | **13,700** | 19,280 |
| | **149,807** | 168,426 |
| Carrying amount repayable within one year | **126,187** | 143,424 |
| Carrying amount of borrowings that are not repayable within one year from the end of reporting period but contain a repayment on demand clause and show under current liabilities (Note d) | **23,620** | 25,002 |
| | **149,807** | 168,426 |

Notes:

(a) The Group's borrowings are all denominated in HK$. As at 31 December 2016, the borrowings were secured by Group's seven (2015: six) investment properties with the carrying amount of HK$111,240,000 (2015: HK$94,900,000). The bank borrowings bear interest from HIBOR+1.75% to 2.5% (2015: HIBOR+1.75% to 2.5%) per annum. The range of effective interest rates due in the Group's bank borrowings for the year ended 31 December 2016 are from 1.98% to 2.5% (2015: 1.99% to 2.5%). Other loans bear interest at fixed rate ranging from 12% to 27% (2015: 14.4% to 27%) per annum.

(b) As at 31 December 2016, approximately HK$10,103,000 (2015: HK$93,876,000) represented the margin value in broker's account. The broker pledged the securities in the margin account as collateral. The margin value will be charged at prime rate plus 8% per annum (2015: 3%) and prime rate plus 11.25% per annum (2015: 6%) on any amount which is over the margin limit.

## 30. BORROWINGS *(Continued)*

Notes: *(Continued)*

(c) On 16 June 2016, the Company entered into a loan agreement with EverCare Finance Company Limited ("EverCare") and Mr. Chen Chien Yeh ("Mr. Chen") to advance a loan in the principal sum of HK$50,000,000 for six months to the Company. The loan bears interest at fixed rate of 12% per annum and is repayable on 15 December 2016.

On 11 January 2017, the Company entered into a deed of addendum with Mr. Chen and EverCare to extend the term of the loan agreement dated 16 June 2016 to revise repayment arrangement. The Company and EverCare agree that the outstanding principle and interest up to 28 February 2017 in the total sum of approximately HK$44,197,000 shall be extended for 18 months commencing from 1 March 2017 at fixed interest rate of 1.25% per month. Details of the unsecured borrowing are set out in Note 35(b) to the consolidated financial statements.

(d) Included in bank borrowings of the Group are mortgage loans with an aggregate principal of approximately HK$23,620,000 (2015: HK$25,002,000) of which the respective loan agreements contain a repayment on demand clause giving the bank the unconditional right to call the loans at any time and therefore, for the purpose of the above maturity profile, the total amount is classified as current liabilities.

## 31. DERIVATIVE FINANCIAL LIABILITIES

The derivative financial liabilities of the Group are not for the hedging purpose.

On 18 June 2014, the Company and a placing agent entered into the option placing agreement pursuant to which the Company has conditionally agreed to place and the placing agent has conditionally agreed to procure, not less than six independent placees to subscribe for up to 130 options at a premium of HK$10,000 per option ("CB Option A"). Completion was taken place on 27 June 2014.

Upon exercise of each of the option, the optionholder was entitled to subscribe for the convertible bonds of the Company in the principal amount of HK$1,000,000 at the subscription price of HK$1,000,000. Assuming exercise of all the 130 options, the optionholders were entitled to subscribe for, in aggregate, the convertible bonds of the Company in the principal amount of HK$130,000,000 at the subscription price of HK$130,000,000. Receipt of HK$1,300,000 in relation to the premium of 130 options of HK$10,000 per option was credited to liabilities at the date of the issue of the options and its fair value was approximately HK$3,156,000 as at 31 December 2014. During the year ended 31 December 2014, the loss arising from fair value changes of HK$1,856,000 was recorded in profit or loss for the year ended 31 December 2014. During the year ended 31 December 2015, CB Option A is expired and no option has been exercised.

## 31. DERIVATIVE FINANCIAL LIABILITIES *(Continued)*

On 15 June 2015, the Company and another placing agent entered into the placing agreement (as revised and supplemented by three supplemental agreements on 25 June 2015, 17 July 2015 and 6 August 2015), pursuant to which the Company has conditionally agreed to place and the placing agent has conditionally agreed to procure, on a best effort basis, not less than six placees to subscribe for the convertible bonds of the Company in the principal amount of up to HK$76,000,000 (the "CB"). Each holder of the CB in the principal amount of HK$1,900,000 shall have the priority to subscribe up to three options at the option premium of HK$30,000 per option. Each option entitles the holder of the option to subscribe for the further convertible bonds (the "Further CBs") in the principal amount of HK$1,900,000 at the subscription price of HK$1,900,000, pursuant to which a maximum of 120 options shall be issued. The exercisable period of options is commencing from the date when a total of not less than HK$68,400,000 in principal amount of the CB has been converted into new shares and ending on 14 October 2016. Upon exercise of the 120 options to subscribe the Further CBs, the Further CBs will be in the aggregate amount of HK$228,000,000. Upon full conversion of the CB in the principal amount of HK$76,000,000 and the Further CBs in the principal amount of HK$228,000,000 at the initial conversion price of HK$1.90, a total of 40,000,000 new shares and 120,000,000 new shares shall be allotted and issued by the Company. Details are set out in the announcements of the Company dated 25 June 2015, 17 July 2015, 6 August 2015 and 31 August 2015 respectively. On 24 September 2015, the subscription of options was completed and an aggregate of 120 options ("CB Option B") were issued and total option premium of HK$3,600,000 was received. As at 31 December 2015, no CB Option B had been exercised.

The following is the derivative financial liabilities recognised and movements thereon during the reporting period:

| | **HK$'000** |
|---|---|
| At 1 January 2015 | 3,156 |
| Addition | 3,600 |
| Expiration | (3,156) |
| Increase in fair value | 4,525 |
| At 31 December 2015 | 8,125 |
| Expiration | (8,125) |
| **At 31 December 2016** | **–** |

## 31. DERIVATIVE FINANCIAL LIABILITIES *(Continued)*

The fair value of the CB Option B as at 31 December 2015 was valued by Grant Sherman. The valuation was made by using the Binominal Option Pricing Model and considering the present value of the stream of future cash flows discounted at the risk-free rate of 0.114% for the year ended 31 December 2015. During the year ended 31 December 2016, CB Option B is expired and no option has been exercised.

The inputs into the model were as follows:

| | CB Option B 31/12/2015 |
|---|---|
| Spot price | HK$0.71 |
| Exercise price | HK$1.9 |
| Volatility | 93% |
| Dividend yield | 0% |
| Option life (years) | 0.79 |
| Risk free rate for convertible bond | 0.114% |
| Risk free rate for convertible bond option | 0.114% |

## 32. BOND PAYABLES

As at 31 December 2016 and 2015, the bond payables held by 1 and 4 bond holders are due in 2019 and 2020 respectively, unsecured, transferrable and bearing interest rate ranging from 6% to 8% per annum.

## 33. DEFERRED TAXATION

The following are the major deferred tax liability recognised and movements thereon during the reporting period:

| | Accelerated tax depreciation HK$'000 | Fair value changes in investment properties HK$'000 | Total HK$'000 |
|---|---|---|---|
| At 1 January 2015 | 754 | 25,034 | 25,788 |
| Charge to profit or loss (Note 12) | 213 | 204 | 417 |
| Disposal of subsidiaries (Note 46(c)) | – | (24,026) | (24,026) |
| Exchange adjustment | – | (1,212) | (1,212) |
| At 31 December 2015 and 1 January 2016 | 967 | – | 967 |
| Charge to profit or loss (Note 12) | 213 | – | 213 |
| **At 31 December 2016** | **1,180** | **–** | **1,180** |

No deferred tax assets attributable to other temporary differences and tax losses of the Group have been recognised for both years due to unpredictability of future profit streams. At the end of the reporting period, the Group had unexpired estimated tax losses available for off-setting future taxable profits and other deductible temporary differences of approximately HK$255,142,000 (2015: HK$204,160,000) and HK$171,220,000 (2015: HK$169,929,000) respectively.

During the year ended 31 December 2015, tax loss of approximately HK$26,776,000 for which no deferred tax asset were recognised previously was utilised. During the year ended 31 December 2016, no tax loss was utilised.

## 34. NON-LISTED WARRANTS

On 27 May 2013, the Company and FT Securities Limited entered into a placing agreement in respect of the placement of 135,000,000 warrants of the Company to independent investors at a price of HK$0.01 per warrant. Each warrant confers the right to subscribe for one ordinary share of the Company of HK$0.001 each at a subscription price of HK$0.20. Details of the above are set out in the Company's announcement dated 28 May 2013.

The placement was completed on 6 June 2013 with the warrants expiring on 6 June 2015. Receipt of approximately HK$1,350,000 in relation to the warrants was credited to warrants reserve at the date of issue of the warrants. 134,600,000 warrants had been exercised and the remaining 400,000 warrants had been expired during the year ended 31 December 2015.

## 35. CONVERTIBLE LOAN NOTES

The Company issued a 12% convertible loan notes at a par value of HK$76,000,000 on 16 September 2015. The convertible loan notes are denominated in Hong Kong dollars. The notes entitle the holders to convert them into ordinary shares of the Company at any time between the date of issue of the notes and the date on the fifth business day before 30 September 2016 at a conversion price of HK$1.9 per convertible loan note. Assuming the conversion rights attaching to the convertible loan notes are exercised in full at the conversion price of HK$1.9, a total of 40,000,000 ordinary shares of the Company will be allotted and issued. If the notes have not been converted, they will be redeemed on 30 September 2016 at par value.

The fair value of the convertible loan notes was valued by Grant Sherman. The fair value of liability component of the convertible loan notes has been calculated by discounting the future cash flows at the market rate.

The inputs into the model were as follows:

| | |
|---|---|
| Applicable stock price | HK$0.69 |
| Conversion price | HK$1.9 |
| Volatility | 104.34% |
| Dividend yield | 0% |
| Contractual life | 1.04 years |
| Risk-free rate | 0.113% |

## 35. CONVERTIBLE LOAN NOTES *(Continued)*

The convertible loan notes contain two components, liability and equity elements. The equity element is presented in equity heading "convertible loan notes reserve". The effective interest rate of the liability component is 18.96% per annum.

The movement of the liability component of the convertible loan notes for the year ended 31 December 2016 is set out below:

| | **Liability component** HK$'000 | **Equity component** HK$'000 | **Total** HK$'000 |
|---|---|---|---|
| At 1 January 2015 | – | – | – |
| Issue of convertible loan notes | 71,370 | 4,630 | 76,000 |
| Transaction cost | (2,141) | (139) | (2,280) |
| Effective interest expense (Note 10) | 1,296 | – | 1,296 |
| Conversion (Note a) | (17,630) | (1,123) | (18,753) |
| At 31 December 2015 | 52,895 | 3,368 | 56,263 |
| Effective interest expense (Note 10) | 2,790 | – | 2,790 |
| Loss on early redemption | 1,315 | – | 1,315 |
| Early redemption | (57,000) | (3,368) | (60,368) |
| **At 31 December 2016** | – | – | – |

## 35. CONVERTIBLE LOAN NOTES *(Continued)*

Notes:

(a) HK$19,000,000 convertible loan notes were converted into 10,000,000 ordinary shares of the Company during the year ended 31 December 2015.

(b) On 16 June 2016, the Company entered into two loan agreements with EverCare and Mr. Chen, and Chinese Capital Management Limited ("Chinese Capital") in which EverCare and Chinese Capital agreed to lend the Company HK$50,000,000 and HK$5,700,000 respectively for the Company to redeem the convertible loan notes with principal HK$57,000,000. The loans were unsecured, bear fixed interest rate of 12% per annum and repayable within 6 months.

On 23 June 2016, the Company had issued 12,266,236 shares at the issue price of HK$0.5 to Mr. Chen to settle the principal amount and the accrued interest of the convertible loan notes of approximately HK$1,300,000 and HK$4,833,000 respectively, and had issued 1,023,189 shares at the issue price of HK$0.5 to Chinese Capital to settle the accrued convertible loan notes interest of approximately HK$512,000.

During the year ended 31 December 2016, the loan from Chinese Capital had been fully settled.

Subsequent to the reporting period, up to 28 February 2017, the Company had repaid HK$10,000,000 to EverCare for settling part of the loan and the accrued interests. On 1 March 2017, the Company and EverCare entered into a revised loan agreement to extend the repayment date of the outstanding balances of the loan and accrued interest to 31 August 2018. The balance bear interest of 1.25% per month and was secured by the leasehold land of the Group.

## 36. OBLIGATIONS UNDER FINANCE LEASES

Analysed for reporting purposes as:

| | **2016 HK$'000** | 2015 HK$'000 |
|---|---|---|
| Current liabilities | **658** | 382 |
| Non-current liabilities | **1,154** | 1,006 |
| | **1,812** | 1,388 |

## 36. OBLIGATIONS UNDER FINANCE LEASES *(Continued)*

It is the Group's policy to lease certain motor vehicles under finance leases. The average lease term is 3 to 5 years. Interest rates underlying all obligations under finance leases are fixed at respective contract dates ranging from 2.25% to 4.48% (2015: 2.25% to 3.09%) per annum. There are purchase options in these leases.

| **As at 31 December 2016** | **Minimum lease payments HK$'000** | **Present value of minimum lease payments HK$'000** |
|---|---|---|
| Obligations under finance leases payable: | | |
| Within one year | 710 | 658 |
| Within a period of more than one year but not more than two years | 564 | 534 |
| Within a period of more than two years but not more than five years | 631 | 620 |
| | 1,905 | 1,812 |
| Less: future finance charges | (93) | N/A |
| Present value of lease obligations | 1,812 | 1,812 |
| Less: Amount due for settlement with 12 months (shown under current liabilities) | | (658) |
| Amount due for settlement after 12 months | | 1,154 |

## 36. OBLIGATIONS UNDER FINANCE LEASES *(Continued)*

| As at 31 December 2015 | Minimum lease payments HK$'000 | Present value of minimum lease payments HK$'000 |
|---|---|---|
| Obligations under finance leases payable: | | |
| Within one year | 416 | 382 |
| Within a period of more than one year but not more than two years | 393 | 373 |
| Within a period of more than two years but not more than five years | 653 | 633 |
| | 1,462 | 1,388 |
| Less: future finance charges | (74) | N/A |
| Present value of lease obligations | 1,388 | 1,388 |
| Less: Amount due for settlement with 12 months (shown under current liabilities) | | (382) |
| Amount due for settlement after 12 months | | 1,006 |

Finance lease obligations that are denominated in HK$.

## 37. SHARE CAPITAL

| | Par value per share | Number of shares | Amount |
|---|---|---|---|
| | HK$ | '000 | HK$'000 |
| Authorised: | | | |
| *Ordinary shares* | | | |
| At 1 January 2015, 31 December 2015 and 31 December 2016 | 0.001 | 100,000,000 | 100,000 |
| Issued and fully paid: | | | |
| *Ordinary shares* | | | |
| At 1 January 2015 | 0.001 | 675,814 | 676 |
| Exercise of warrants (Note 34) | 0.001 | 134,600 | 134 |
| Issuance of shares upon placing (Note a) | 0.001 | 162,080 | 162 |
| Issuance of share upon conversion of convertible loan notes (Note 35) | 0.001 | 10,000 | 10 |
| At 31 December 2015 and 1 January 2016 | 0.001 | 982,494 | 982 |
| Exercise of share options (Note b) | 0.001 | 3,000 | 3 |
| Issuance of shares upon placing (Note c) | 0.001 | 150,000 | 150 |
| Issuance of shares upon settlement of loan agreement (Note d) | 0.001 | 13,289 | 14 |
| **At 31 December 2016** | **0.001** | **1,148,783** | **1,149** |

## 37. SHARE CAPITAL *(Continued)*

Notes:

(a) On 11 November 2015, the Company entered into a placing agreement with a placing agent to place 120,000,000 placing shares with the par value of HK$0.001 each at a price of HK$0.48 per placing share. The placing has been completed on 23 November 2015.

On 27 November 2015, the Company entered into a subscription agreement with an independent third party to issue 42,080,000 new shares with the par value of HK$0.001 each at a price of HK$0.935 per new share. The subscription has been completed on 17 December 2015.

(b) On 5 May 2016, 3,000,000 share options had been exercised at the exercise price of HK$0.612 each (2015: Nil) by option holder to subscribe for 3,000,000 ordinary shares of the Company with par value of HK$0.001 each. The proceeds from the exercise of share options are approximately HK$1,836,000.

(c) On 17 October 2016, the Company entered into a placing agreement with a placing agent to place 150,000,000 placing shares with the par value of HK$0.001 each at a price of HK$0.24 per placing share. The placing has been completed on 27 October 2016.

(d) Pursuant to the Company's announcement dated 16 June 2016, the Company had issued 12,266,236 shares and 1,023,189 shares at the issue price of HK$0.5 to Mr. Chen and Chinese Capital respectively as settlement of part of the balances due from the Company to Mr. Chen (HK$6,133,000) and Chinese Capital (HK$512,000) under the bonds issued by the Company pursuant to subscription agreement and/or the convertible bonds issued by the Company on 16 September 2015. On 23 June 2016, an aggregate of 13,289,425 shares at HK$0.5 per share were allotted and issued as fully paid. Details are set out in Note 35(b) to the consolidated financial statements.

## 38. SHARE OPTION SCHEME

### (i) Share option scheme adopted on 22 November 2002 (the "Expired Share Option Scheme")

Pursuant to resolutions passed at a special general meeting of the shareholders held on 22 November 2002, the Company terminated the old share option scheme and adopted a new share option scheme ("Expired Share Option Scheme") in order to comply with the new requirements of Chapter 23 of GEM Listing Rules effective on 1 October 2001. Under the terms of the Expired Share Option Scheme, the Directors may, at their discretion, grant options to the participants fall within the definition prescribed in the Expired Share Option Scheme including the employees, non-executive directors of the Company or its subsidiaries etc., to subscribe for shares in the Company at a price determined by the Company's Board of Directors, and will not be less than the highest of (i) the nominal value of the shares; (ii) the average closing price of the shares quoted on the GEM on the five trading days immediately preceding the date of grant; and (iii) the closing price of the shares quoted on the GEM on the date of grant, subject to a maximum of 10% of the issued share capital of the Company from time to time. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital in issue and with an aggregate value (based on the closing price of the shares on the date of grant) in excess of HK$5,000,000 must be approved by the Company's shareholders.

The Expired Share Option Scheme remained in force for a period of 10 years from 22 November 2002. The Expired Share Option Scheme was expired during the year ended 31 December 2012. A nominal consideration of HK$1 is payable on acceptance of the grant of an option.

## 38. SHARE OPTION SCHEME *(Continued)*

### (ii) Share option scheme adopted on 2 April 2014 (the "Share Option Scheme")

Pursuant to resolutions passed at a special general meeting of the shareholders held on 2 April 2014, the Company adopted a new share option scheme to continue to provide incentives and/or rewards to the participants by way of granting options. Under the terms of the Share Option Scheme, the Directors may, at their discretion, grant options to the participants fall within the definition prescribed in the Share Option Scheme including the employees, non-executive directors of the Company or its subsidiaries etc., to subscribe for shares in the Company at a price determined by the Company's Board of Directors, and will not be less than the highest of (i) the nominal value of the shares; (ii) the average closing price of the shares quoted on the GEM on the five trading days immediately preceding the date of grant; and (iii) the closing price of the shares quoted on the GEM on the date of grant, subject to a maximum of 10% of the issued share capital of the Company from time to time. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital in issue and with an aggregate value (based on the closing price of the shares on the date of grant) in excess of HK$5,000,000 must be approved by the Company's shareholders.

The Share Option Scheme will remain in force for 10 years from 2 April 2014, unless otherwise cancelled or amended. A nominal consideration of HK$1 is payable on acceptance of the grant of an option.

No share options was granted or exercised under the Share Option Scheme during the year ended 31 December 2015.

## 38. SHARE OPTION SCHEME *(Continued)*

### (ii) Share option scheme adopted on 2 April 2014 (the "Share Option Scheme") *(Continued)*

Details of the share options outstanding during the years ended 31 December 2016 and 2015 were:

| | Date of grant | 2016 exercise price HK$ | 2015 exercise price HK$ | Exercisable period | Outstanding at 1.1.2015, 31.12.2015 and 1.1.2016 | Granted during the year | Exercised during the year | Outstanding at 31.12.2016 |
|---|---|---|---|---|---|---|---|---|
| Director | 23 March 2016 | **0.612** | N/A | 23 March 2016 to 22 March 2026 | – | 9,000,000 | – | 9,000,000 |
| Employees | 3 April 2007 | **7.350** | 7.350 | 3 April 2007 to 2 April 2017 | 1,000,000 | – | – | 1,000,000 |
| | 23 March 2016 | **0.612** | N/A | 23 March 2016 to 22 March 2026 | – | 9,820,000 | (3,000,000) | 6,820,000 |
| Consultants | 3 April 2007 | **7.350** | 7.350 | 3 April 2007 to 2 April 2017 | 1,200,000 | – | – | 1,200,000 |
| | 23 March 2016 | **0.612** | N/A | 23 March 2016 to 22 March 2026 | – | 19,640,000 | – | 19,640,000 |
| Total | | | | | 2,200,000 | 38,460,000 | (3,000,000) | 37,660,000 |
| Weighted average exercise price | | | | | 1.006 | | | 7.350 |
| Weighted average remaining contractual life | | | | | 1.25 years | | | 8.70 years |

## 38. SHARE OPTION SCHEME *(Continued)*

The fair value of the share options granted during the year ended 31 December 2016 were determined by the Directors at the date of grants by using the Binomial Option Pricing Model, evaluated by Grant Sherman, with the following inputs:

| | **23 March 2016** |
|---|---|
| Share price at date of grant | HK$0.600 |
| Exercise price | HK$0.612 |
| Risk-free rate | 1.735% |
| Expected dividend yield | 0% |
| Expected life | 10 years |

The details of the fair value per option for options granted during the year ended 31 December 2016 were set out below:

During the year ended 31 December 2016, the fair value of total 18,820,000 share options granted to directors and employees was approximately HK$6,399,000 and was included in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2016. During the year ended 31 December 2016, the Group granted 19,640,000 share options with fair value of approximately HK$6,125,000 to the consultants in exchange for cost of services provided. In the opinion of the Directors, in view of the fair value of the service received from the consultants could not be estimated reliably by the Company, the fair value of the services received from the consultants was measured indirectly by reference to the fair value of the share options granted to the consultants.

The Group recognised an expense for approximately HK$12,524,000 (2015: Nil) for the year ended 31 December 2016 in relation to share options granted by the Company.

## 39. COMMITMENTS

### (a) Operating lease commitment

***The Group as lessor***

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Within one year | 2,185 | 2,020 |
| In the second to fifth year inclusive | 119 | 71 |
| | 2,304 | 2,091 |

Operating lease receipts represent rentals receivable by the Group for certain of its investment properties. They are expected to generate rental yield of 2.2% (2015: 4.6%) on an ongoing basis. All of the properties held have committed tenants for the next one to two years (2015: one to two years).

***The Group as lessee***

At the end of the reporting period, the Group had commitments for future minimum lease payments in respect of premises under various non-cancellable operating leases which fall due as follows:

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Within one year | 2,698 | 3,614 |
| In the second to fifth year inclusive | 3,000 | 500 |
| | 5,698 | 4,114 |

## 39. COMMITMENTS *(Continued)*

### (a) Operating lease commitment *(Continued)*

Operating lease payments represent rentals payable by the Group for certain of its office properties (2015: office properties). Leases are negotiated and rentals are fixed for an average of two years (2015: two years).

### (b) Capital commitment

As at 31 December 2016, the Group did not have any material capital commitment (2015: Nil).

## 40. RETIREMENT BENEFITS SCHEMES

The Group maintains various retirement schemes for its employees. The retirement scheme for employees of the PRC office is a mandatory central pension scheme organised by the PRC government, the assets of which are held separately from those of the Group. Contributions made are based on a percentage of the eligible employees' salaries and charged as expenses when the employees have rendered services entitling them to the contribution. The employer contributions vest fully once they are made. The Group's Hong Kong employees are covered by the Mandatory Provident Fund, which is managed by an independent trustee. The Group and its Hong Kong employees each make monthly contributions to the scheme at 5% of the employees' income with the maximum contribution by each of the Group and the employees limited to HK$1,250 per month prior to June 2014 and HK$1,500 after June 2014.

During the year, the aggregate contributions made by the Group to the retirement schemes were approximately HK$624,000 (2015: HK$750,000).

## 41. RELATED PARTY TRANSACTIONS

### (a) Compensation of directors and key management personnel

The remuneration of Directors and other members of key management during the years were as follows:

| | **2016 HK$'000** | 2015 HK$'000 |
|---|---|---|
| Short-term benefits | **11,786** | 12,111 |
| Post-employment benefits | **126** | 126 |
| Share-based payment expenses | **6,399** | – |
| | **18,311** | 12,237 |

The remuneration of Directors and key executives are determined by the Remuneration Committee having regard to the performance of individuals and market trends.

**(b)** Save as disclosed elsewhere in these consolidated financial statements, the Group had not entered into any significant related party transactions during the years ended 31 December 2016 and 31 December 2015.

## 42. MAJOR NON-CASH TRANSACTIONS

For the year ended 31 December 2016:

(a) Included in other receivables as at 31 December 2015 is an amount of HK$32,000,000 due from an independent third party. During the year ended 31 December 2016, the other receivables was settled with listed shares (Note 26(b)(i)).

(b) During the year ended 31 December 2015, the Group paid a refundable deposit of HK$2,800,000 to an independent third party in setting up a joint venture in Tinian. During the year ended 31 December 2016, the project has not completed and the independent third party refunded the deposit to the Group by transferring listed shares.

(c) On 16 June 2016, the Company entered into two loan agreements with EverCare and Mr. Chen, and Chinese Capital in which EverCare and Chinese Capital agreed to lend the Company HK$50,000,000 and HK$5,700,000 respectively for the Company to redeem the convertible loan notes with principal of HK$57,000,000 (Note 35(b)).

(d) On 7 April 2016, the Parties entered into an agreement, pursuant to which the Parties agreed to offset the amounts due to each others. After the offset, certain part of other payables of approximately HK$11,256,000 was set off against the refundable deposit included in other receivables. Details of the offset are set out in Note 26(b)(ii) and Note 29 to the consolidated financial statements.

## 42. MAJOR NON-CASH TRANSACTIONS *(Continued)*

For the year ended 31 December 2015:

(a) The Group acquired Watson China Limited ("Watson China") through converted 800,000 convertible bonds issued by Watson China into 800,000 new ordinary shares of Watson China during the year ended 31 December 2015 (Note 44(a)).

(b) The Group disposed of the entire equity interest of China Smart at a consideration of HK$93,000,000, which was partially settled by the CEF CBs A and CEF CBs B (Note 46(c)).

## 43. LITIGATIONS

(i) On 28 March 2012, 7 September 2012 and 23 May 2013, Fameway Finance Limited ("Fameway"), a wholly-owned subsidiary of the Group, issued writ of summons in the High Court of Hong Kong against certain borrowers, claiming for repayment of the loan receivables of HK$218,529,000 and HK$226,709,000 as at 31 December 2014 and 31 December 2013, respectively. Management considers that the recoverability of the loan receivables was uncertain and impairment loss of nil and HK$11,238,000 was recognised in profit and loss for the year ended 31 December 2014 and 31 December 2013, respectively.

Fameway issued amended writ of summons in the High Court of Hong Kong against certain borrowers on 4 December 2012, 24 December 2012 and 28 December 2012 in relation to the above loan receivable balances except for the litigation case which got court judgments on 23 November 2012 and 19 February 2013. Both judgments were in favour of the Group. The defendants were ordered to pay the outstanding amount of loan receivables of total HK$110,544,000 and the relative interest and the costs of the action incurred by the Group. Securities of HK$2,015,000 were received as part of the settlement of the loan. Due to the uncertainty of the recoverability of the remaining loan receivables, the management considered that no reversal of impairment loss should be made for the remaining loan receivable for the year ended 31 December 2013. Fameway succeeds in enforcing partial payment of the judgment debt against some of such borrowers, and will rely on legal advice for further and possible enforcement.

## 43. LITIGATIONS *(Continued)*

(ii) On 9 March 2012, King Perfection Limited ("King Perfection"), an indirect wholly-own subsidiary, issued a writ of summons in the Court of First Instance against PPH, claiming for the refund of the deposit paid in the sum of HK$20,000,000. Judgment was issued by the court on 22 February 2013 which PPH has to pay King Perfection (a) the sum of HK$20,000,000; (b) damages to be assessed; and (c) costs to be taxed.

A separate hearing regarding the above case was heard on 2 March 2016 since the Company and King Perfection had not received any refund of deposit from PPH, the Judge reserved judgment to a later date. In the opinion of legal advisor, the proof of debt of King Perfection and the Group be admitted in full in the sum of approximately HK$20,011,000. As at the date of this report, no amount has been received. The Company and King Perfection would rely on legal advice for further conduct and for protection of their interest.

(iii) On 6 May 2013, a writ of summons has been served to the Company, claiming for payment for the loss of the plaintiff of approximately RMB5,188,732,000. The legal case is related to the breach of contracts in respect of the investment in a joint venture which will conduct railway cargo transportation services in the PRC. On 13 May 2014, the plaintiff had completely crossed out its statement of claim and replaced the same with a new one and the amount of monetary claim was reduced from approximately RMB5,188,732,000 to HK$100,000,000. The Company has taken out the relevant applications to disallow such amendments of the statement of claim by the plaintiff and to strike out the amended statement of claim if such amendments are allowed by the Court.

The Plaintiff's amendments to its statement of claim in so far as it relates to the cause of action against the Company were struck out by the order of Master Hui on 3 June 2015 ("the Said Order") with costs in favour of the Company. The plaintiff then filed the notice of appeal on 17 June 2015 ("the Said Appeal") to appeal against the Said Order. The Said Appeal was heard on 9 December 2015 and had been dismissed by the Court with costs in favour of the Company on indemnity basis.

As regards the plaintiff's outstanding application to amend its amended statement of claim, the hearing of this summons had been adjourned sine die. There is no hearing date for this summons yet.

After consultation with the legal advisor, the management considered that the Company has good case to strike out the claim.

## 43. LITIGATIONS *(Continued)*

(iv) The claimant, Chan Yu Yiu Henry, against Onway Logistics Limited (the 1st Defendant), China Railway Investments Group (HK) Limited (the 2nd Defendant) and the Company (the 3rd Defendant) claiming director's fee in the aggregate sum of HK$4,146,666.66 allegedly due and owing since June 2008 (the "Claim"). It was the 2nd Defendant appointed the claimant as director of the 1st Defendant and the 2nd Defendant was the former joint venturer of 1st Defendant, which is the former joint venture of the Company on 13 October 2008.

The entire proceedings start afresh in the Court of First Instance. The claimant's application for legal aid failed, and due to his alleged impecuniosity, the claimant is not legally represented. As at 31 December 2015, the claimant has yet to serve his statement of claim.

In the opinion of the legal advisor, it will be meritorious to apply for striking out the Claim, and the legal advisor are preparing the summons and the affirmation in report of such striking out application.

(v) On 23 February 2016, GML has filed complaint for breach of contract in the Superior Court in CNMI against HKE for claiming the refundable deposit of approximately HK$174,928,000 (Note 26(b)(ii)). On 28 March 2016, GML has obtained default judgement from the Superior Court in CNMI against HKE. GML is waiting for the legal advice for further conduct of the proceedings in CNMI.

(vi) On 29 July 2016, Magic Red issued a writ of summon to HML to claim the sum of HK$4,200,000 being the principal amount of convertible bonds issued by HML and subscribed by Magic Red. Judgement was issued on 1 February 2017 which HML has to pay Magic Red (a) the sum of HK$4,200,000, and (b) fixed cost in the sum of HK$11,045.

## 44. BUSINESS COMBINATION

### For the year ended 31 December 2015

#### *(a) Acquisition of Watson China*

On 19 May 2015, the Group subscribed for convertible bonds in principal amount of HK$800,000 issued by Watson China, which could be convertible into 800,000 new ordinary shares of Watson China. On 13 August 2015, the Group converted HK$800,000 convertible bonds into 800,000 new ordinary shares of Watson China, represented 88.89% equity interest of Watson China. Upon conversion, Watson China became a subsidiary of the Group. Watson China is engaged in property investment. Watson China was acquired so as to continue the expansion of the Group's properties investment business. The acquisition has been accounted for using the purchase method.

Acquisition-related costs amounting to HK$2,000 have been excluded from the consideration transferred and have been recognised as an expense during the year ended 31 December 2015, within the administrative expenses in the consolidated statement of profit or loss and other comprehensive income.

Assets acquired and liabilities recognised at the date of acquisition are as follows:

| | HK$'000 |
|---|---|
| Investment properties (Note 19) | 7,970 |
| Amount due from former shareholder | 99 |
| Other loan | (6,500) |
| Accrual and other payables | (302) |
| | 1,267 |
| Total consideration satisfied by: | |
| Conversion of HK$800,000 convertible bonds | 800 |

## 44. BUSINESS COMBINATION *(Continued)*

### For the year ended 31 December 2015 *(Continued)*

#### *(a)* ***Acquisition of Watson China*** *(Continued)*

Bargain purchase arising on acquisition:

| | HK$'000 |
|---|---|
| Consideration transferred | 800 |
| Add: non-controlling interest (11.11% in Watson China) | 141 |
| Less: net assets acquired | (1,267) |
| Bargain purchase arising on acquisition | (326) |

Analysis of net cash outflow arising on acquisition of assets through acquisition of Watson China:

| | HK$'000 |
|---|---|
| Cash consideration paid | – |

The non-controlling interests (11.11%) in Watson China recognised at the acquisition date was measured at the proportionate share of net assets acquired.

Included in the loss for the year is approximately HK$786,000 attributable to the additional business generated by Watson China. No revenue for the year ended 31 December 2015 was generated from Watson China.

Had the acquisition been completed on 1 January 2015, total group revenue for the year ended 31 December 2015 would have been approximately HK$10,191,000, and loss for the year ended 31 December 2015 would have been approximately HK$121,977,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2015, nor is it intended to be a projection of future results.

## 44. BUSINESS COMBINATION *(Continued)*

### For the year ended 31 December 2015 *(Continued)*

#### *(b) Acquisition of Deluxe Charm*

On 14 July 2015, Honesty Forever Limited ("Honesty Forever"), an indirectly wholly owned subsidiary of the Company, as a subscriber and Deluxe Charm Limited ("Deluxe Charm"), entered into a share subscription agreement, in which Deluxe Charm allotted and issued 999 new ordinary shares, representing 99.9% of the entire issued share capital of Deluxe Charm, to Honesty Forever at a consideration of USD999. On 12 August 2015, 0.1% of the entire issued share capital of Deluxe Charm held by an independent third party, was transferred to Honesty Forever at USD1. The acquisition has been accounted for using the purchase method.

The acquisition was completed on 12 August 2015. Honesty Forever became the sole legal and beneficial owner of the entire issued share capital of Deluxe Charm. Deluxe Charm is engaged in investment holdings.

Acquisition-related costs amounting to approximately HK$6,000 have been excluded from the consideration transferred and have been recognised as an expense during the year ended 31 December 2015, within the administrative expenses in the consolidated statement of profit or loss and other comprehensive income.

Assets acquired and liabilities recognised at the date of acquisition are as follows:

| | HK$'000 |
|---|---|
| Loan and interest receivable | 16,500 |
| Accrual and other payable | (14,000) |
| | 2,500 |
| Total consideration satisfied by: | |
| Cash | 8 |

## 44. BUSINESS COMBINATION *(Continued)*

### For the year ended 31 December 2015 *(Continued)*

#### *(b)* ***Acquisition of Deluxe Charm*** *(Continued)*

The fair value of loan and interest receivable at the date of acquisition is HK$16,500,000. The gross contractual amounts of the loan and interest receivable acquired amounted to approximately HK$21,886,000 at the date of acquisition. The best estimate at acquisition date of the contractual cash flows not expected to be collected amounted to approximately HK$5,386,000.

Bargain purchase arising on acquisition:

| | HK$'000 |
|---|---|
| Consideration transferred | 8 |
| Less: net assets acquired | (2,500) |
| Bargain purchase arising on acquisition | (2,492) |

Analysis of net cash outflow arising on acquisition of assets through acquisition of Deluxe Charm:

| | HK$'000 |
|---|---|
| Cash consideration paid | 8 |

No revenue and profit for the year ended 31 December 2015 is attributable to the Deluxe Charm.

## 44. BUSINESS COMBINATION *(Continued)*

### For the year ended 31 December 2015 *(Continued)*

#### (b) *Acquisition of Deluxe Charm* *(Continued)*

Had the acquisition been completed on 1 January 2015, total group revenue for the year ended 31 December 2015 would have been approximately HK$10,191,000, and loss for the year ended 31 December 2015 would have been approximately HK$124,326,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2015, nor is it intended to be a projection of future results.

## 45. ACQUISITION OF ASSETS THROUGH ACQUISITION OF A SUBSIDIARY

On 23 November 2016, Rich Best Asia Limited ("Rich Best"), a direct wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with an independent third party pursuant to which Rich Best has acquired 99.99% of issued share capital of Alpaco Company Limited ("Alpaco"), a company incorporated in British Virgin Islands at a consideration of HK$77,992.20. The acquisition was completed on 23 November 2016. On 31 December 2016, Rich Best acquired the remaining 0.01% of issued share capital from an independent third party at a consideration of HK$7.80. Alpaco is principally engaged in the property investment business and is holding an investment property in Hong Kong. The acquisition has been accounted for an acquisition of assets.

## 45. ACQUISITION OF ASSETS THROUGH ACQUISITION OF A SUBSIDIARY

*(Continued)*

Assets acquired and liabilities recognised at the date of acquisition are as follows:

| | HK$'000 |
|---|---|
| Investment property (Note 19) | 11,125 |
| Other receivables and deposits | 3,652 |
| Other borrowings | (10,758) |
| Other payables and accrual | (427) |
| Net assets acquired of | 3,592 |
| Less: Being waive of the former director's current account | (3,575) |
| Being settlement of former director's current account by deduction from the consideration | 61 |
| Total consideration | 78 |

| | HK$'000 |
|---|---|
| Total consideration satisfied by: | |
| Cash | 17 |
| Other payable | 61 |
| | 78 |

Analysis of net cash outflow on acquisition of assets through acquisition of Alpaco:

| | HK$'000 |
|---|---|
| Cash consideration paid | 17 |

## 46. DISPOSAL OF SUBSIDIARIES

### a. Disposal of Tinian Entertainment Co., Limited ("TEC")

On 11 May 2016, the Group entered into a sale and purchase agreement with an independent third party (the "Purchaser") and pursuant to which the Group has agreed to sell to the Purchaser, and the Purchaser has agreed to purchase from the Group, the entire interests of TEC, a wholly-owned subsidiary at a consideration of USD300,000. The disposal was completed on 11 May 2016.

***Consideration transferred***

| | HK$'000 |
|---|---|
| Consideration receivable | **2,340** |

Analysis of assets and liabilities over which control was lost:

| | HK$'000 |
|---|---|
| Net asset of TEC | **–** |
| Gain on disposal of a subsidiary | **2,340** |
| | **2,340** |

## 46. DISPOSAL OF SUBSIDIARIES *(Continued)*

### b. Disposal of Wisdom Team

On 4 January 2016, the Group entered into a sale and purchase agreement with an independent third party, pursuant to which the Group has agreed to sell 51% issued share capital of Wisdom Team at a consideration of USD510 (equivalent to HK$3,978). The disposal was completed on 4 January 2016.

***Consideration transferred***

| | HK$'000 |
|---|---|
| Cash | 4 |

Analysis of assets and liabilities over which control was lost:

| | HK$'000 |
|---|---|
| Amount due to the Group | (1) |
| Gain on deemed disposal of a subsidiary | 5 |
| Total consideration received | 4 |

Net cash inflow arising on the deemed disposal:

| | HK$'000 |
|---|---|
| Cash | 4 |

After the completion of the deemed disposal, the Group owns 49% issued share capital of Wisdom Team and Wisdom Team became as an associate of the Group (Note 20).

## 46. DISPOSAL OF SUBSIDIARIES *(Continued)*

### c. Disposal of China Smart and its subsidiary (collectively referred to as the "China Smart Group")

On 29 May 2015, the Group entered into a sale and purchase agreement with an independent third party (the "Purchaser A") and pursuant to which, (i) the Group has agreed to sell to the Purchaser A, and the Purchaser A has agreed to purchase from the Group, the entire equity interests of China Smart, and (ii) the Group has agreed to assign to the Purchaser A, and the Purchaser A has agreed to accept the assignment of, a sale loan at the consideration in the aggregate sum of HK$93,000,000, which is settled by way of (i) cash of HK$46,500,000, (ii) CEF CBs A with principal amount of HK$23,000,000, and (iii) CEF CBs B with principal amount of HK$23,500,000. The completion of the disposal took place on 20 August 2015.

China Smart is a company of limited liability incorporated in Hong Kong. At the date of the sale and purchase agreement, China Smart is principally engaged in investment holding and is the sole legal and beneficial owner of the entire equity interest in a PRC subsidiary, 深圳市盛世富強科技有限公司(the "PRC Subsidiary"). The PRC Subsidiary is a company of limited liability incorporated in PRC and is principally engaged in properties investment.

***Consideration transferred***

| | HK$'000 |
|---|---|
| Cash | 46,500 |
| CEF CBs A, at fair value (Note 25(a)) | 22,964 |
| CEF CBs B, at fair value (Note 25(a)) | 23,563 |
| | 93,027 |

## 46. DISPOSAL OF SUBSIDIARIES *(Continued)*

### c. Disposal of China Smart and its subsidiary (collectively referred to as the "China Smart Group") *(Continued)*

***Consideration transferred*** *(Continued)*

Analysis of assets and liabilities over which control was lost:

| | HK$'000 |
|---|---|
| Property, plant and equipment | 688 |
| Investment properties (Note 19) | 132,516 |
| Prepayments, deposits and other receivables | 1,079 |
| Bank balances and cash | 701 |
| Accruals and other payables | (9,408) |
| Amount due to the Group | (123,702) |
| Deferred tax liabilities (Note 33) | (24,026) |
| Net liabilities disposed of | (22,152) |
| Cumulative exchange differences in respect of the net liabilities of the China Smart Group reclassified from equity to profit or loss on loss of control of the China Smart Group | (6,100) |
| Waiver of amount due to the Group | 123,702 |
| Loss on disposal of subsidiaries | (2,423) |
| Total consideration received | 93,027 |

## 46. DISPOSAL OF SUBSIDIARIES *(Continued)*

### c. Disposal of China Smart and its subsidiary (collectively referred to as the "China Smart Group") *(Continued)*

***Consideration transferred*** *(Continued)*

Net cash inflow arising on the disposal:

| | HK$'000 |
|---|---|
| Cash consideration | 46,500 |
| Less: Bank balances and cash disposed of | (701) |
| | 45,799 |

### d. Disposal of Chinese Travel Agency Limited ("Chinese Travel")

On 25 September 2015, the Group entered into a sale and purchase agreement with an independent third party (the "Purchaser B") and pursuant to which, (i) the Group has agreed to sell to the Purchaser B, and the Purchaser B has agreed to purchase from the Group, the entire equity interests of Chinese Travel, a wholly-owned subsidiary, and (ii) the Group has agreed to assign to the Purchaser B, and the Purchaser B has agreed to accept the assignment of, a shareholder loan at the consideration in the aggregate sum of HK$800,001 in cash. The completion of the disposal took place on 30 September 2015. Chinese Travel is inactive during the year ended 31 December 2015.

***Consideration transferred***

| | HK$'000 |
|---|---|
| Cash | 800 |

## 46. DISPOSAL OF SUBSIDIARIES *(Continued)*

### d. Disposal of Chinese Travel Agency Limited ("Chinese Travel") *(Continued)*

***Consideration transferred*** *(Continued)*

Analysis of assets and liabilities over which control was lost:

| | HK$'000 |
|---|---|
| Prepayments, deposits and other receivables | 805 |
| Bank balances and cash | 4 |
| Amount due to the Group | (1,817) |
| Net liabilities disposed of | (1,008) |
| Waiver of amount due to the Group | 1,817 |
| Loss on disposal of a subsidiary | (9) |
| Total consideration received | 800 |

Net cash inflow arising on the disposal:

| | HK$'000 |
|---|---|
| Cash consideration | 800 |
| Less: Bank balances and cash disposed of | (4) |
| | 796 |

## 47. PLEDGE OF ASSETS

As at 31 December 2016, loan receivables, investment properties and certain investments held for trading with an aggregate carrying value of approximately HK$193,455,000 (31 December 2015: approximately HK$309,117,000) have been pledged to banks and other financial institutions to secure the credit facilities granted to the Group.

## 48. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

| | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|
| Non-current assets | | |
| Unlisted investments in subsidiaries (Note a) | **31** | 23 |
| Current assets | | |
| Prepayments, deposits and other receivables | **838** | 1,005 |
| Amounts due from subsidiaries (Note a) | **513,695** | 451,522 |
| Amount due from an associate (Note b) | **10,034** | – |
| Bank balances and cash | **23,958** | 43,407 |
| | **548,525** | 495,934 |
| Current liabilities | | |
| Other payables and accruals | **16,549** | 4,733 |
| Amounts due to subsidiaries (Note a) | **98,401** | 40,569 |
| Borrowings | **54,686** | 16,347 |
| Derivative financial liabilities | **–** | 8,125 |
| Convertible loan notes | **–** | 52,895 |
| | **169,636** | 122,669 |
| Net current assets | **378,889** | 373,265 |
| Total assets less current liabilities | **378,920** | 373,288 |
| Non-current liability | | |
| Bond payables | **50,000** | 50,000 |
| Net assets | **328,920** | 323,288 |
| Capital and reserves | | |
| Share capital | **1,149** | 982 |
| Reserves (Note c) | **327,771** | 322,306 |
| Total equity | **328,920** | 323,288 |

The Company's statement of financial position was approved and authorized for issue by the board of directors on 17 March 2017 and are signed on its behalf by:

**Lam Kwok Hing Wilfred**
*Director*

**Chan Shui Sheung Ivy**
*Director*

## 48. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Notes:

a. Investments in subsidiaries/amounts due from (to) subsidiaries

| | **2016** **HK$'000** | 2015 HK$'000 |
|---|---|---|
| Investment at cost | | |
| Unlisted shares | **31** | 23 |
| Amounts due from subsidiaries | | |
| Interest bearing at 3.5% per annum (2015: 3.5%) | **–** | 96,643 |
| Non-interest bearing | **3,068,487** | 2,909,671 |
| | **3,068,487** | 3,006,314 |
| Less: accumulated impairment loss recognised | **(2,554,792)** | (2,554,792) |
| | **513,695** | 451,522 |
| Amounts due to subsidiaries | | |
| Non-interest bearing | **98,401** | 40,569 |

The amounts due from (to) subsidiaries and an associate are unsecured and repayable on demand.

b. Amount due from an associate

| | **2016** **HK$'000** | 2015 HK$'000 |
|---|---|---|
| Amount due from an associate | | |
| Non-interest bearing | **10,034** | – |

The amounts due from an associate is unsecured and repayable on demand.

## 48. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Notes: *(Continued)*

c. Movements of reserves during the years are as follows:

| | Share Premium | Contributed surplus | Share options reserve | Warrant reserve | Convertible loan notes reserve | Accumulated losses | Total |
|---|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| At 1 January 2015 | 2,901,300 | 16,500 | 3,590 | 1,350 | – | (2,665,961) | 256,779 |
| Loss for the year | – | – | – | – | – | (77,391) | (77,391) |
| Issue of convertible loan notes (Note 35) | – | – | – | – | 4,630 | – | 4,630 |
| Transaction cost of attributable to issue of convertible loan notes (Note 35) | – | – | – | – | (139) | – | (139) |
| Conversion of convertible loan notes (Note 35) | 18,743 | – | – | – | (1,123) | – | 17,620 |
| Exercise of warrants (Note 34) | 28,132 | – | – | (1,346) | – | – | 26,786 |
| Cancellation of warrants upon expiration (Note 34) | – | – | – | (4) | – | 4 | – |
| Issue of shares (Note 37) | 96,782 | – | – | – | – | – | 96,782 |
| Placing expenses | (2,761) | – | – | – | – | – | (2,761) |
| At 31 December 2015 | 3,042,196 | 16,500 | 3,590 | – | 3,368 | (2,743,348) | 322,306 |
| Loss for the year | – | – | – | – | – | (51,416) | (51,416) |
| Exercise of share option (Note 38) | 2,810 | – | (977) | – | – | – | 1,833 |
| Issuance of shares upon placing (Note 37) | 35,850 | – | – | – | – | – | 35,850 |
| Transaction cost attributable to issue of shares upon placing | (1,020) | – | – | – | – | – | (1,020) |
| Settle other payables upon issue of shares (Note 35) | 7,694 | – | – | – | – | – | 7,694 |
| Early redemption of convertible loan notes (Note 35) | – | – | – | – | (3,368) | 3,368 | – |
| Recognition of equity-settled share-based payments (Note 38) | – | – | 12,524 | – | – | – | 12,524 |
| **At 31 December 2016** | **3,087,530** | **16,500** | **15,137** | **–** | **–** | **(2,791,396)** | **327,771** |

## 49. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the principal subsidiaries of the Group as at 31 December 2016 and 2015 are as follows:

| Name | Place of incorporation/ operations | Class of shares held | Issued and fully paid share capital | Proportion of ownership interest held by the Company | | | | Proportion of voting power held by the Company | | | | Principal activities |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Directly | | Indirectly | | Directly | | Indirectly | | |
| | | | | 2016 % | 2015 % | 2016 % | 2015 % | 2016 % | 2015 % | 2016 % | 2015 % | |
| Alpaco Company Limited (Note c) | British Virgin Islands ("BVI") | Ordinary | USD10,000 | – | – | 100% | N/A | – | – | 100% | N/A | Holding of investment properties |
| Asia Pacific Resort and Entertainment Limited | BVI | Ordinary | USD1,000 | – | – | 100% | 100% | – | – | 100% | 100% | Project development |
| Asiaciti Management Limited | Hong Kong | Ordinary | HK$100 | – | – | 100% | 100% | – | – | 100% | 100% | Investment holdings |
| Best Core Investment Limited | BVI | Ordinary | USD1,000 | – | – | 100% | 100% | – | – | 100% | 100% | Holding of investment properties |
| Bright Amazing Limited (Note b(i)) | BVI | Ordinary | USD1,000 | – | – | 100% | 100% | – | – | 100% | 100% | Provision of financing services |
| Charm State International Limited | Hong Kong | Ordinary | HK$1 | – | – | 100% | 100% | – | – | 100% | 100% | Office administration |
| Chinese Travel (Holdings) Limited | BVI | Ordinary | USD1,000 | – | – | 100% | 100% | – | – | 100% | 100% | Investment holdings |
| Deluxe Charm Limited (Note a) | BVI | Ordinary | USD1,000 | – | – | 100% | 100% | – | – | 100% | 100% | Investment holdings |
| Dragon Billion Limited | Hong Kong | Ordinary | HK$1 | 100% | 100% | – | – | 100% | 100% | – | – | Investment holdings |

## 49. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Details of the principal subsidiaries of the Group as at 31 December 2016 and 2015 are as follows: *(Continued)*

| Name | Place of incorporation/ operations | Class of shares held | Issued and fully paid share capital | Proportion of ownership interest held by the Company | | | | Proportion of voting power held by the Company | | | | Principal activities |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Directly | | Indirectly | | Directly | | Indirectly | | |
| | | | | 2016 % | 2015 % | 2016 % | 2015 % | 2016 % | 2015 % | 2016 % | 2015 % | |
| Ease Power Investment Limited | Hong Kong | Ordinary | HK$1 | – | – | 100% | 100% | – | – | 100% | 100% | Office administration |
| Easy Champ Corporation Limited | Hong Kong | Ordinary | HK$1 | – | – | 100% | 100% | – | – | 100% | 100% | Office administration |
| Excel Return Enterprises Limited | BVI | Ordinary | USD1 | – | – | 100% | 100% | – | – | 100% | 100% | Trading of securities |
| Fameway Finance Limited | Hong Kong | Ordinary | HK$1 | – | – | 100% | 100% | – | – | 100% | 100% | Provision of financing services |
| First Champion Worldwide Limited | BVI | Ordinary | USD1,000 | – | – | 100% | 100% | – | – | 100% | 100% | Trading of securities |
| Forever Success International Limited | Hong Kong | Ordinary | HK$1 | – | – | 100% | 100% | – | – | 100% | 100% | Office administration |
| Gain Millennia Limited | BVI | Ordinary | USD1,000 | – | – | 100% | 100% | – | – | 100% | 100% | Investment holdings |
| Gold Wide Holdings Limited | Hong Kong | Ordinary | HK$160,000 | – | – | 75% | 75% | – | – | 75% | 75% | Investment holdings |
| Host Luck Limited | Hong Kong | Ordinary | HK$10,000 | – | – | 99.9% | 99.9% | – | – | 99.9% | 99.9% | Holding of investment properties |

## 49. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Details of the principal subsidiaries of the Group as at 31 December 2016 and 2015 are as follows: *(Continued)*

| Name | Place of incorporation/ operations | Class of shares held | Issued and fully paid share capital | Proportion of ownership interest held by the Company | | | | Proportion of voting power held by the Company | | | | Principal activities |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Directly | | Indirectly | | Directly | | Indirectly | | |
| | | | | 2016 % | 2015 % | 2016 % | 2015 % | 2016 % | 2015 % | 2016 % | 2015 % | |
| Kenbo Trading Company Limited | Hong Kong | Ordinary | HK$10,000 | – | – | 100% | 100% | – | – | 100% | 100% | Holding of investment properties |
| Luck Bloom International Limited | Hong Kong | Ordinary | HK$1 | – | – | 100% | 100% | – | – | 100% | 100% | Office administration |
| Magic Red Limited (Note b(i)) | BVI | Ordinary | USD1 | – | – | 100% | 100% | – | – | 100% | 100% | Investment holdings |
| Master Premium Limited | BVI | Ordinary | USD1,000 | – | – | 100% | 100% | – | – | 100% | 100% | Investment holdings |
| Much Million Limited | BVI | Ordinary | USD1,000 | – | – | 100% | 100% | – | – | 100% | 100% | Fund investment |
| Rich Best Asia Limited | BVI | Ordinary | USD1,000 | 100% | 100% | – | – | 100% | 100% | – | – | Investment holdings |
| Richmax Corporation Limited | Hong Kong | Ordinary | HK$1 | – | – | 100% | 100% | – | – | 100% | 100% | Office administration |
| Right Magic Limited | BVI | Ordinary | USD1,000 | – | – | 100% | 100% | – | – | 100% | 100% | Trading of securities |
| Sina Winner Investment Limited | BVI | Ordinary | USD1,000 | – | – | 100% | 100% | – | – | 100% | 100% | Trading of securities |

## 49. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Details of the principal subsidiaries of the Group as at 31 December 2016 and 2015 are as follows: *(Continued)*

| Name | Place of incorporation/ operations | Class of shares held | Issued and fully paid share capital | Proportion of ownership interest held by the Company | | | | Proportion of voting power held by the Company | | | | Principal activities |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Directly | | Indirectly | | Directly | | Indirectly | | |
| | | | | 2016 % | 2015 % | 2016 % | 2015 % | 2016 % | 2015 % | 2016 % | 2015 % | |
| Sino Apex International Limited | BVI | Ordinary | USD1,000 | – | – | 100% | 100% | – | – | 100% | 100% | Investment holdings |
| Sun Famous Investment Limited | Hong Kong | Ordinary | HK$1,000 | – | – | 100% | 100% | – | – | 100% | 100% | Holding of investment properties |
| Sure Venture Investment Limited | BVI | Ordinary | USD1,000 | – | – | 100% | 100% | – | – | 100% | 100% | Trading of securities |
| Tinian Entertainment Co. Ltd. (Note d) | CNMI | Ordinary | USD1,000 | – | – | – | 100% | – | – | – | 100% | Project development |
| Tinian Realty International Co. | CNMI | Common Stock | USD1 | – | – | 100% | 100% | – | – | 100% | 100% | Investment holdings |
| Top Galaxy (Asia) Limited | Hong Kong | Ordinary | HK$1 | – | – | 100% | 100% | – | – | 100% | 100% | Office administration |
| Top Status International Limited | BVI | Ordinary | USD1 | – | – | 100% | 100% | – | – | 100% | 100% | Trading of securities |
| Victory Time Global Limited (Note b(ii)) | BVI | Ordinary | USD1 | – | – | 100% | – | – | – | 100% | – | Trading of securities |
| Watson China Limited (Note a) | Hong Kong | Ordinary | HK$900,000 | – | – | 88.89% | 88.89% | – | – | 88.89% | 88.89% | Holding of investment properties |
| Winner Performance Limited | BVI | Ordinary | USD1,000 | – | – | 100% | 100% | – | – | 100% | 100% | Trading of securities |

## 49. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

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. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

None of the subsidiaries had any debt securities at the end of both years or at any time during both years.

Notes:

(a) Watson China and Deluxe Charm were acquired during the year ended 31 December 2015. Details are disclosed in Note 44 to the consolidated financial statements.

(b) (i) It was newly incorporated during the year ended 31 December 2015.

(ii) It was newly incorporated during the year ended 31 December 2016.

(c) On 23 November 2016, the Group completed the acquisition of Alpaco Company Limited. Details are disclosed in Note 45 to the consolidated financial statements.

(d) Tinian Entertainment Co. Ltd. was disposed during the year ended 31 December 2016. Details are disclosed in Note 46(a) to the consolidated financial statements.

At the end of the reporting period, the Company has other subsidiaries that are not material to the Group.

## 49. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

These subsidiaries operate in different countries. The principal activities of these subsidiaries are inactive and summarised as follows:

| Principal activity | Principal place of business | Number of subsidiaries | |
|---|---|---|---|
| | | **2016** | 2015 |
| Inactive | BVI | **39** | 26 |
| | Hong Kong | **17** | 4 |
| | PRC | **1** | 1 |
| | Macau | **1** | 1 |
| | CNMI | **2** | 1 |
| | | **60** | 33 |

### Details of non-wholly owned subsidiaries that have material non-controlling interests

The table below shows details of non-wholly-owned subsidiaries of the Group that have material non-controlling interests:

| Name | Place of incorporation and principal place of business | Proportion of ownership interests and voting rights held by non-controlling interests | | Profit (loss) allocated to non-controlling interests | | Accumulated non-controlling interests | |
|---|---|---|---|---|---|---|---|
| | | **2016** | 2015 | **2016 HK$'000** | 2015 HK$'000 | **2016 HK$'000** | 2015 HK$'000 |
| Gold Wide Holdings Limited | Hong Kong | **25.00%** | 25.00% | **2,098** | 2,066 | **30,258** | 28,160 |
| Watson China Limited | Hong Kong | **11.11%** | 11.11% | **(84)** | (88) | **(31)** | 53 |
| Individually immaterial subsidiaries with non-controlling interests | | | | **–** | – | **6** | 6 |
| | | | | **2,014** | 1,978 | **30,233** | 28,219 |

Summarised financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

## 49. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

### Gold Wide Holdings Limited

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Current assets | **85** | 115 |
| Non-current assets | **173,444** | 165,057 |
| Current liabilities | **(315)** | (325) |
| Equity attributable to owners of the Company | **142,956** | 136,687 |
| Non-controlling interests | **30,258** | 28,160 |

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Revenue | **8,388** | 8,317 |
| Expenses | **(21)** | (5,809) |
| Profit attributable to owners of the Company | **6,269** | 1,881 |
| Profit attributable to non-controlling interests | **2,098** | 627 |
| Profit for the year | **8,367** | 2,508 |
| Other comprehensive expense attributable to owners of the Company | **–** | (4,317) |
| Other comprehensive expense attributable to non-controlling interests | **–** | (1,439) |
| Other comprehensive expense for the year | **–** | (5,756) |
| Total comprehensive income (expense) for the year | **8,367** | (3,248) |

## 49. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

### Gold Wide Holdings Limited *(Continued)*

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Total comprehensive income (expense) attributable to owners of the Company | 6,275 | (2,436) |
| Total comprehensive income (expense) attributable to non-controlling interests | 2,092 | (812) |
| Total comprehensive income (expense) for the year | 8,367 | (3,248) |
| Dividends paid to non-controlling interests | – | – |
| Net cash outflow from operating activities | (30) | (50) |
| Net cash outflow from investing activities | – | – |
| Net cash outflow from financing activities | – | – |
| Net cash outflow | (30) | (50) |

### Watson China Limited

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Current assets | 99 | 99 |
| Non-current assets | 8,000 | 7,600 |
| Current liabilities | (8,372) | (7,218) |
| Equity attributable to owners of the Company | (242) | 428 |
| Non-controlling interests | (31) | 53 |

## 49. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

### Watson China Limited *(Continued)*

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Revenue | **400** | – |
| Expenses | **(1,154)** | (786) |
| Loss attributable to owners of the Company | **(670)** | (698) |
| Loss attributable to non-controlling interests | **(84)** | (88) |
| Loss for the year | **(754)** | (786) |
| Other comprehensive expense attributable to owners of the Company | **–** | – |
| Other comprehensive expense attributable to non-controlling interests | **–** | – |
| Other comprehensive expense for the year | **–** | – |
| Total comprehensive expense for the year | **(754)** | (786) |

## 49. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

### Watson China Limited *(Continued)*

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Total comprehensive expense attributable to owners of the Company | **(670)** | (698) |
| Total comprehensive expense attributable to non-controlling interests | **(84)** | (88) |
| Total comprehensive expense for the year | **(754)** | (786) |
| Dividends paid to non-controlling interests | **–** | – |
| Net cash inflow (outflow) from operating activities | **–** | – |
| Net cash inflow (outflow) from investing activities | **–** | – |
| Net cash inflow (outflow) from financing activities | **–** | – |
| Net cash inflow (outflow) | **–** | – |

## 50. EVENTS AFTER THE REPORTING PERIOD

Save as disclosed elsewhere in the consolidated financial statements, the Group had the following events after the reporting period.

### Extension loan agreement with Mr. Chen and EverCare

On 11 January 2017, the Company entered into a deed of addendum with Mr. Chen and EverCare to extend the term of the loan agreement dated 16 June 2016 to revise repayment arrangement. Further, on 1 March 2017, the Company and EverCare entered into a revised loan agreement that the outstanding principle up to 28 February 2017 in the total sum of approximately HK$44,197,000 shall be extended for 18 months commencing from 1 March 2017 at fixed rate of 1.25% per month. Details of the unsecured borrowing are set out in Note 35(b) to the consolidated financial statements.

### Redemption of available-for-sale financial assets

As at 31 December 2016, included in available-for-sale financial asset was an unlisted investment funds with fair value of approximately HK$39,790,000, which have been fully redeemed on 17 February 2017.

# FIVE-YEAR FINANCIAL SUMMARY

## RESULTS

| | For the year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2016** | 2015 | 2014 | 2013 | 2012 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Revenue | **8,738** | 10,191 | 8,430 | 10,755 | 14,616 |
| Cost of sales | **(271)** | (346) | (256) | (226) | (135) |
| Gross profit | **8,467** | 9,845 | 8,174 | 10,529 | 14,481 |
| Other income and gains | **16,090** | 3,702 | 2,335 | 2,281 | 6,378 |
| Administrative expenses | **(103,302)** | (88,925) | (85,975) | (46,443) | (47,719) |
| Fair value changes in investment properties | **5,215** | (400) | 7,400 | 2,700 | (107) |
| Change in fair values of investments held for trading | **(9,177)** | (63,794) | 3,313 | (13,423) | 7,255 |
| Gain (loss) on disposals of investments held for trading | **(69,431)** | 34,466 | (19,012) | 20,284 | 85 |
| (Loss) gain on disposal of convertible instruments designated at financial assets at fair value through profit or loss | **–** | – | – | – | (18,934) |

# FIVE-YEAR FINANCIAL SUMMARY

## RESULTS *(Continued)*

| | For the year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2016** | 2015 | 2014 | 2013 | 2012 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Changes in fair values of convertible instruments designated at financial assets at fair value through profit or loss | **(6,229)** | 308 | 101,110 | 10,020 | 4,742 |
| Change in fair values of derivative financial assets/liabilities | **–** | (4,525) | (3,870) | 2,299 | (3,217) |
| Gain arising from derecognition of derivative financial liabilities | **8,125** | 3,156 | – | 4,567 | – |
| Impairment loss on interest in associate | **–** | – | – | – | (1,475) |
| Impairment loss on other receivables | **(169,517)** | – | (9,268) | (11,238) | (29,544) |
| Impairment loss on loan and interest receivables | **(5,227)** | – | – | – | – |
| Reversal of impairment loss recognised in respect of loan and interest receivables | **–** | – | 25,658 | 2,015 | – |
| Loss on settlement of other payables | **(1,063)** | – | – | – | – |
| Gain (loss) on disposal of subsidiaries | **2,340** | (2,432) | – | – | 2,749 |
| Gain on disposal of available-for-sale financial assets | **–** | – | 1,892 | – | – |
| Gain (loss) on deemed disposal of subsidiaries/partial interest in an associate | **5** | – | 36,862 | (8,453) | – |
| Loss on deregistration of a subsidiary | **–** | (1,042) | – | – | – |
| Loss on early redemption of convertible loan notes | **(1,315)** | – | – | – | – |
| Gain on bargain purchase | **–** | 2,818 | – | – | – |
| Share of gains (losses) of an associate | **14** | (218) | – | – | – |
| Share of profit of a joint venture | **11,323** | 11,229 | 16,185 | 6,528 | 12,706 |
| Finance costs | **(35,019)** | (26,047) | (24,656) | (1,309) | (2,664) |

## RESULTS *(Continued)*

| | For the year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2016** | 2015 | 2014 | 2013 | 2012 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| (Loss) profit before tax | **(348,701)** | (121,859) | 60,148 | (19,643) | (55,264) |
| Income tax credit (expense) | **(213)** | (2,467) | (3,913) | (1,561) | 646 |
| Profit/(loss) for the year from discontinued operations | **–** | – | – | – | 464 |
| (Loss) profit for the year | **(348,914)** | (124,326) | 56,235 | (21,204) | (54,154) |
| Attributable to: | | | | | |
| Owners of the Company | **(350,928)** | (126,304) | 55,542 | (22,415) | (56,512) |
| Non-controlling interests | **2,014** | 1,978 | 693 | 1,211 | 2,358 |
| | **(348,914)** | (124,326) | 56,235 | (21,204) | (54,154) |

## ASSETS AND LIABILITIES

| | For the year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2016** | 2015 | 2014 | 2013 | 2012 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Total non-current assets | **368,116** | 380,378 | 462,677 | 453,077 | 431,826 |
| Total current assets | **431,729** | 792,710 | 599,664 | 431,819 | 451,286 |
| Total current liabilities | **191,649** | 264,269 | 174,286 | 61,733 | 57,177 |
| Total non-current liabilities | **52,334** | 51,973 | 35,788 | 32,525 | 31,536 |
| Equity attributable to owners of the Company | **525,629** | 828,627 | 827,012 | 765,951 | 771,718 |
| Non-controlling interest | **30,233** | 28,219 | 25,255 | 24,687 | 22,681 |

# SUMMARY OF INVESTMENT PROPERTIES

| Address | Lot number | Tenure | Existing use |
|---|---|---|---|
| **Hong Kong** | | | |
| Flat A on 12th Floor with Car Parking Space No. 11 on 2nd Basement Floor, The Colonnade, No. 152 Tai Hang Road, Hong Kong | 174/10359th shares of and section A Inland Lot No. 2478 | Medium-term lease | Residential and residential car parking |