CHINA FORTUNE INVESTMENTS
中國幸福投資

Annual Report 2016

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

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

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

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

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

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

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CORPORATE PROFILE

DIRECTORS

Executive Directors

Mr. Pan Xiaodong *(Chairman)*
(Appointed on 20 May 2016)
Mr. Cheng Chun Tak
Mr. Stephen William Frostick
Mr. Zhang Jie
Mr. Chang Chun
Mr. Xue Huixuan
Mr. Wan Zihong (Resigned on 17 August 2016)
Mr. He Ling (Resigned on 24 June 2016)

Non-executive Director

Mr. Huang Shenglan

Independent Non-executive Directors

Mr. Lee Chi Hwa, Joshua
Mr. Xu Jingan
Mr. Chang Jun
Ms. Ching Wai Han

AUTHORISED REPRESENTATIVES

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

AUDIT COMMITTEE MEMBERS

Mr. Lee Chi Hwa, Joshua *(Chairman)*
Mr. Xu Jingan
Mr. Chang Jun

NOMINATION COMMITTEE MEMBERS

Mr. Chang Jun *(Chairman)*
Mr. Xu Jingan
Mr. Lee Chi Hwa, Joshua

REMUNERATION COMMITTEE MEMBERS

Mr. Lee Chi Hwa, Joshua *(Chairman)*
Mr. Chang Jun
Mr. Xu Jingan

COMPLIANCE OFFICER

Mr. Stephen William Frostick

COMPANY SECRETARY

Mr. Chow Kin Wing *CPA, ACS, ACIS*

AUDITORS

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

PRINCIPAL BANKER

Dah Sing Bank, Limited
Standard Chartered Bank (HK) Limited
Bank of China (Hong Kong) Limited

LEGAL ADVISORS

On Hong Kong Law:

Tang Tso & Lau Solicitors

On Cayman Islands Law:

Conyers Dill & Pearman, Cayman

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS

Units 2601 & 2613, 26/F,
China Merchants Tower,
Shun Tak Centre,
168-200 Connaught Road Central,
Hong Kong

SHARE REGISTRARS AND TRANSFER OFFICE

Cayman Islands

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

Hong Kong

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

STOCK CODE

8116

WEBSITE OF THE COMPANY

www.cfihk.com.hk

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors, I am pleased to present the Group's results for the year ended 31 December 2016.

In 2016, through the completion of acquiring Maxpark Enterprises Limited ("Maxpark"), the Group has formally entered into the market of (i) retail sales and wholesales of wine products, cigars and tobacco; and (ii) retail and trading of golf products operated by its subsidiaries, namely Queensway Wine International Limited, Queensway Wine (Hong Kong) Limited, Queensway Golf International Limited, Mass Fortune (Asia) Limited and Kasco (HK) Limited. Despite the market competition was keen during the year, Maxpark still managed to grow our revenue in 2016, I look forward the Group will continue to grow in 2017.

Due to the downward trend on the jewellery business in recent years, the Board of Directors expected the operating environment of the jewellery industry will become more competitive in the future and significant business turnaround of this business is not expected to happen in the near future. Therefore, on 30 December 2016, the Group had completed the disposal of the diamonds and gemstone business in China. The Board of Directors are in the view that the disposal is in the interest of the Group and the Shareholders as a whole.

Looking forward, I will continue to endeavor for the sustainable result growth of the Group in the Industry. On the other hand, the Board of Directors will continue to explore any other new potential investment opportunities to improve the Group's standard performance and returns to the shareholders.

I believe that by leveraging on our high-quality business model and relying on highly innovative and boldly facing challenges management team, and along with the various core advantages, The Group will certainly be able to achieve better development in the future.

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

Pan Xiaodong
Chairman

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

Wine, Cigar and golf products retail and trading business in Hong Kong

On 28 October 2015, the Group agreed to acquire all of the issued share capital of Maxpark Enterprises Limited ("Maxpark") and its subsidiaries (collectively "Maxpark Group") from the Vendors at the consideration of HK$250,000,000 (the "Acquisition"). It engages in the retail and trading business of wine, cigar and golf products through 5 direct subsidiaries all of which are incorporated in Hong Kong, namely Queensway Wine International Limited, Queensway Wine (Hong Kong) Limited, Queensway Golf International Limited, Mass Fortune (Asia) Limited and Kasco (Hong Kong) Limited ("HK Subsidiaries"). Kasco (Hong Kong) Limited is a direct subsidiary of Maxpark and held as to 90.5% by Maxpark and 9.5% by an Independent Third Party. The Acquisition was smoothly completed on 25 January 2016. Accordingly, the Directors consider that the Acquisition represents an attractive opportunity of the Group to tap into business of retail and trading of wine, cigar and golf products in Hong Kong with growth potential and to generate diversified income and additional cashflow through Maxpark Group.

Wine and cigar business

I. Products

Maxpark Group sells a wide variety of wine products including red wine, white wine, champagne, whisky and other liquors and spirits, with particular focus on premium red wine produced from the leading wineries in France, namely Château Lafite Rothschild in Pauillac, Château Latour in Pauillac, Château Margaux in Margaux, Château Haut-Brion in Pessac-Léognan and Château Mouton Rothschild in Pauillac. The origin of the wine are mainly from France, the United States and Italy. Marpark Group also sells cigar and tobacco which are considered to be complementary to the needs of the customers for the wine products.

II. Suppliers

Maxpark Group sources its wine products from both overseas and local wine distributors and merchants. Overseas suppliers include wine distributors and merchants for leading wineries in France, United Kingdom, United States, Italy, Chile and Australia. Maxpark Group obtains its supplies for cigar and tobacco products from local distributors.

III. Customers

The customers for Maxpark Group's wine products include corporations engaging in entertainment, travel, restaurants and luxury products businesses and high net-worth individuals.

IV. Storage

Maxpark Group's wine inventory are stored either at its retail shop or at external warehouses which are equipped with automatic air-conditioning system to control the humidity and temperature of the storage environment.

MANAGEMENT DISCUSSION AND ANALYSIS

Golf business

I. Products

Maxpark Group sells a wide range of golf related products including golf club, ball, shoes, glove, clothing and other accessories of various reputable brands from different countries.

II. Suppliers

Maxpark Group mainly sources its golf products from local distributors with the exception of "Kasco" brand products which are sourced directly from Kasco's Japan and Taiwan office. Maxpark Group is the sole distributor in Hong Kong of "Kasco" brand golf products. "Kasco" is a well-known Japanese golf brand with over 50 years' history. Maxpark Group will also source products from overseas suppliers according to customers' needs.

III. Customers

The customers for Maxpark Group's golf products include individual retail customers, local corporate customers such as banks and large corporations. Wholesale customers are mainly local golf clubs and golf retail shops.

Wine, Cigar & Golf products retail stores

Maxpark Group currently operates one shop for retail of wine products, cigar and tobacco and one shop for retail of golf products. The two shops are leased properties located next to each other at Shun Tak Centre, Sheung Wan, Hong Kong and occupy a total gross floor area of approximately 4,100 square feet.

Diamonds and gemstone business in China

The Chinese economy continuously slowed down in 2016 due to the continued anti-corruption and austerity drive, which seriously affected high-ticket spending. In addition, Chinese consumers are exhibiting an increasingly sophisticated taste in all major categories including luxury goods, as a result of a general increase in education level and an ease of information access. Those factors have caused overall slackening in consumption and the luxury sector was particularly adversely affected.

On 19 August 2016, Ample Rich Capital Limited (a direct wholly-owned subsidiary of the Company) (the "Vendor") and Equal Link Investments Limited (the "Purchaser") entered into the conditional sale and purchase agreement, pursuant to which the Purchaser has conditionally agreed to acquire the entire issued share capital of Million Zone Holdings Limited (a company which is owned as to 100% by the Vendor and an indirect wholly-owned subsidiary of the Company) and its subsidiaries (collectively "Target Group") and procure the Company to assign the total amount of the unsecured and non-interest bearing loan-owing by the Target Group to the Company at the consideration of HK$240,000,000. The Disposal was smoothly completed on 30 December 2016.

Group and other business

Apart from the acquisition of wine, cigar & golf products retail and trading business in Hong Kong and the disposal of diamonds and gemstone business in China as set out in the Business Review and Outlook, the Group had no other significant acquisition or disposal of investments for the year ended 31 December 2016.

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

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue and gross profit

For the year ended 31 December 2016, the consolidated revenue of the Group from continuing operations was approximately HK$180 million and HK$Nil (re-presented) in 2015. Gross profit for the continuing operations in 2016 is approximately HK$56 million (2015: HK$Nil (re-presented)) and gross profit margin of approximately 31%.

The entire revenue HK$180 million is from the retail and wholesales of wine, cigar and golf products.

Other revenues

The other revenues from continuing operations was approximately HK$449,000 for the year ended 31 December 2016.

Selling and distribution expenses

Selling and distribution expenses from continuing operations was approximately HK$5.4 million for the year ended 31 December 2016. Selling and distribution expenses mainly included rental expenses, salaries and wages and building management fees.

Administrative expenses

Administrative expenses from continuing operations was approximately HK$27 million for the year ended 31 December 2016. Administrative expenses mainly included consultancy fees, rental expenses, legal and professional fees and salaries and wages.

Finance costs

Finance costs from continuing operations increased from approximately HK$10 million for the year ended 31 December 2015 to approximately HK$38 million for the year ended 31 December 2016. The finance costs were mainly consisted of imputed interest on convertible bonds and interest on bank borrowings. The increase of finance costs was mainly attributed to the increase in imputed interests on convertible bonds resulting from the issue of convertible bonds in 2016.

Results of the Group's operations

Loss attributable to shareholders of the Company significantly decreased from approximately HK$425 million for the year ended 31 December 2015 to approximately HK$114 million for the year ended 31 December 2016. The loss was mainly attributable to the loss from discontinued operation.

Dividends

The directors do not recommend the payment of a dividend for the year ended 31 December 2016 (2015: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

The cash and cash equivalents as at 31 December 2015 and 2016 amounted to approximately HK$9.3 million and HK$195.5 million respectively. The major capital resources of the Group included cash generated from operating activities and the proceeds raised by the Group in Hong Kong.

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

GEARING RATIO

As at 31 December 2016, the Group's gearing ratio (total liabilities by total assets) is 61% (31 December 2015: 61%). It is anticipated that the Group should have adequate financial resources to meet its ongoing operating and development requirements.

CAPITAL STRUCTURE

In January 2014, the Group issued convertible bonds with principal amount of HK$312 million (the "CB II"). For the CB II, approximately HK$257.40 million was converted in previous years. As at 31 December 2016, principal amount of HK$54.60 million CB II was outstanding.

In June 2015, the Group issued convertible bonds with principal amount of HK$120 million (the "CB III") to raise funds for the future business developments of the Group. The CB III do not bear any interest. The effective interest rate of liability is 12.87%. The maturity dates is on the second anniversary of the date of issue of the CB III. The CB III was fully redeemed by the Group on 30 December 2016.

In January 2016, the Group issued convertible bonds with principal amount of HK$100 million (the "CB IV") as consideration to acquire 100% equity interest in Maxpark. The CB IV do not bear any interest. The effective interest rate of liability is 19.97%. The maturity dates is on the fifth anniversary of the date of issue of the CB IV. The CB IV has not been converted during the year.

Convertible bonds in the original principal amount of HK$25 million (the "CB V") issued by the Group in January 2016 was fully redeemed during the year.

In May 2016, the Group issued convertible bonds with principal amount of HK$10 million (the "CB VI") for the Group's general working capital and repayment of other debts. The CB VI do not bear any interest. The effective interest rate of liability is 20.66%. The maturity dates is on the second anniversary of the date of issue of the CB VI. The CB VI has not been converted during the year.

In July 2016, the Group issued convertible bonds with principal amount of HK$90 million (the "CB VII") to raise funds for the Group's general working capital and repayment of other debts and payable. The CB VII do not bear any interest. The effective interest rate of liability is 20.24%. The maturity dates is on the second anniversary of the date of issue of the CB VII. The CB VII has not been converted during the year.

In August 2016, the Group issued convertible bonds with principal amount of HK$25 million (the "CB VIII") to raise funds for the repayment of convertible bonds. The CB VIII do not bear any interest. The effective interest rate of liability is 15.61%. The maturity dates is on the first anniversary of the date of issue of the CB VIII. The CB VIII has not been converted during the year.

In September 2016, the Group issued convertible bonds with principal amount of HK$35 million (the "CB IX") to raise funds for the Group's general working capital and purchasing inventory. The CB IX do not bear any interest. The effective interest rate of liability is 19.45%. The maturity dates is on the first anniversary of the date of issue of the CB IX. The CB IX has not been converted during the year.

For details, please refer to note 26 to the consolidated financial statements.

CHARGE ON GROUP ASSETS

As at 31 December 2016, no asset was charged or pledged to secure any loans or borrowings.

FOREIGN EXCHANGE EXPOSURE

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

CONTINGENT LIABILITIES

As at 31 December 2016, the Group did not have any material contingent liabilities.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2016, the Group employed a workforce with head count of 46. Employee benefit expenses, including directors' emoluments, amounted to approximately HK$13.7 million. The Group's remuneration policy has been in line with the prevailing market practice including discretionary bonus and remunerates its employees based on their performance and contribution. Other benefits include contributions to retirement benefits scheme and medical insurance.

ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

Save as disclosed above, the Group had no other acquisitions or disposals of subsidiaries and affiliated companies for the year ended 31 December 2016.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed above, the Group did not have any future plans for material investments or capital assets as at 31 December 2016.

SIGNIFICANT INVESTMENT

Save as disclosed above, the Group did not have any significant investment as at 31 December 2016.

CORPORATE GOVERNANCE REPORT

INTRODUCTION

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

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of the Directors of the Company, all Directors have complied with the required standard of dealings and code of conduct regarding securities transactions by Directors as set out in the code of conduct for the year 2016.

BOARD COMPOSITION

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

The Board comprises a total of 11 Directors, with 6 Executive Directors, namely Mr. Pan Xiaodong (Chairman), Mr. Cheng Chun Tak, Mr. Stephen William Frostick, Mr. Zhang Jie, Mr. Chang Chun and Mr. Xue Huixuan, 1 Non-executive Director, namely Mr. Huang Shenglan and 4 Independent Non-executive Directors, namely Mr. Chang Jun, Mr. Xu Jingan, Mr. Lee Chi Hwa Joshua and Ms. Ching Wai Han. One Independent Non-executive Director has appropriate professional qualifications, accounting and financial management expertise.

Code Provision A.2.1 provides that the roles of the Chairman and Chief Executive Officer ("CEO") should be seperated and should not be performed by the same individual. During the year ended 31 December 2016, the Company has not appointed CEO since 17 August 2016, and the roles and functions of the CEO have been performed by all Executive Directors collectively.

The Group has in place internal control system to perform the check and balance function. In addition, the Board comprises 11 Directors, the balance of power and authority between the Board and management will not be compromised.

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

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

TRAINING AND SUPPORT OF DIRECTORS

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

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

DIRECTORS' INDUCTION AND CONTINUING PROFESSIONAL DEVELOPMENT

Each newly appointed Director (if any) receives a formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure that he/she has a proper understanding of the Company's operations and business and is fully aware of the Director's responsibilities under the statues and common law, the GEM Listing Rules, legal and other regulatory requirements and the Company's business and governance policies. The Directors had attended training sessions on obligations, duties and responsibilities of directors conducted by the Company's Hong Kong legal advisers.

The Company from time to time will provide briefings to all Directors to develop and refresh their duties and responsibilities. All Directors are also encouraged to attend relevant training courses at the Company's expense and they have been requested to provide the Company with their training records. According to the training records maintained by the Company, the trainings received by each of the Directors during the year is summarised as follows:

Name of Directors	Type of trainings
Mr. Pan Xiaodong (Chairman) (Appointed on 20 May 2016)	A,B
Mr. Cheng Chun Tak	A,B
Mr. Stephen William Frostick	A,B
Mr. Zhang Jie	A,B
Mr. Chang Chun	A,B
Mr. Xue Huixuan	A,B
Mr. Huang Shenglan	A,B
Mr. Lee Chi Hwa, Joshua	A,B
Mr. Xu Jingan	A,B
Mr. Chang Jun	A,B
Ms. Ching Wai Han	A,B
Mr. Wan Zihong (Resigned on 17 August 2016)	B
Mr. He Ling (Resigned on 24 June 2016)	B

A: attending training session/briefings/seminars/conferences/forums/workshops

B: reading newspapers, journals and updates relating to the economy, general business, corporate governance and directors' duties and responsibilities

DIRECTORS' ATTENDANCE RECORD AT MEETINGS

The Board meets regularly over the Company's affairs and operations. Details of the attendance of each member of the Board at the meetings of the Board, its respective committees and the general meetings during the year ended 31 December 2016 are as follows:

Name of Directors	Board Meeting Attended/ Eligible to attend	Audit Committee Meeting Attended/ Eligible to attend	Remuneration Committee Meeting Attended/ Eligible to attend	Nomination Committee Meeting Attended/ Eligible to attend	General Meeting Attended/ Eligible to attend
Number of meetings held during the financial year	21	4	2	2	2
Executive Directors					
Mr. Pan Xiaodong *(Chairman)* (Appointed on 20 May 2016)	14/16	N/A	N/A	N/A	2/2
Mr. Cheng Chun Tak	20/21	N/A	N/A	N/A	N/A
Mr. Chang Chun	10/21	N/A	N/A	N/A	N/A
Mr. Zhang Jie	N/A	N/A	N/A	N/A	N/A
Mr. Stephen William Frostick	14/21	N/A	N/A	N/A	N/A
Mr. Xue Huixuan	10/21	N/A	N/A	N/A	N/A
Mr. Wan Zihong (Resigned on 17 August 2016)	3/11	N/A	N/A	N/A	N/A
Mr. He Ling (Resigned on 24 June 2016)	3/7	N/A	N/A	N/A	N/A
Non-executive Director					
Mr. Huang Shenglan	14/21	N/A	N/A	N/A	N/A
Independent Non-executive Directors					
Mr. Lee Chi Hwa, Joshua	14/21	4/4	2/2	2/2	N/A
Mr. Xu Jingan	3/21	4/4	2/2	2/2	N/A
Mr. Chang Jun	3/21	4/4	2/2	2/2	N/A
Ms. Ching Wai Han	14/21	N/A	N/A	N/A	N/A

All of the Independent Non-executive Directors were unable to attend the Company's annual general meeting held on 24 June 2016 and extraordinary general meetings held during the year due to other prior business engagements.

NON-EXECUTIVE DIRECTORS

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

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

REMUNERATION OF DIRECTORS

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

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

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

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

Meetings have been held in 2016 to review the remuneration packages of Executive Directors, which are nominal by market standards. The Directors' fees of the Company's Independent Non-executive Directors have not been changed during the year according to market levels. The Remuneration Committee held 2 meetings during the year to consider and approve (a) bonus payments to employees of the Group, (b) salary increases of senior management of the Group and (c) range of salary increase for employees of the Group.

The Remuneration Committee will meet and determine the emolument policy and long-term incentive schemes as well as the basis of determining the emolument payable to the Company's Directors in 2016.

NOMINATION OF DIRECTORS

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

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

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

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

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

The Nomination Committee will meet and determine the nomination procedures and the process and criteria to select and recommend candidates for directorship in 2017.

AUDITOR'S REMUNERATION

The remuneration in respect of audit provided by the auditors, HLM CPA Limited, to the Company for the year 2016 amounted to HK$900,000. No non-audit services amounted to HK$1,232,000 were provided by HLM CPA Limited during the year.

AUDIT COMMITTEE

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

In 2016, the Audit Committee held 4 meetings. The Audit Committee has carefully reviewed the Company's quarterly, half-yearly and annual results and its system of internal control and has made suggestions to improve them. The Audit Committee also carried out and discharged its duties set out in the CG. In the course of doing so, the Audit Committee has met the Company's management, qualified accountant and external auditors in 2016.

CORPORATE GOVERNANCE FUNCTIONS OF THE BOARD

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

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

INTERNAL AUDIT AND RISK MANAGEMENT

Internal Audit

The Board is responsible for ensuring sound and effective risk management and internal control systems to safeguard the shareholders' interests and the Company's assets.

The Group's has outsourced the internal control systems auditing function. The outsourced internal auditor reports directly to the Audit Committee and is responsible for conducting regular audits on the major activities of the Group.

The objective is to ensure that all important controls, including financial, operational compliance, and risk management functions are in place and functioning effectively.

During the year the Committee approved the annual internal audit plan. The plan includes a number of cyclical reviews of key operational functions to ensures that, while there is focus on areas deemed to be higher risk, all parts of the business will be covered over a three-year cycle.

The annual internal audit plan will be reviewed on a periodic basis to ensure that it is adapted as necessary to any changes in the Group's risk profile.

The Board has received a report from the outsourced internal auditor summarizing audits concluded in the year. The report summarized internal audit findings and any action to be taken by management as a result.

After each audit, the findings and recommendations for improvement will be communicated to the respective management for their responses and corrective actions.

The Committee has reviewed the findings and recommendations made by the outsourced internal auditor and have ensured that any issues arising from the audit are appropriately resolved by management in an efficient and timely manner.

It should be recognised that such an audit can provide reasonable but not absolute assurance against material misstatement or loss, as it is designed to manage rather than eliminate those risks that may affect the Company in achieving its business objectives

Risk management

The Board has ultimate responsibility for risk and the oversight of the risk management process within the business. Recognising that risk is inherent in all of the Group's business dealings, and in the markets and instruments in which the Group operates, it places a high priority on ensuring that there is a strong risk management culture embedded throughout the Group, and accountability at all levels within the business. Effective risk management and strong internal controls are integral to the Group's business model and are reflected in the risk management framework adopted within the business.

The Board has delegated authority to the Audit Committee to provide oversight and independent challenge to ensure that the Group established an effective risk management framework and internal control systems. The Board oversees the Company's management in the design, implementation and monitoring of the risk management and internal control systems and such systems can only provide reasonable but not absolute assurance against material misstatement or loss resulting from business activities.

The Audit Committee conducted its annual review of the adequacy and effectiveness of the Group's risk management and internal control arrangements in relation to the Group's strategy and risk profile for the financial year.

Our risk management process

The risk management contains the following processes, which are connected to setting up targets, identification of risks, risk prioritisation and assessment, risk owner appointment, review, handling, reporting, follow-up, monitoring and reacting to identified risks.

A corporate risk register is maintained in order to track and document the risks identified and provides a detailed outline of the corporate risks facing the Group at a given point in time. It provides a description of the risk, risk owner assigned for ensuring the risk is managed appropriately, highlights the status of each corporate risk as well as what actions are currently in place, or are being progressed to further reduce the likelihood and impact of the risk occurring.

COMPANY SECRETARY

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

Up to the date of this report, Mr. Chow has undertaken not less than 15 hours of relevant professional training.

INVESTOR RELATIONS

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

PROCEDURES FOR SHAREHOLDERS TO CONVENE AN EXTRAORDINARY GENERAL MEETING

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

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

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

PROCEDURES FOR SENDING ENQUIRIES TO THE BOARD

Shareholders may send written enquiries to the Company, for the attention of Company Secretary, by mail to Units 2601 & 2613, 26/F, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.

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

BACKGROUND OF ESG REPORTING

China Fortune Investments (Holding) Limited (stock code: 8116) is a Listed Company on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). We are pleased to present our first ESG report in accordance with the Environmental, Social and Governance Reporting Guide (the "ESG Guide") published by the Stock Exchange. This report describes the Company's policies in 2016 that were designed to fulfill the Company's obligations with respect to sustainable development and social responsibilities areas, as required by the ESG Guide.

ENVIRONMENTAL ASPECTS

A1. Emissions

We understand the importance of energy consumption within the environment. Therefore, various energy-saving measures have been undertaken to improve energy efficiency and reduce energy consumption of the Company's operations such as using LED and other energy efficient luminaire in our newly renovated office. We will continue to implement energy saving measures in 2017.

A2. Use of Resources

We have followed various policies and guidelines to continually improve our energy efficiency and management. We have also applied energy saving measures in the workplace including installation of an energy-saving lighting system, setting optimal temperature on the air-conditioning, and switching off the lighting and air-conditioning after office hours. We also encourage the employees to switch off their computers and other office equipment when not utilised. We are committed to follow the "Indoor Temperature Energy Saving Charter" and the "No Incandescent Light Bulbs ("ILB") Energy Saving Charter" introduced by the Environmental Bureau.

Our water consumption is minimal and we encourage the employees to reduce the use of papers by assessing the necessity of printing and where appropriate to use duplex printing and reuse any single-side printed papers. We are committed to continue to reduce our paper consumption and reduction of waste.

A3. The Environment and Natural Resources

Employee Environmental Awareness

To help promote environmental awareness among our employees, we have provided updates on environmental issues and our latest environmental initiatives to our employees, as well as tips and how to "go green" at home. Employees are welcomed to provide feedback to us regarding to their comments on environmental issues.

Green volunteering

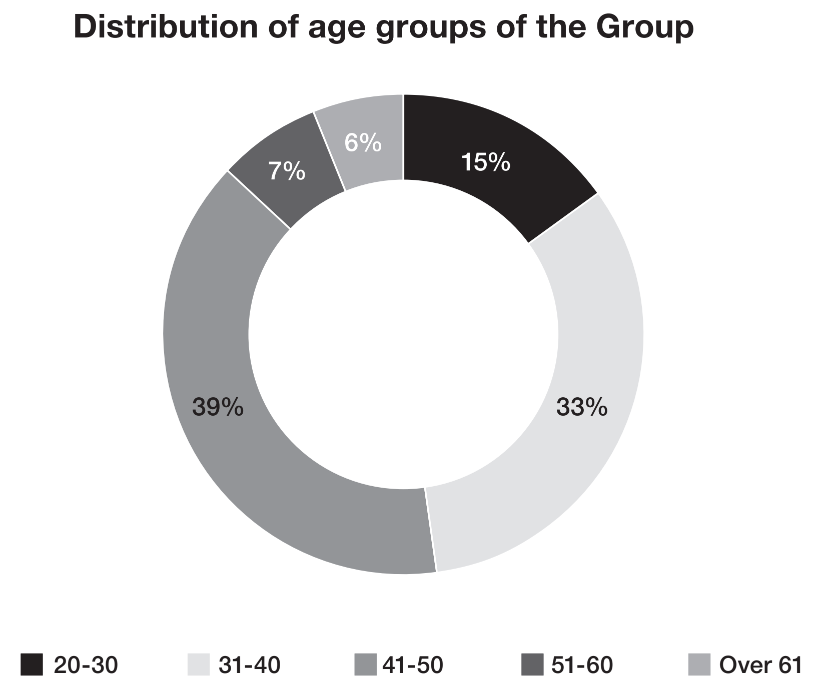
In addition, we will encourage our employees to participate in environment-related programs in 2017.

EMPLOYMENT AND LABOUR PRACTICES

B1. Employment

The employees of the Group are one of our key stakeholders. We provide good working environment including a workplace free from discrimination and harassment; and provide equal opportunities for all employees along with competitive remuneration. Employee's benefits include staff salaries, double pay, discretionary bonus and contribution to retirement benefits scheme.

As at 31 December 2016, the Group had employed total 46 staffs in Hong Kong. The distribution of age groups of the Group is as follow:



B2. Health and Safety

The Group cares about the well-being of employees through adopting various occupational health and safety measures. The Group has followed guidelines of Labour Department of the HKSAR on employees health and safety procedure are developed and communicated with employees. The Group provides clear instructions and information, and adequate training to ensure employees are competent to perform at work.

B3. Development and Training

The Group has established a comprehensive training system and mechanism to provide on-job teaching and training for its employees, in order to enhance their knowledge and skills. The trainings mainly consist of orientation training and on-job training.

B4. Labour Standards

Employment of staff by the Group must comply with the rules under the relevant national and local Labour Law. The Group strictly complied with the above said principle, relevant rules and regulations throughout the year. Members of staff is required to fill in a "Staff Record Resume" upon joining the Group. Should the staff provide false identity or false personal particulars, the said staff would be considered to have committed serious breach of the Group's rules and regulations, his/her employment would be terminated immediately.

OPERATING PRACTICES

B5. Supply Chain Management

The Group sourced its wine products from both overseas and local wine distributors and merchants. The Group's relationships with its suppliers are stable and the Group did not experience any major difficulty in obtaining adequate supplies or products to meet its requirements in the past.

B6. Product Responsibility

Safety Responsibility

To ensure the health and safety of our shops and employees, we have recently re-decorated our shops at Shun Tak Centre to provide customers a new outlook of our shops and make sure our products are stored in accordance with our policy.

Customer Service

The Group understands the importance of customer satisfaction. Therefore, we have experienced employees who are well trained and fully understand our products including wine, cigar and golf related products. We also provide after sales services to customers after purchasing our products to ensure that our customers enjoyed the services we provided.

B7. Anti-corruption

The Group has established anti-corruption policies, and stringent policies for anti-corruption and anti-fraud, and is committed to prevent and monitor any malpractice or unethical practice.

COMMUNITY

B8. Community Investment

The Group aims to improve the society through community involvement. Beside, the management and employees of the Group have been eager to take their own initiatives in helping and supporting the local communities and neighbors.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Pan Xiaodong, aged 48, is the Chariman of the Company. He obtained his EMBA from Dongbei University of Finance & Economics in 2010. Mr. Pan served as the Chairman of Dalian Rongtai Real Estate Limited（大連融泰房地產有限公司）and Dalian Yangguang Investment Management Limited（大連陽光投資管理有限公司）. He is currently the Chairman of Dalian Suniverse Group Co., Limited（大連陽光寰宇有限公司）. Mr. Pan has over 20 years of experience in business administration and over 10 years of experience in risk management and fund management.

Mr. Pan joined the Group as an Executive Director on 20 May 2016 and was appointed as the Chairman of the Group on 17 August 2016.

Mr. Cheng Chun Tak, aged 55, was graduated from Xidian University (formerly known as Xi Bei Institute of Telecommunications Engineering（西北電訊工程學院）) in 1983 and obtained a Master Degree in Engineering (Computer Science) from the Institute of Microelectronics of Shanxi（陝西微電子學研究所）in 1986. Mr. Cheng has been worked as the General Manager of Proxim Wireless Corporation (OTCQX: PRXM) from 2002 to 2004. Mr. Cheng is mainly responsible for the sales and after-sales services of that Company in the Greater China region, being Hong Kong, Mainland China, Macau and Taiwan. Mr. Cheng has extensive experience in the sales and customer services of communication industry in which he has over 20 years of experience in sales and customer services.

Mr. Chang Chun, aged 52, has over 20 years' experience in the wholesale and trading of diamonds in Japan and the PRC prior to joining the Group, Mr. Chang worked for a Japanese corporation in its diamond wholesale business in the PRC.

Mr. Xue Huixuan, aged 49, is a holder of Bachelor's Degree of Beijing University of Civil Engineering and Architecture. He was an engineer of the Design Management Department of Sinopec International Petroleum Engineering Company, and took up duties in EDS department of Maison Worley Parsons E&C Company Limited in Beijing as a professional person-in-charge and a project manager. Mr. Xue has been engaged in engineering design, technology introduction, international cooperation, investment and financing as well as guarantee operations for a number of years. He has extensive experience in project management, technology management, financial management and actual operation.

Mr. Stephen William Frostick, aged 67, he obtained a Juris Doctorate at Old College School of Law, Nevada, United States in 1984, a Master of Public Administration and a Bachelor of Science in Business Administration at the University of Nevada, Las Vegas, United States in 1976 and 1974 respectively. Mr. Frostick has over 35 years of experience in leading capacities in the State Government of Nevada, United States, large corporations and international consulting organisations. Mr. Frostick is well experienced in strategic planning, operational management and organisational development and has about 40 years of senior management experience. He joined the Group in 2007.

Mr. Zhang Jie, aged 57, was graduated from Beijing Institute of Technology in 1983 and obtained a Bachelor degree of Engineering. In 1988, he obtained a professional engineer qualification in computer technology from Beijing Municipal Bureau of scientific and technical cadres. Mr. Zhang has over 10 years' experience in risk management, electronic engineering, fund management and marketing.

NON-EXECUTIVE DIRECTOR

Mr. Huang Shenglan, aged 66, holds a diploma in Arts from Huazhong Normal University, a master degree in International Economics from Huadong Normal University and a certificate in International Economic Law from Xiamen University. He also took the Advanced Management Programme from the Business School of Harvard University, USA. Mr. Huang was an Executive Director and the Deputy Governor of China Everbright Bank, Head Office. He is currently the Executive Director of Asia Investments Finance Group Limited (stock code: 0033) and the Independent Non-executive Director of China LotSynergy Holdings Limited (stock code: 1371). All Companies are listed in Hong Kong Stock Exchange. Apart from the above, he did not hold any directorship in other listed companies in Hong Kong or overseas in the last three years.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lee Chi Hwa, Joshua, aged 44, is a fellow member of the Association of Chartered Certified Accountants and a member of Hong Kong Institute of Certified Public Accountants. Mr. Lee has extensive experience in the fields of auditing, accounting and finance. Mr. Lee currently serves as an Independent Non-executive Director of Code Agriculture (Holdings) Limited (stock code: 8153) and Focus Media Network Limited (stock code: 8112), all of which are listed on the Growth Enterprise Market of the Stock Exchange, and Hao Tian Development Group Limited (stock code: 474), Clear Lift Holdings Limited (stock code: 1341) and Jin Bao Bao Holdings Limited (stock code: 1239), all of which are listed on Main Board of the Stock Exchange; and an Executive Director and Company Secretary of China Healthcare Enterprise Group Limited (stock code: 1143), which is listed on Main Board of the Stock Exchange. He was an Independent Non-executive Director of King Stone Energy Group Limited (stock code: 663) from January 2012 to April 2013 and China Minsheng Drawin Technology Group Limited (formerly known as South East Group Limited) (stock code: 726) from December 2013 to February 2015. Mr. Lee joined the group in 2007.

Mr. Xu Jingan, aged 75, was graduated from Shanghai Fudan University with a Bachelor in Journalism in 1964. Mr. Xu previously served as the Vice Chairman of Shenzhen Stock Exchange. He has more than 30 years' experience in Finance and Economics in PRC. Mr. Xu is currently an Independent Director of 安信基金管理 (ESSENCE FUND Co. Limited) and 深圳怡亞通供應鏈股份有限公司 (Eternal Asia Supply Chain Management Limited).

Mr. Chang Jun, aged 48, is currently a partner of Messrs, Allbright Law Office-Shenzhen and has been a Chartered lawyer of Chinese Ministry of Law since 2000. Mr. Chang received his Bachelor of Laws degree from Southwest University of Polities & Law, Chongqing and master degree in Economic & Commercial Law in People's University of China, Beijing. Mr. Chang has more than 15 years' experience in Chinese legal profession and extensive experience in legal advisory to public and multinational enterprise in PRC. He joined the Group in 2007.

Ms. Ching Wai Han, aged 41, she obtained a Master of Commerce in International Business at the University of New South Wales in 2001 and a Bachelor of Social Science at the Chinese University of Hong Kong in 1999. Ms. Ching has extensive experience in the field of public relation over 10 years. She joined the Group in 2012.

SENIOR MANAGEMENT

Company Secretary and Chief Financial Officer

Mr. Chow Kin Wing, aged 35, is the Company Secretary and Chief Financial Officer of the Company, who holds a Bachelor degree in Accounting and Finance from the Queensland University of Technology, Australia. He is an associate member of Hong Kong Institute of Certified Public Accountants, an associate member of the Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators. He has more than 10 years of experience in financial management, auditing and accounting in an international accounting firm and a listed company in Hong Kong.

REPORT OF DIRECTORS

The Directors of the Company ("Directors") submit herewith their annual report together with the audited financial statements for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 40 to the consolidated financial statements.

SEGMENT INFORMATION

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

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2016 and the state of the affairs of the Group at that date are set out in the consolidated financial statements on pages 43 to 110.

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

PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries of the Company as at 31 December 2016 are set out in note 40 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

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

RESERVES

Details of movements in the reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity on page 45 and note 41 to the consolidated financial statements respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2016, the Company has no reserves available for distribution to shareholders (2015: Nil) in accordance with the Companies Law of the Cayman Islands and the Company's Articles of Association.

CONVERTIBLE BONDS

Details of movements in the convertible bonds of the Group during the year are set out in note 26 to the consolidated financial statements.

DONATION

The Group has not made any charitable and other donations during the year.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2016 is set out in the sections headed "Management Discussion And Analysis" on pages 4 to 8 of this annual report.

The business review also includes:

(a) a discussion on the Group's environmental policies and performance; and the Group's compliance with the relevant laws and regulations that have a significant impact on the Group; and

(b) an account of the Group's key relationships with its employees, customers and suppliers and others that have a significant impact on the Group and on which the Group's success depends.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in note 29 to the consolidated financial statements.

FUND RAISING ACTIVITIES OF THE COMPANY UNDER GENERAL MANDATE

With respect to the issue of convertible bonds announced on 19 January 2016, the net proceeds of approximately HK$22.3 million was used as to finance the acquisition of Maxpark Group.

With respect to the issue of convertible bonds announced on 5 May 2016, the net proceeds of approximately HK$9.9 million was intended to be used as to the Group's general working capital. The actual use of the proceeds was approximately HK$2 million for professional fee and general working capital; approximately HK$7.9 million for repayment of other debts.

With respect to the issue of convertible bonds announced on 20 June 2016, the net proceeds of approximately HK$89.9 million was intended to be used as to approximately HK$25 million for repayment of convertible bonds, up to approximately HK$55 million for repayment of other debts and payable and the balance for the Group's general working capital. The actual use of the proceeds was approximately HK$83.9 million for repayment of other debts and payable and balance for the Group's general working capital.

With respect to the issue of convertible bonds announced on 3 August 2016, the net proceeds of approximately HK$24.9 million was used as to repayment of convertible bonds.

With respect to the issue of convertible bonds announced on 24 August 2016, the net proceeds of approximately HK$34.9 million was intended to be used as to HK$15 million for repayment of other debts and payable, approximately HK$15 million for purchasing inventory and the balance for the Group's general working capital. The actual use of the proceeds was approximately HK$30 million for purchasing inventory and the balance for the Group's general working capital.

REPORT OF DIRECTORS

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five years is set out on page 111 of this annual report.

MAJOR CUSTOMERS AND SUPPLIERS

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

Purchases

–	the largest supplier	20%
–	five largest suppliers combined	43%

Sales

–	the largest customer	20%
–	five largest customers combined	60%

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

DIRECTORS

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

Mr. Pan Xiaodong *(Chairman)* (Appointed on 20 May 2016)
Mr. Cheng Chun Tak
Mr. Stephen William Frostick
Mr. Zhang Jie
Mr. Chang Chun
Mr. Xue Huixuan
Mr. Wan Zihong (Resigned on 17 August 2016)
Mr. He Ling (Resigned on 24 June 2016)
Mr. Huang Shenglan#
Mr. Lee Chi Hwa, Joshua*
Mr. Xu Jingan*
Mr. Chang Jun*
Ms. Ching Wai Han*

\# *Non-executive Director*
* *Independent Non-executive Director*

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

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

As at 31 December 2016, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

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

Name of the Shareholders	Type of interest	Number of shares	Number of underlying shares	Approximate percentage of issued share capital
Mr. Zhang Jie *(Note 1)*	Beneficial	21,342,857	–	0.89%
Mr. Xue Huixuan *(Note 2)*	Beneficial	–	22,285,714	0.93%

Notes:

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

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

Long Positions in the underlying shares

Save as disclosed above, as at 31 December 2016, none of the Directors or the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

DIRECTORS' SERVICE CONTRACTS

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

As at 31 December 2016, none of the Directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

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

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

EMOLUMENT POLICY

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

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

SHARE OPTION

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

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

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

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

As at 31 December 2016, no share options were outstanding.

SUBSTANTIAL SHAREHOLDERS OF THE COMPANY

As at 31 December 2016, the following persons (other than the Directors and the chief executive of the Company) had interests and short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

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

Name of the Shareholders	Type of interest	Number of shares	Number of underlying shares	Total Number of shares and underlying shares	Approximate percentage of issued share capital
Shiny Valour Limited *(Note 1)*	Beneficial	152,000,000	–	152,000,000	6.35%
Radiant Thrive Enterprises Limited *(Note 2)*	Beneficial	–	400,000,000	400,000,000	16.71%
New League Limited *(Note 3)*	Beneficial	–	238,095,238	238,095,238	9.95%
Wang Tak Investment Limited *(Note 4)*	Beneficial	–	152,173,913	152,173,913	6.36%

Notes:

1. Shiny Valour Limited is wholly owned by Yao Yi Yi who is deemed to be interested in the shares.
2. Radiant Thrive Enterprises Limited is wholly owned by Zhang Cheng Cheng who is deemed to be interested in the shares.
3. New League Limited is owned as to 75.8% by Upper Mind Limited which is deemed to be interested in the shares. Upper Mind Limited is owned as to 82.6% by Mr Benson Li who is also deemed to be interested in the shares.
4. Wang Tak Investment Limited is wholly owned by Zou Lian Di who is deemed to be interested in the shares.

Save as disclosed above, as at 31 December 2016, the Directors were not aware of any other person (other than the Directors or the chief executive of the Company) who had, or was deemed to have, interests or short positions in the Shares or underlying Shares (including any interests in options in respect of such capital), which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

MANAGEMENT CONTRACTS

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

CONNECTED TRANSACTIONS

During the year ended 31 December 2016, the Company has not entered into any connected transaction or continuing connected transaction which should be disclosed pursuant to the requirements of GEM Listing Rules.

Significant related party transactions entered by the Group during the year, which do not constitute connected transactions under GEM Listing Rules, are disclosed in note 33 to the consolidated financial statements.

COMPETING INTERESTS

The Directors are not aware of, as at 31 December 2016, any business or interest of each Director, controlling shareholder and the respective associates of each that competes or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group.

PURCHASE, SALE OR REDEMPTION OF SHARES

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

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

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

AUDITORS

HLM CPA Limited retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the board

Pan Xiaodong
Chairman

Hong Kong, 29 March 2017

INDEPENDENT AUDITOR'S REPORT

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

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E-mail 電郵: info@hlm.com.hk

TO THE SHAREHOLDERS OF CHINA FORTUNE INVESTMENTS (HOLDING) LIMITED
中國幸福投資(控股)有限公司
(Incorporated as an exempted company in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of China Fortune Investments (Holding) Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 43 to 110, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and 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 its consolidated 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 Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated 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 reporting 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.

Key audit matter	How our audit addressed the key audit matter
Valuation of inventories	
We identified the valuation of inventories as a key audit matter due to the significance of the balance to the consolidated financial statements as a whole, combined with the significant degree of judgement by the management associated with determining the net realisable value ("NRV"). As disclosed in note 3 to the consolidated financial statements, NRV represents the latest selling prices for inventories less all estimated costs of completion and costs necessary to make the sale. As disclosed in note 17 to the consolidated financial statements, the management's estimation of the NRV was primarily based on the latest selling prices and current market conditions. The management carried out the inventory review at the end of the reporting period and concluded that there was no impairment allowance required for inventories at 31 December 2016 and the carrying amount of inventories was approximately HK$117,957,000 as at 31 December 2016.	Our audit procedures in relation to assessing the appropriateness of the carrying value of the inventories included: – Testing the operating effectiveness of controls associated with the existence and condition of inventories. – Obtaining an understanding of how the management estimated the NRVs of inventories and evaluating the historical accuracy of the management's estimations. – Discussing with management and assessing the basis of the management's estimations of subsequent selling price, costs to completion and costs necessary to make the sale. – Assessing management's process for researching the current market conditions in wine, cigar and golf industries to identify any potential adverse impact on the selling price and the carrying value of the Group's inventories. – Vertifying the value of a sample of inventories to confirm that the inventories were held at the lower of cost and NRV. Based on our procedures described, we found the estimations of management in relation to impairment assessment of inventories were supportable by available evidence.

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of goodwill	
The Group has, in aggregate, goodwill of approximately HK$98,626,000 relating to the cash generating units in wine and cigar, and golf products segments as at 31 December 2016. As discussed in note 15, the management had made an assessment of the recoverable amount of the cash generating units in wine and cigar, and golf products segments with reference to an independent external valuation conducted at the end of the reporting period and concluded that no impairment on goodwill was required. This assessment of the recoverable amount involved significant management's judgement on the key assumptions and assertions used in cash flow projections prepared based on financial forecasts covering a three-year period, and significant estimates with respect to future revenue growth, discount rate and the other relevant factors.	Our audit procedures in relation to management's impairment assessment of goodwill included: – Assessing the valuation methodology. – Challenging the reasonableness of the underlying key assumptions and data used in the cash flow forecasts (including revenue growth rate, operating profit, discount rate used, terminal growth rate, market growth expectation and based on our knowledge of the business and industry. – Assessing the objectivity, independence and expertise of the independent valuer used by management. – Evaluating the discount rate used in the calculations by comparing with the industry and market data. – Testing the mathematical accuracy of the underlying value-in-use calculations. – Reconciling input data to the supporting evidence, such as latest financial forecasts approved by the management and considering the reasonableness of these forecasts. We found the key assumptions made by the management in relation to the value-in-use calculations to be reasonable based on available evidence.

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of other intangible asset	
The other intangible asset relates to value attributed to customer relationship identified in the acquisition of wine and cigar, and golf product business. It is stated at amortised cost and management reviews the carrying value for impairment at the end of each reporting period. The Group has other intangible asset with the carrying amount of approximately HK$11,613,000 as at 31 December 2016 acquired through business combination. Management has concluded that there is no impairment in respect of the other intangible asset at the end of the reporting period. This assessment was based on a value-in-use model calculation that required significant management judgement with respect to the discount rate and the underlying cash flows, in particular future revenue growth.	Our audit procedures in relation to management's impairment assessment on customer relationship included: – Assessing the valuation methodology. – Challenging the reasonableness of key assumptions used based on our knowledge of the business and industry, including a comparison of underlying customer retention rate assumptions to historical customer retention rate. – Reconciling input data to supporting evidence, such as latest financial forecasts approved by the management and considering the reasonableness of these forecasts and the customer database provided by management. – Identifying and testing of the control over the accuracy and completeness of the historical customer data. – Examining the amortisation and impairment methodology to check it is in accordance with HKFRSs requirements. – Testing the mathematical accuracy of the underlying value-in-use calculations. We found that the key assumptions made by the management in relation to the value-in-use calculations to be reasonable based on available evidence.

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of trade and other receivables	
We have identified the impairment on trade and other receivables as a key audit matter because of its significance to the consolidated financial statements and the policy and assessment for making such impairment involves significant degree of management's judgement.	Our audit procedures in relation to management's impairment assessment of trade and other receivables included: – Testing the Group's credit control procedures, in particular credit assessment in the controls around credit terms. – Challenging reasonableness of the method and assumptions and critical judgement used by the management by assessing the reliability of the management's past estimates of bad debt provisions and taking into account of receivables at the year end and cash received after year end, as well as the creditworthiness of each debtor. We found that the estimation and judgement made by management in respect of the recoverability of trade and other receivables were supportable by the credible evidence.

Key audit matter	How our audit addressed the key audit matter
Business combination and fair value of contingent consideration payable	
Refer to note 34 and 28 to the consolidated financial statements	
The Group acquired Maxpark Enterprises Limited and its subsidiaries (the "Maxpark Group") during the year. The acquired intangible asset of customer relationship were valued using excess earnings methods. In applying this methodology, the Group made a number of key assumptions and estimates relating to the intangible asset, including expected revenue growth rates, value of other contributory assets, customer attrition rate and discount rates. The identification and valuation of other intangible asset required judgements and is sensitive to the assumptions used. Further, the consideration for business combination includes contingent consideration payable measured at fair value on initial recognition and as at 31 December 2016. The fair values of the contingent consideration payable amounting to approximately HK$53,254,000 on acquisition date and HK$49,529,000 at 31 December 2016 were estimated by the management with reference to valuations performed by an independent valuer. The change in fair value of HK$3,725,000 was recognised in profit or loss for the year. The valuations of contingent consideration payable involved significant assumptions and basis adopted by the independent valuer including discount rate and attrition rate.	Our audit procedures in relation to business combination and fair value of contingent consideration payable included: – Assessing the independency and competency of the independent valuer appointed by the Group to calculate the fair values of the acquired other intangible asset and contingent consideration payable. – Assessing the accuracy and relevance of the input data provided by management to the independent valuer by challenging and corroborating the market data and information from similar transactions from independent source and the process for identifying other intangible asset. – Assessing the identification of fair value of assets and liabilities of the Maxpark Group acquired including any fair value adjustments. – Testing the purchase price allocations in which we especially focused on the valuation of the other intangible asset of the Maxpark Group. – Assessing the robustness of cash flow forecasts to changes in assumptions, including expected revenue sales growth rate, value of other contributory assets, customer attrition rate and discount rates, in the model to assess the appropriateness of the value of acquired other intangible asset, goodwill and contingent consideration payable recognised at the acquisition date.

Key audit matter	How our audit addressed the key audit matter
Business combination and fair value of contingent consideration payable (continued)	– Reviewing the documentation relating to the acquisition to ensure the consideration paid, goodwill, other intangible asset and contingent consideration payable have been recognised in accordance with relevant accounting standards. – Examining the accounting entries for the business combination prepared by the management and determining whether they were in accordance with HKFRS 3 (Revised) "Business Combination". – Assessing the adequacy of the disclosures about the business combination in accordance with HKFRS 3 (Revised). – Challenging the reasonableness of key assumptions based on our knowledge of business and industry. – Assessing the methodologies and the appropriateness of the key assumptions used in the profit forecast model including future growth rates and discount rates and discussing these variables with the management of the Maxpark Group and the Group. Based on available evidence, we found management's assumptions used in relation to the valuations of other intangible asset and contingent consideration payable on acquisition date and at 31 December 2016 to be reasonable. The initial recognition of goodwill were in accordance with the HKFRS 3 (revised).

Key audit matter	How our audit addressed the key audit matter
Disposal of subsidiaries Refer to note 35 to the consolidated financial statements The Group disposed of Million Zone Holdings Limited and its subsidiaries (the "Million Zone Group") during the year. The disposal has been classified as discontinued operation which has the effect of reporting both results of business up to the date of disposal and the loss on disposal as a single item in the consolidated statement of profit or loss. There is a risk that revenue transactions, and the associated costs completed just before and after the date of disposal were incorrectly recorded, which in turn affected the accuracy of the loss on disposal of subsidiaries.	Our audit procedures in relation to disposal of subsidiaries included: – Reviewing the agreement relating to the transaction and re-performing the calculation of loss on disposal. – Checking the accuracy of the costs relating to the transaction, all relevant liabilities and reserves previously taken up were properly included to arrive at the loss on disposal. – Assessing the recognition of the results of the disposed operations for the appropriate period. We found that the calculations of loss on disposal were reasonable and supportable by available evidence.

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of refundable deposits for investments	
We have identified that the recoverability of the refundable deposits for acquisition of investment as a key audit matter because of its significance to the consolidated financial statements. The impairment assessment of refundable deposits require significant judgements made by the management in respect of the reputation and creditworthiness of the counterparty, and its ability to accomplish the engagement.	Our audit procedure in relation to the impairment assessment of refundable deposits for investments: – Obtaining and reviewing the relevant agreement, and agreeing to the principal amount, expiry date and other information to the Group's accounting record. – Reviewing the information and document regarding the process of the services rendered by the consulting company. – Assessing the ability of the consulting company to accomplish the engagement. – Obtaining the direct confirmation of the balances of such deposits. Based on available evidence, we found that the judgement and assessment made by management in respect of impairment of such deposits were supportable.

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 THE 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 the 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 our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the content of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit concluded in accordance with HKSAs will always detect a material misstatement 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 judgement 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.

HLM CPA Limited
Certified Public Accountants
Chan Lap Chi
Practising Certificate Number: P04084
Hong Kong
29 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2016

	Notes	**2016** ***HK$'000***	2015 *HK$'000* (Represented)
Continuing operations			
Revenue	6	**179,791**	–
Cost of sales		**(123,778)**	–
Gross profit		**56,013**	–
Other income and gains	6	**449**	100
Selling and distribution expenses		**(5,356)**	(2,100)
Administrative expenses		**(27,296)**	(17,602)
Loss on redemption of convertible bonds		**(1,439)**	(15,207)
Other expenses		**–**	(2,485)
Change in fair value of contingent consideration payable	28	**3,725**	–
Profit (loss) from continuing operations		**26,096**	(37,294)
Finance costs	7	**(37,883)**	(10,482)
Loss before tax		**(11,787)**	(47,776)
Income tax expense	8	**(7,246)**	–
Loss for the year from continuing operations	9	**(19,033)**	(47,776)
Discontinued operation			
Loss for the year from discontinued operation	10	**(95,455)**	(377,628)
Loss for the year		**(114,488)**	(425,404)
Loss for the year attributable to:			
Owners of the Company		**(114,476)**	(425,404)
Non-controlling interests		**(12)**	–
		(114,488)	(425,404)
Loss per share	13		
Basic and diluted			
– For continuing and discontinued operations		**HK(4.78) cents**	HK(20.04) cents
– For continuing operations		**HK(0.79) cents**	HK(2.25) cents

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	2016 HK$'000	2015 HK$'000 (Represented)
Loss for the year	**(114,488)**	(425,404)
Other comprehensive income (expense)		
Items that may be subsequently reclassified to profit or loss:		
Exchange differences on translation of foreign operations	**–**	(15,397)
Release of foreign currency translation reserve upon disposal of subsidiaries	**19,401**	–
Other comprehensive income (expense) for the year, net of tax	**19,401**	(15,397)
Total comprehensive expense for the year	**(95,087)**	(440,801)
Total comprehensive expense attributable to:		
Owners of the Company	**(95,075)**	(440,801)
Non-controlling interests	**(12)**	–
	(95,087)	(440,801)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
Non-current assets			
Property, plant and equipment	14	**4,411**	11,372
Goodwill	15	**98,626**	26,223
Other intangible asset	16	**11,613**	–
Deposits and prepayments	19	**2,228**	41,469
Deferred tax assets	27	**–**	642
		116,878	79,706
Current assets			
Inventories	17	**117,957**	250,260
Trade receivables	18	**13,991**	709
Promissory note receivable		**–**	17,600
Other receivables, deposits and prepayments	19	**38,990**	75,115
Refundable deposits for acquisition of investments	20	**41,380**	119,524
Cash and cash equivalents	21	**195,530**	9,268
		407,848	472,476
Current liabilities			
Trade payables	22	**1,333**	10,067
Accruals, other payables and deposits received	23	**14,957**	108,940
Interest-bearing bank borrowings	24	**–**	57,171
Amounts due to directors	25	**7,219**	6,113
Tax payable		**2,883**	5,604
Convertible bonds	26	**61,856**	–
		88,248	187,895
Net current assets		**319,600**	284,581
Total assets less current liabilities		**436,478**	364,287

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
Non-current liabilities			
Convertible bonds	26	**178,553**	150,398
Deferred tax liabilities	27	**2,296**	–
Contingent consideration payable	28	**49,529**	–
		230,378	150,398
Net assets		**206,100**	213,889
Capital and reserves			
Issued capital	29	**11,965**	11,965
Reserves		**193,649**	201,924
Equity attributable to owners of the Company		**205,614**	213,889
Non-controlling interests		**486**	–
Total equity		**206,100**	213,889

Mr. Pan Xiaodong
Director

Mr. Cheng Chun Tak
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

		Attributable to owners of the Company									
	Note	Issued capital HK$'000	Share premium account HK$'000	Merger reserve HK$'000 (Note (i))	Statutory surplus reserve HK$'000 (Note (ii))	Convertible bonds equity reserve HK$'000	Foreign currency translation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2016		11,965	1,773,338	(46,815)	2,817	23,294	(19,401)	(1,531,309)	213,889	–	213,889
Loss for the year		–	–	–	–	–	–	(114,476)	(114,476)	(12)	(114,488)
Other comprehensive income for the year:											
Release of foreign currency translation reserve upon disposal of subsidiaries		–	–	–	–	–	19,401	–	19,401	–	19,401
Total comprehensive expense for the year		–	–	–	–	–	19,401	(114,476)	(95,075)	(12)	(95,087)
Disposal of subsidiaries		–	–	–	(2,817)	–	–	2,817	–	–	–
Acquisition of subsidiaries	34	–	–	–	–	–	–	–	–	498	498
Issue of convertible bonds		–	–	–	–	86,800	–	–	86,800	–	86,800
Eliminated upon redemption of convertible bonds		–	–	–	–	(21,290)	–	21,290	–	–	–
At 31 December 2016		**11,965**	**1,773,338**	**(46,815)**	**–**	**88,804**	**–**	**(1,621,678)**	**205,614**	**486**	**206,100**
At 1 January 2015		3,116	1,531,679	(46,815)	2,817	14,652	(4,004)	(1,118,359)	383,086	–	383,086
Loss for the year		–	–	–	–	–	–	(425,404)	(425,404)	–	(425,404)
Other comprehensive expense for the year:											
Exchange differences on translation of foreign operations		–	–	–	–	–	(15,397)	–	(15,397)	–	(15,397)
Total comprehensive expenses for the year		–	–	–	–	–	(15,397)	(425,404)	(440,801)	–	(440,801)
Issue of shares		8,849	251,629	–	–	–	–	–	260,478	–	260,478
Share issue expenses		–	(9,970)	–	–	–	–	–	(9,970)	–	(9,970)
Issue of convertible bonds		–	–	–	–	21,096	–	–	21,096	–	21,096
Eliminated upon redemption of convertible bonds		–	–	–	–	(12,454)	–	12,454	–	–	–
At 31 December 2015		11,965	1,773,338	(46,815)	2,817	23,294	(19,401)	(1,531,309)	213,889	–	213,889

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

(ii) In accordance with the relevant PRC regulations, the subsidiaries which are established in the PRC are required to transfer 10% of their profits after tax, as determined under the PRC accounting regulations, to the statutory surplus reserve, until the balance of the reserve reaches 50% of their respective registered capital. Subject to certain restrictions as set out in the relevant PRC regulations, the statutory surplus reserve may be used to offset against accumulated losses of the respective subsidiaries. In 2016, the statutory surplus reserve has been realised through the disposal of subsidiaries.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
OPERATING ACTIVITIES			
Loss before tax		**(99,692)**	(423,493)
Adjustments for:			
Interest income		**(2)**	(11)
Finance costs		**46,581**	20,509
Impairment loss on inventories		**8,562**	15,854
Impairment loss on goodwill		**–**	346,176
Impairment loss on other receivables		**8,600**	1,200
Write off of promissory note interest receivable		**–**	1,285
Write off of property, plant and equipment		**843**	3,449
Loss on disposal of subsidiaries	35	**102,700**	–
Loss on redemption of convertible bonds		**1,439**	15,207
Fair value gain on contingent consideration payable	28	**(3,725)**	–
Depreciation of property, plant and equipment	14	**5,080**	9,703
Amortisation of other intangible asset	16	**2,607**	–
Operating cash flows before movements in working capital		**72,993**	(10,121)
Increase in inventories		**(14,514)**	(32,106)
Increase in trade receivables		**(36,833)**	(328)
(Increase) decrease in other receivables, deposits and prepayments		**(105,069)**	52,827
Increase (decrease) in trade payables		**88,152**	(8,470)
Increase (decrease) in accruals, other payables and deposits received		**2,518**	(73,405)
Effect of foreign exchange rate changes, net		**–**	(15,963)
Cash generated from (used in) operations		**7,247**	(87,566)
Interest paid		**(3,483)**	(7,285)
Interest element of finance lease rental payments		**(8)**	(30)
Overseas taxes paid		**(1,075)**	(6,960)
Hong Kong Profits Tax paid		**(8,374)**	–
Net cash flows used in operating activities		**(5,693)**	(101,841)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Notes	**2016** **HK$'000**	2015 HK$'000
INVESTING ACTIVITIES			
Interest received		**2**	11
Net cash outflow from acquisition of subsidiaries	34	**(41,404)**	–
Net cash inflow from disposal of subsidiaries	35	**239,828**	–
Purchases of property, plant and equipment	14	**(3,870)**	(1,182)
Payment of refundable deposits for acquisition of investments		**(41,380)**	(119,524)
Prepayment for acquisition of subsidiaries		**–**	(38,330)
Repayment of promissory note receivable		**17,600**	62,400
Net cash flows from (used in) investing activities		**170,776**	(96,625)
FINANCING ACTIVITIES			
Proceeds from issue of shares		**–**	260,478
Share issue expenses		**–**	(9,970)
Proceeds from issue of convertible bonds		**182,500**	120,000
Redemption of convertible bonds		**(145,000)**	(135,300)
Capital element of finance lease rental payments		**(504)**	(585)
Drawdown of bank loans		**85,112**	129,762
Repayment of bank loans		**(87,800)**	(150,476)
Increase (decrease) in amounts due to directors		**1,106**	(5,635)
Net cash flows from financing activities		**35,414**	208,274
NET INCREASE IN CASH AND CASH EQUIVALENTS		**200,497**	9,808
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**9,268**	1,226
Effect of foreign exchange rate changes, net		**(14,235)**	(1,766)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**195,530**	9,268

1. GENERAL

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

The registered office address of the Company is Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681, George Town, Grand Cayman, KY1-1111, Cayman Islands. The principal place of business of the Company is located at Unit 2601 & 2613, 26/F, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 40 to the consolidated financial statements.

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

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

Amendment to HKFRSs that are mandatorily effective for the current year

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

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

The application of the above 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.

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

New and amendments to HKFRSs in issue but not 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[1]
HKFRS 16	Leases[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 15	Clarification to HKFRS 15 Revenue from Contracts with Customers[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.

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

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 GEM of The Stock Exchange ("Listing Rules") and by the Hong Kong Companies Ordinance ("CO").

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair value 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, leasing transactions that are within the scope of HKAS 17, and measurements that some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

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

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

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

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

– rights arising from other contractual arrangements; and

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations

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

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

– deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements which 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 which are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date (see the 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* which 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 amount of the identifiable assets acquired and 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.

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.

Investment in subsidiaries

Investment in subsidiaries presented in the statement of financial position included in note 41 to the consolidated financial statements are stated at cost less any identified impairment loss.

Goodwill

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

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not greater than an operating segment.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

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

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

Revenue recognition

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

Revenue from the sales of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the cost incurred or to be incurred in respect of the transaction can be measured reliably.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing (continued)

The Group as lessee

Operating lease payments are recognised as an expense on straight-line basis over the lease term.

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 exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

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

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

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

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and 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 foreign currency translation reserve.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

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

Retirement benefit costs

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

Pension schemes and other retirement benefits

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

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

Share-based payments

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments (continued)

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

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

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'loss before tax' as reported in the consolidated statement of profit or loss 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 differences and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

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

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

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.

Property, plant and equipment

Property, 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. The principal annual rates used for this purpose are as follows:

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

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

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at costs less accumulated amortistion and any accumulated impairment losses. Alternatively, intangible assets acquired in a business combination with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment of tangible and intangible assets below)

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

Impairment of tangible and intangible assets other than goodwill

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 assets, the Group estimates the recoverable amount of the cash-generating unit to which the assets belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating unit, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of tangible and intangible assets other than goodwill (continued)

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

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

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 (when the effect of the time value of money is material).

Cash and cash equivalents

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

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

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

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Company's parent.

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

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

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

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

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

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

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

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

Financial assets

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

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.

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 trade receivables, other receivables, deposits and prepayments, refundable deposits for acquisition of investments and cash and cash equivalents) are measured at amortised cost using the effective interest method, less any impairment (see accounting policy on impairment loss of 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

***Financial assets** (continued)*

Impairment of financial assets

Financial assets, 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.

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.

For certain categories of financial assets, such as trade 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 as well as observable changes in national or local economic conditions that correlate with default on receivables.

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

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables 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 trade 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets *(continued)*

Impairment of financial assets (continued)

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

Financial liabilities and equity instruments

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

Equity instruments

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

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is contingent consideration that may be paid by an acquirer as part of a business combination to which HKFRS 3 applies.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. Fair value is determined in the manner described in note 37 to the consolidated financial statements.

Convertible bonds

The component parts of convertible bonds issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. 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 using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognised in equity will be transferred to share premium account. When the conversion option remains unexercised at the maturity date of the convertible bond, 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity instruments *(continued)*

Convertible bonds (continued)

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

Financial liabilities

Financial liabilities (including trade payables, accurals, other payables and deposits received and amounts due to directors) are subsequently measure at amortised cost using the effective interest method.

Interest expense is recognised on an effective interest basis.

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.

Derecognition

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

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

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

Offsetting of financial instruments

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

4. CRITICAL ACCOUNT JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company 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 on-going 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 following are the critical judgements, apart from those involving estimations, 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.

Key sources of estimation uncertainty

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

Impairment of goodwill

The Group determined whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill as at 31 December 2016 was approximately HK$98,626,000 (2015: approximately HK$26,223,000). Further details are given in note 15 to the consolidated financial statements.

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

Key sources of estimation uncertainty (continued)

Impairment of tangible and intangible assets (other than goodwill)

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

Impairment allowance for trade and other receivables and deposits

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

Net realisation value of inventories

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

5. OPERATING SEGMENTS INFORMATION

The Group's operating segments are determined based on information reported to the chief operating decision maker of the Group (the executive directors of the Company who are also directors of all operating subsidiaries) (the "CODM"), for the purposes of resource allocation and assessment of segment performance focuses' profit (loss), which is a measure of adjusted profit (loss) before tax. Segment performance is evaluated based on reportable segments.

The Group's operating and reportable segments include (i) sales of wine and cigar and (ii) sales of golf products. The diamond and jewellery business segment was disposed during the year. The segment information reported below does not include any amounts for the discontinued operation, which is described in more details in note 10 to the consolidated financial statements.

(a) Segment revenue and results

For the year ended 31 December 2016

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

	Wine and cigar *HK$'000*	**Golf products** *HK$'000*	**Elimination** *HK$'000*	**Total** *HK$'000*
REVENUE				
External sales	159,971	19,820	–	179,791
Inter-segment sales*	100,000	3,999	(103,999)	–
Segment revenue	259,971	23,819	(103,999)	179,791
RESULTS				
Segment profit	142,272	1,583	(100,468)	43,387
Finance costs				(37,883)
Unallocated corporate income				434
Unallocated corporate expenses				(20,011)
Change in fair value of contingent consideration payable				3,725
Loss on redemption of convertible bonds				(1,439)
Loss before tax from continuing operations				(11,787)

* *Inter-segment sales are charged at cost.*

Excluded from the segment report is the segment on diamond and jewellery business which was disposed of during the year and the result of which is set out in note 10.

For the year ended 31 December 2015

The Group's primary operating segment was the diamond and jewellery business, which was disposed of by the Group during the year. The results of the discontinued operation is set out in note 10.

5. OPERATING SEGMENTS INFORMATION (continued)

(b) Segment assets and liabilities

For the year ended 31 December 2016

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

Segment assets

	Wine and cigar *HK$'000*	Golf products *HK$'000*	Total *HK$'000*
ASSETS			
Segment assets	341,790	16,874	358,664
Cash and cash equivalent			10,053
Unallocated corporate assets			156,009
Consolidated assets			524,726

Segment liabilities

	Wine and cigar *HK$'000*	Golf products *HK$'000*	Total *HK$'000*
LIABILITIES			
Segment liabilities	5,008	1,738	6,746
Unallocated corporate liabilities			311,880
Consolidated liabilities			318,626

For the year ended 31 December 2015

The Group's primary operating segment was the diamond and jewellery business, which was disposed of by the Group during the year. The segment assets and liabilities are not disclosed as they are not comparable with the segment information disclosed for current year.

5. OPERATING SEGMENTS INFORMATION (continued)

(c) Other segment information

For the year ended 31 December 2016

	Wine and cigar HK$'000	Golf products HK$'000	Unallocated HK$'000	Total HK$'000
Addition to non-current assets	1,196	629	2,045	3,870
Depreciation of property, plant and equipment	303	222	440	965

For the year ended 31 December 2015

The Group's primary operating segment was the diamond and jewellery business, which was disposed of by the Group during the year. Other segment information is not disclosed as it is not comparable with the segment information disclosed for current year.

(d) Geographical information

As at 31 December 2016, all the Group's continuing operations are located in Hong Kong. The Group's revenue from external customers based on locations are all derived from Hong Kong. All the Group's assets are located in Hong Kong.

(e) Information about major customers

Revenue from customers contributing over 10% of the total sales of the Group are as follows. Revenue incurred by all of them came from wine and cigar segment.

	2016 ***HK$'000***	**% of total revenue**
Customer A	**35,670**	**20%**
Customer B	**30,876**	**17%**
Customer C	**21,700**	**12%**

6. REVENUE, OTHER INCOME AND GAINS

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

	2016	2015
	HK$'000	*HK$'000*
		(Represented)
Continuing operations:		
Revenue		
Sale of goods	**179,791**	–
Other income and gains, net		
Bank interest income	**2**	–
Sundry income	**447**	100
	449	100

7. FINANCE COSTS

	2016	2015
	HK$'000	*HK$'000*
		(Represented)
Continuing operations:		
Interest on finance leases	**8**	30
Interest on convertible bonds (note 26)	**37,873**	10,452
Others	**2**	–
	37,883	10,482

8. INCOME TAX EXPENSE

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for the year (2015: Nil).

Under the Law of the People's Republic of China ("PRC") on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%.

	2016	2015
	HK$'000	*HK$'000*
		(Represented)
Continuing operations:		
Hong Kong Profits Tax – current year	**7,296**	–
Deferred taxation (note 27)	**(50)**	–
	7,246	–

Tax charge for the year can be reconciled to the loss before tax from continuing operations per the consolidated statement of profit or loss as follows:

	2016	2015
	HK$'000	*HK$'000*
		(Represented)
Loss before tax	**(11,787)**	(47,776)
Tax at the Hong Kong Profits Tax rate of 16.5%	**(1,944)**	(7,883)
Income not subject to tax	**–**	(17)
Expenses not deductible for tax	**9,327**	7,900
Over-provision of taxation in prior years	**(77)**	–
Tax concession	**(60)**	–
Tax charge for the year	**7,246**	–

9. LOSS FOR THE YEAR FROM CONTINUING OPERATIONS

The Group's loss for the year from continuing operations has been arrived at after charging:

	2016	2015
	HK$'000	*HK$'000*
		(Represented)
Cost of inventories sold	**123,651**	–
Auditor's remuneration	**900**	900
Depreciation of property, plant and equipment	**965**	622
Amortisation of other intangible asset	**2,607**	–
Employee benefit expenses		
(excluding directors' and chief executive's emoluments – *note 11*):		
Wages and salaries	**8,450**	2,330
Retirement benefits scheme contribution	**402**	68
	8,852	2,398
Lease payments under operating leases in respect of land and buildings	**5,334**	1,974
Loss on redemption of convertible bonds	**1,439**	15,207
Write off of promissory note interest receivable*	**–**	1,285
Impairment loss on other receivables*	**–**	1,200

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

10. DISCONTINUED OPERATION

On 19 August 2016, the Group entered into a sales and purchase agreement with an independent third party for the disposal of the Group's entire equity interest in Million Zone Holdings Limited ("Million Zone") and its subsidiaries (collectively, "Million Zone Group"), which were engaged in sale of diamond and jewellery operation in Mainland China. The disposal of Million Zone Group was completed on 30 December 2016.

The results of Million Zone Group and the loss for the year from discontinued operation are presented below. The comparative figures in consolidated statement of profit or loss have been restated to re-present the discontinued operation.

	2016 ***HK$'000***	2015 *HK$'000*
Revenue	**132,865**	127,037
Cost of sales	**(82,009)**	(84,092)
Gross profit	**50,856**	42,945
Other income and gains	**1**	43
Selling and distribution expenses	**(11,336)**	(45,671)
Administrative expenses	**(7,428)**	(16,830)
Other expenses	**(8,600)**	–
Impairment loss on goodwill	**–**	(346,176)
Finance costs	**(8,698)**	(10,028)
Profit (loss) before tax	**14,795**	(375,717)
Income tax expense	**(7,550)**	(1,911)
Profit (loss) for the period/year	**7,245**	(377,628)
Loss on disposal of subsidiaries (note 35)	**(102,700)**	–
Loss for the period/year from discontinued operation	**(95,455)**	(377,628)

10. DISCONTINUED OPERATION (continued)

Loss for the year from discontinued operation includes the followings:

	2016 HK$'000	2015 HK$'000
Cost of inventories sold	**82,009**	84,092
Auditor's remuneration	**–**	–
Depreciation of property, plant and equipment	**4,115**	9,081
Employee benefit expenses:		
Wages and salaries	**4,477**	5,866
Retirement benefits scheme contribution	**504**	765
	4,981	6,631
Lease payments under operating leases in respect of land and buildings	**3,112**	5,887
Write off of property, plant and equipment	**843**	3,449
Impairment loss on inventories	**8,562**	–
Impairment loss on other receivables	**8,600**	–
Impairment loss on goodwill	**–**	346,176

Cash flows used in discontinued operation

	2016 HK$'000	2015 HK$'000
Net cash flows from (used in) operating activities	**22,052**	(187,673)
Net cash flows used in investing activities	**(354)**	(421)
Net cash flows (used in) from financing activities	**(14,118)**	189,812
Effect of foreign exchange rate changes	**(7,830)**	(1,766)
Net cash outflow used in discontinued operation	**(250)**	(48)

11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS AND EMPLOYEES' REMUNERATIONS

Directors' and the chief executive's emoluments for the year, disclosed pursuant to the applicable Listing Rules and the disclosure requirement of the Hong Kong Companies Ordinance, is as follows:

(a) Directors' and the chief executive's emoluments

		Other emoluments		Total
	Fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Retirement benefits scheme contribution *HK$'000*	*HK$'000*
2016				
Executive directors:				
Pan Xiaodong *(note a)*	1,050	–	–	1,050
Cheng Chun Tak	950	–	–	950
Chang Chun	600	–	–	600
Zhang Jie	600	–	–	600
He Ling *(note c)*	250	–	–	250
Stephen William Frostick	120	–	–	120
Wan Zihong *(note b)*	400	–	–	400
Xue Hui Xuan	950	–	–	950
Non-executive director:				
Huang Shenglan	120	–	–	120
Independent non-executive directors:				
Chang Jun	60	–	–	60
Lee Chi Hwa Joshua	60	–	–	60
Ching Wai Han	60	–	–	60
Xu Jingan	60	–	–	60
	5,280	–	–	5,280

11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS AND EMPLOYEES' REMUNERATIONS (continued)

(a) Directors' and the chief executive's emoluments (continued)

		Other emoluments		Total
	Fees	Salaries, allowances and benefits in kind	Retirement benefits scheme contributions	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
2015				
Executive directors:				
Cheng Chun Tak	50	–	–	50
Wan Zihong *(note b)*	50	–	–	50
Chang Chun	600	–	–	600
Zhang Jie	–	–	–	–
He Ling *(note c)*	–	–	–	–
Stephen William Frostick	120	–	–	120
Xue Hui Xuan	100	–	–	100
Non-executive director:				
Huang Shenglan	120	–	–	120
Independent non-executive directors:				
Chang Jun	60	–	–	60
Tso Hon Sai Bosco	35	–	–	35
Lee Chi Hwa Joshua	60	–	–	60
Ching Wai Han	60	–	–	60
Xu Jingan	15	–	–	15
	1,270	–	–	1,270
Senior management:				
Ang Wing Fung *(note d)*	–	190	4	194
	1,270	190	4	1,464

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

Note:

(a) Mr. Pan Xiaodong was appointed on 20 May 2016.

(b) Mr. Wan Zihong resigned on 17 August 2016.

(c) Mr. He Ling resigned on 24 June 2016.

(d) Mr. Ang Wing Fung resigned on 18 March 2015.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remunerations during the year (2015: Nil).

11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS AND EMPLOYEES' REMUNERATIONS (continued)

(b) Employees' remunerations

The five highest paid individuals of the Group for the year ended 31 December 2016 included four directors (2015: one director) of the Company, whose remunerations are disclosed above. The remaining one (2015: four) is an employee of the Group, details of whose remuneration is as follows:

	2016	2015
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	**717**	2,604
Retirement benefits scheme contribution	**18**	53
	735	2,657

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

	Number employees	
	2016	2015
Nil to HK$1,000,000	**1**	3
HK$1,000,001 to HK$1,500,000	**–**	1

During the year, no emoluments were paid by the Group to any of the directors of the Company or chief executive of the Group or the highest paid employee as an inducement to join or upon joining the Group or as compensation for loss of office (2015: Nil).

12. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders of the Company during 2016, nor has any dividend been proposed since the end of the reporting period (2015: Nil).

13. 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	2015
	HK$'000	HK$'000
Loss for the purpose of basic loss per share		
Loss for the year attributable to owners of the Company	(114,476)	(425,404)
Less: Loss for the period/year from discontinued operation	95,455	377,628
Loss for the purpose of basic loss per share from continuing operations	(19,021)	(47,776)

	2016	2015
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	2,393,006,528	2,123,060,548

From discontinued operation

Basic and diluted loss per share for the discontinued operation is HK3.99 cents per share (2015: HK17.79 cents per share), based on the loss for the period/year from the discontinued operation of HK$95,455,000 (2015: HK$377,628,000) and the denominators detailed above for both basic and diluted loss per share.

Diluted loss per share is calculated by adjusting the number of ordinary shares outstanding due to the effect of all dilutive potential ordinary shares and the Group's loss attributable to owners of the Company.

The Company has dilutive potential ordinary shares attributable to convertible bonds. The calculation of diluted loss per share in the current year does not assume the conversion of convertible bonds since their exercise would result in a decrease in loss per share. Accordingly, the diluted loss per share is the same as the basic loss per share.

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements *HK$'000*	Furniture, fixture and equipment *HK$'000*	Computer equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
Cost					
At 1 January 2015	32,211	5,786	7,647	3,682	49,326
Additions	62	370	25	725	1,182
Written off	(15,892)	–	–	–	(15,892)
Exchange realignment	1,089	409	102	36	1,636
At 31 December 2015 and 1 January 2016	17,470	6,565	7,774	4,443	36,252
Additions	2,695	285	166	724	3,870
Acquired on acquisition subsidiaries *(note 34)*	488	133	192	–	813
Written off	(2,138)	(35)	(460)	–	(2,633)
Disposal of subsidiaries	(14,017)	(5,909)	(6,283)	(222)	(26,431)
Exchange realignment	(920)	(373)	(404)	(13)	(1,710)
At 31 December 2016	3,578	666	985	4,932	10,161
Accumulated depreciation and impairment					
At 1 January 2015	14,283	3,390	4,367	3,276	25,316
Charge for the year	6,226	1,238	1,739	500	9,703
Written off	(12,443)	–	–	–	(12,443)
Exchange realignment	1,576	492	196	40	2,304
At 31 December 2015 and 1 January 2016	9,642	5,120	6,302	3,816	24,880
Charge for the year	3,337	595	826	322	5,080
Written off	(1,414)	(27)	(349)	–	(1,790)
Eliminated on disposal of subsidiaries	(10,170)	(5,086)	(5,695)	(185)	(21,136)
Exchange realignment	(614)	(310)	(351)	(9)	(1,284)
At 31 December 2016	781	292	733	3,944	5,750
Carrying amounts					
At 31 December 2016	2,797	374	252	988	4,411
At 31 December 2015	7,828	1,445	1,472	627	11,372

15. GOODWILL

	2016	2015
	HK$'000	*HK$'000*
At 1 January	**26,223**	372,399
Arising on acquisition of subsidiaries *(note 34)*	**98,626**	–
Disposal of subsidiaries *(note 35)*	**(26,223)**	–
Impairment loss	**–**	(346,176)
At 31 December	**98,626**	26,223

Impairment test for cash-generating units containing goodwill

Goodwill is allocated to the Group's cash-generating units ("CGUs") identified according to country of operation and operating segments as follow:

	2016	2015
	HK$'000	*HK$'000*
Wine and cigar and golf products – Hong Kong ("Unit A")	**98,626**	–
Diamond and jewellery – Hong Kong ("Unit B")	**–**	26,223
	98,626	26,223

15. GOODWILL (continued)

Impairment test for cash-generating units containing goodwill (continued)

The directors of the Company have reviewed the carrying amount of goodwill in accordance with HKAS 36 as follows:

Unit A

At at 31 December 2016, the recoverable amount of the Unit A was assessed with reference to a valuation report by using a value-in-use calculation from Peak Vision Appraisals Limited, an independent valuation firm. These calculation use a cash flow projection based on financial forecasts approved by management covering a three-year period. Cash flows beyond the three-year period uses estimated growth rate of 3%. The cash flows are discounted using a discount rate of 13.9%. The discount rate used is pre-tax and reflects specific risks relating to Unit A. Other key assumptions for the value-in-use calculation relates to the estimation of cash flows which included forecasted sale, such estimation is based on Unit A's past performance and management's expectations of the market development including the fluctuation in wine and cigar and golf products business in the current economic environment in Hong Kong.

In the opinion of directors, any reasonably possible change in any of these assumptions would not cause the carrying amount of Unit A to exceed its recoverable amount.

Unit B

As at 31 December 2015, the recoverable amount of Unit B was assessed with reference to a valuation report by using a value-in-use calculation from Peak Vision Appraisals Limited, an independent valuation firm. These calculations use cash flow projection based on financial forecasts approved by management covering a five-year period (the "5-Year Projection"). Cash flows beyond the five-year period uses estimated growth rate of 3%. The cash flows are discounted using a discount rate of 21%.

Due to unstable economic environment in the PRC, keen competition of the market and drop in demand for luxury jewellery products from PRC customers, the Group has postponed the expansion plan of opening further retails stores, and revised the 5-Year Projection after taking into account the current operating environment and market condition. The key assumptions used in calculating the recoverable amount of Unit B were forecasted revenue, forecasted gross margin and discount rate. Management determined forecasted revenue and forecasted gross margin based on past performance and its expectations of the market development. The discount rate used was per-tax and reflected specific risks relating to the business.

As at 31 December 2015, the net carrying amount of goodwill allocated to Unit B was reduced to its recoverable amount of approximately HK$26,223,000.

16. OTHER INTANGIBLE ASSET

	Customer relationship *HK$'000*
Cost	
At 1 January 2015, 31 December 2015 and 1 January 2016	–
Acquired on acquisition of subsidiaries	14,220
At 31 December 2016	14,220
Accumulated amortisation	
At 1 January 2015, 31 December 2015 and 1 January 2016	–
Charge for the year	2,607
At 31 December 2016	2,607
Carrying amount	
At 31 December 2016	11,613
At 31 December 2015	–

The customer relationship has finite useful lives and amortised on a straight-line basis over 5 years.

The customer relationship acquired as part of the acquisition of Maxpark Group and is recognised at its fair value at the date of acquisition.

The fair value of the customer relationship was determined by management's valuation assessment with reference to valuation report provided by the independent valuer by using excess earnings method.

17. INVENTORIES

	2016 *HK$'000*	2015 *HK$'000*
Finished goods	**117,957**	250,260

At 31 December 2016, no inventories were stated at net realisable value (2015: inventories stated at net realisable value amounted to approximately HK$44,700,000).

18. TRADE RECEIVABLES

An aging analysis of the Group's trade receivables as at the end of the reporting period, based on the invoice date is as follows:

	2016 *HK$'000*	2015 *HK$'000*
Within 30 days	**8,487**	3
31 to 60 days	**4,733**	283
61 to 90 days	**460**	132
Over 90 days	**311**	291
	13,991	709

The Group normally grants a credit period of 30 to 60 days (2015: 60 to 90 days) to its customers except for new customers who have to make payment is made when the merchandises are delivered. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management of the Group. In view of the aforementioned and the fact that the Group's trade receivables relate to a number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances.

18. TRADE RECEIVABLES (continued)

As at 31 December 2016, trade receivables amounting to approximately HK$771,000 (2015: approximately HK$291,000) were past due but not impaired as the balances related to debtors with sound repayment history and no recent history of default.

19. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2016	2015
	HK$'000	*HK$'000*
Other receivables *(note)*	**37,869**	38,818
Utility deposits	**2,831**	6,779
Deposits paid for acquisition of subsidiaries	**–**	38,330
Prepayments for inventories	**–**	31,869
Other prepayments	**518**	788
	41,218	116,584
Portion classified as non-current assets	**(2,228)**	(41,469)
	38,990	75,115

Note: Included in other receivables, the balances of HK$35,000,000 was receivable from the supplier because of cancellation of the purchase orders during the year ended 31 December 2016.

At 31 December 2016, no other receivables were considered to be impaired (In year 2015, full provision of impairment on other receivables made amounted to HK$2,485,000).

20. REFUNDABLE DEPOSITS FOR ACQUISITION OF INVESTMENTS

	2016	2015
	HK$'000	*HK$'000*
Refundable deposits paid for acquisition of investments ("Refundable Deposits")	**41,380**	119,524

During the year 2016, the Group entered into a service agreement with an independent consulting company with term of one year, for the purpose of search and introduction of investment project in Greater China and paid a deposit of HK$41,380,000. The deposit was refundable on demand if the Group decides to terminate the agreement. The independent consulting company shall refund the deposit in full with interest at 8% per annum at the expiry date of the agreement if the independent consulting company fail to introduce any investment project acceptable to the Company.

The directors of the Company considered that the fair value of the above Refundable Deposits are expected to be recoverable within one year if the consulting company fail to introduce any investment project acceptable to the Company, the recoverable amount are not materially different from its carrying amount because the balance has short maturity periods on their inception.

21. CASH AND CASH EQUIVALENTS

	2016	2015
	HK$'000	*HK$'000*
Cash and bank balances	**195,530**	9,268

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

Included in cash and cash equivalents in the consolidated statement of financial position are the following amounts denominated in currencies other than the functional currency of the Group.

	2016	2015
	HK$'000	*HK$'000*
USD	**69**	–
RMB	**8**	425

22. TRADE PAYABLES

The average credit period on purchase of goods is 30 to 60 days (2015: 30 days). The following is an ageing analysis of trade payables based on the invoice date.

	2016	2015
	HK$'000	*HK$'000*
Within 30 days	**1,211**	39
31 to 60 days	**94**	–
61 to 90 days	**18**	3
91 to 180 days	**8**	1,212
Over 180 days	**2**	8,813
	1,333	10,067

23. ACCRUALS, OTHER PAYABLES AND DEPOSITS RECEIVED

	2016	2015
	HK$'000	*HK$'000*
Receipts in advance	**–**	14,824
Deposits received	**1,312**	64,898
Provision of finance costs for deposits received	**–**	2,644
Other payables and accruals	**13,645**	26,574
	14,957	108,940

24. INTEREST-BEARING BANK BORROWINGS

	2016	2015
	HK$'000	*HK$'000*
Bank loans repayable within one year	**–**	56,667
Finance lease payables within one year	**–**	504
	–	57,171

25. AMOUNTS DUE TO DIRECTORS

Amounts due to directors were unsecured, interest-free and have no fixed terms of repayment.

26. CONVERTIBLE BONDS

On 19 April 2012, the Group issued convertible bonds with an aggregate principal amount of HK$100,000,000 (the "CB I") due in 2017 with a conversion price of HK$2.45 per share (adjusted). The CB I does not bear any interest. The effective interest rate of the liability component is 4.91% per annum. The maturity date is on the fifth anniversary of the date of issue of the CB I.

For the year ended 31 December 2015, the CB I with an aggregate principal amount of HK$50,000,000 were fully redeemed.

On 22 January 2014, the Group issued convertible bonds with an aggregate principal amount of HK$312,000,000 due in 2019 with conversion price of HK$2.45 per share (adjusted) (the "CB II") to settle the Group's contingent consideration payable. The CB II does not bear any interest. The effective interest rate of the liability component is 7.92% per annum. The maturity date is on the fifth anniversary of the date of issue of the CB II.

As at 31 December 2016, the CB II with an aggregate principal amount of HK$54,600,000 remained outstanding (2015: HK$54,600,000).

On 26 June 2015, the Group issued convertible bonds with an aggregate principal amount of HK$120,000,000 due in 2017 with conversion price of HK$0.25 per share (the "CB III"). The CB III does not bear any interest. The effective interest rate of the liability component is 12.87% per annum. The maturity date is on the second anniversary of the date of issue of the CB III.

For the year ended 31 December 2016, the CB III with an aggregate principal amount of HK$120,000,000 was fully redeemed. As at 31 December 2015, the CB III with an aggregate principal amount of HK$120,000,000 remained outstanding.

26. CONVERTIBLE BONDS (continued)

On 25 January 2016, the Group issued convertible bonds with an aggregate principal amount of HK$100,000,000 due in 2021 with conversion price of HK$0.42 per share (the "CB IV") to settle the Group's consideration payable for the acquisition of subsidiaries (details disclosed in note 34). The CB IV does not bear any interest. The effective interest rate of the liability component is 19.97% per annum. The maturity date is on the fifth anniversary of the date of issue of the CB IV.

As at 31 December 2016, the CB IV with an aggregate principal amount of HK$100,000,000 remained outstanding.

On 25 January 2016, the Group issued convertible bonds with an aggregate principal amount of HK$25,000,000 due in 2016 with conversion price of HK$0.42 per share (the "CB V"). The Company used the proceed for the Group to finance the acquisition of subsidiaries (details disclosed in note 34). The CB V does not bear any interest. The effective interest rate of the liability component is 25.61% per annum. The maturity date is six months from the date of issue of the CB V.

During the year 2016, the CB V with an aggregate principal amount of HK$25,000,000 was fully redeemed.

On 26 May 2016, the Group issued convertible bonds with an aggregate principal amount of HK$10,000,000 due in 2018 with conversion price of HK$0.25 per share (the "CB VI"). The Company used the proceed for the Group's general working capital. The CB VI does not bear any interest. The effective interest rate of the liability component is 20.66% per annum. The maturity date is on the second anniversary of the date of issue of the CB VI.

As at 31 December 2016, the CB VI with an aggregate principal amount of HK$10,000,000 remained outstanding.

On 8 July 2016, the Group issued convertible bonds with an aggregate principal amount of HK$90,000,000 due in 2018 with conversion price of HK$0.25 per share (the "CB VII"). The Company has used up to HK$25,000,000 for repayment of convertible bonds, HK$55,000,000 for the repayment of other debts and payable and the remaining for the Group's general working capital. The CB VII does not bear any interest. The effective interest rate of the liability component is 20.24% per annum. The maturity date is on the second anniversary of the date of issue of the CB VII.

As at 31 December 2016, the CB VII with an aggregate principal amount of HK$90,000,000 remained outstanding.

On 23 August 2016, the Group issued convertible bonds with an aggregate principal amount of HK$25,000,000 due in 2017 with conversion price of HK$0.24 per share (the "CB VIII"). The Company intends to use up to HK$24,900,000 for repayment of convertible bonds. The CB VIII does not bear any interest. The effective interest rate of the liability component is 15.61% per annum. The maturity date is one year from the date of issue of the CB VIII.

26. CONVERTIBLE BONDS (continued)

As at 31 December 2016, the CB VIII with an aggregate principal amount of HK$25,000,000 remained outstanding.

On 1 September 2016, the Group issued convertible bonds with an aggregate principal amount of HK$35,000,000 due in 2017 with conversion price of HK$0.23 per share (the "CB IX"). The Company intends to use up to HK$15,000,000 for general working capital, HK$15,000,000 for purchasing inventories and the remaining for the Group's general working capital. The CB IX does not bear any interest. The effective interest rate of the liability component is 19.45% per annum. The maturity date is one year from the date of issue of the CB IX.

As at 31 December 2016, the CB IX with an aggregate principal amount of HK$35,000,000 remained outstanding.

The Company may redeem all CBs at 105% except for CB V at 100%, and CB VIII and CB IX at 115% of the principal outstanding amount at any time from the date of issue to the maturity date. The noteholders have no rights to require the Company to redeem the convertible bonds before the maturity dates.

The redemption rights are regarded as embedded derivatives in the host contract. The redemption rights are not recognised in the consolidated financial statements since the directors of the Company consider that the probability of the Company exercising its redemption right is remote. The directors have assessed the fair values of the redemption right at initial recognition and at the end of each reporting period and in view that the Company will not exercise its redemption rights before the maturity dates, the management considers that the fair values of the redemption rights were insignificant. Accordingly, fair values of the redemption rights were not accounted for in the consolidated financial statements as at 31 December 2016 and 2015.

26. CONVERTIBLE BONDS (continued)

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

	CB I HK$'000	CB II HK$'000	CB III HK$'000	CB IV HK$'000	CB V HK$'000	CB VI HK$'000	CB VII HK$'000	CB VIII HK$'000	CB IX HK$'000	Total HK$'000
Proceeds of issue, at fair value	100,000	236,376	120,000	100,000	22,500	10,000	90,000	25,000	35,000	738,876
Equity component	(18,252)	(12,554)	(21,096)	(57,753)	(194)	(2,788)	(24,635)	(131)	(1,300)	(138,703)
Liability component at date of issue	81,748	223,822	98,904	42,247	22,306	7,212	65,365	24,869	33,700	600,173

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

	CB I HK$'000	CB II HK$'000	CB III HK$'000	CB IV HK$'000	CB V HK$'000	CB VI HK$'000	CB VII HK$'000	CB VIII HK$'000	CB IX HK$'000	Total HK$'000
At 1 January 2015	47,133	114,002	–	–	–	–	–	–	–	161,135
Issued during the year	–	–	98,904	–	–	–	–	–	–	98,904
Interest charged during the year	189	4,091	6,172	–	–	–	–	–	–	10,452
Redeemed during the year	(47,322)	(72,771)	–	–	–	–	–	–	–	(120,093)
At 31 December 2015 and 1 January 2016	–	45,322	105,076	–	–	–	–	–	–	150,398
Issued during the year	–	–	–	42,247	22,306	7,212	65,365	24,869	33,700	195,699
Interest charged during the year	–	3,588	13,485	7,674	2,694	835	6,310	1,232	2,055	37,873
Redeemed during the year	–	–	(118,561)	–	(25,000)	–	–	–	–	(143,561)
At 31 December 2016	**–**	**48,910**	**–**	**49,921**	**–**	**8,047**	**71,675**	**26,101**	**35,755**	**240,409**
Classified as current liabilities	–	–	–	–	–	–	–	(26,101)	(35,755)	(61,856)
Non-current liabilities	–	48,910	–	49,921	–	8,047	71,675	–	–	178,553
At 31 December 2015	–	45,322	105,076	–	–	–	–	–	–	150,398
Classified as current liabilities	–	–	–	–	–	–	–	–	–	–
Non-current liabilities	–	45,322	105,076	–	–	–	–	–	–	150,398

27. DEFERRED TAXATION

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset where there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred taxes relate to the same fiscal authority. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2016 ***HK$'000***	2015 *HK$'000*
Deferred tax assets	**50**	642
Deferred tax liabilities	**(2,346)**	–
	(2,296)	642

The movements in deferred tax assets (liabilities) of the Group during the year were as follows:

	Customer relationship *HK$'000*	**Accelerated tax Depreciation** *HK$'000*	**Tax losses** *HK$'000*	**Others** *HK$'000*	**Total** *HK$'000*
At 1 January 2015	–	–	–	674	674
Exchange realignment	–	–	–	(32)	(32)
At 31 December 2015 and 1 January 2016	–	–	–	642	642
Released on disposal of subsidiaries	–	–	–	(642)	(642)
Acquisition of subsidiaries *(note 34)*	(2,346)	–	–	–	(2,346)
(Credit) charge to profit or loss	–	2	48	–	50
At 31 December 2016	(2,346)	2	48	–	(2,296)

As at 31 December 2016, the Group has unused tax losses of approximately HK$36,658,000 (2015: approximately HK$36,367,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the estimated tax losses due to the unpredictability of future profit streams. Tax losses may be carried forward indefinitely.

28. CONTINGENT CONSIDERATION PAYABLE

	HK'000
Contingent consideration payable, at fair value:	
At 1 January 2015, 31 December 2015 and 1 January 2016	–
Recognition upon acquisition of subsidiaries	53,254
Change in fair value	(3,725)
At 31 December 2016	49,529

Pursuant to the sales and purchase agreement entered into the Group and the vendor on the acquisition of 100% equity interest in Maxpark Enterprises Limited and its subsidiaries (collectively "Maxpark Group"), the Group is liable to pay contingent consideration by the issue of the Company's convertible bonds up to HK$100 million to the Vendor. The contingent consideration payable is subject to adjustment based on the profit guarantee provided by the vendor. The vendor irrevocably and unconditionally guarantees to the Company that the audited consolidated net profit after tax (excluding extraordinary or exceptional items according to the HKFRSs of the Maxpark Group (i) for the first year immediately after the completion date shall be no less than HK$35 million and (ii) for the second year immediately after completion date shall be no less than HK$40 million.

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

The fair values of the contingent consideration payable as at 25 January 2016 and 31 December 2016 were determined with reference to the valuations as at those dates performed by Peak Vision Appraisals Limited, an independent valuation firm. The valuations were arrived at using Monte Carlo simulation model, which have taken into account factors including the significant inputs: (i) discount rate of 13.42% and (ii) volatility of 59.18%.

29. SHARE CAPITAL

	2016	2015
	HK$'000	*HK$'000*
Authorised:		
100,000,000,000 (2015: 100,000,000,000) ordinary shares of HK$0.005 (2015: HK$0.005) each	**500,000**	500,000
Issued and fully paid:		
2,393,006,528 (2015: 2,393,006,528) ordinary shares of HK$0.005 (2015: HK$0.005) each	**11,965**	11,965

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

	Notes	**Number of shares in issue**	**Issued capital**	**Share premium account**	**Total**
			HK$'000	*HK$'000*	*HK$'000*
At 1 January 2015		623,202,176	3,116	1,531,679	1,534,795
Issue of shares under the Open Offer	(a)	1,246,404,352	6,232	118,408	124,640
Placement of new shares	(b)	523,400,000	2,617	133,221	135,838
		1,769,804,352	8,849	251,629	260,478
Share issue expenses		–	–	(9,970)	(9,970)
At 31 December 2015 and 31 December 2016		**2,393,006,528**	**11,965**	**1,773,338**	**1,785,303**

29. SHARE CAPITAL (continued)

Notes:

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

On 16 January 2015, upon the completion of the Open Offer, the Company issued a total of 1,246,404,352 new ordinary shares of HK$0.005 each at a subscription price of HK$0.10 for a total consideration, before related expenses, of approximately HK$124.6 million.

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

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

On 2 June 2015, the Company entered into a placing agreement with a placing agent pursuant to which the Company has agreed to place up to 398,800,000 new ordinary shares of the Company of HK$0.005 each through the placing agent at HK$0.30 per share.

On 22 June 2015, 398,800,000 ordinary shares of HK$0.005 each were issued for cash at HK$0.30 per share pursuant to the placing agreement dated 2 June 2015 for a total cash consideration, before related expenses, of HK$119,640,000.

All the shares issued rank pari passu with the existing ordinary shares of the Company in all respects.

30. SHARE OPTION SCHEME

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

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

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

30. SHARE OPTION SCHEME (continued)

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

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

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

During the years ended 31 December 2016 and 2015, no share option was granted under the share option scheme and no share option was lapsed or cancelled. As at 31 December 2016 and 2015, no share options were outstanding.

31. OPERATING LEASE ARRANGEMENTS

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

At 31 December 2016, the Group had commitments for minimum lease payments under non-cancellable operating leases falling due as follows:

	2016	2015
	HK$'000	*HK$'000*
Within one year	**7,154**	6,177
In the second to fifth years, inclusive	**6,951**	10,488
	14,105	16,665

32. COMMITMENTS

At 31 December 2016, the Group had the following capital commitments as at the end of the reporting period:

	2016	2015
	HK$'000	*HK$'000*
Contracted but not provided for:		
Purchase of property, plant and equipment	**–**	205

33. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties:

(i)

	2016	2015
	HK$'000	*HK$'000*
Advertising expenses	**–**	24,087

Note:

For the year ended 31 December 2015, the Group paid advertising expenses for designing and displaying advertisement services rendered by a related company, where a director of the Company is a shareholder in this company.

(ii) As at 31 December 2015, a director of the Company, a related company and the Company have provided guarantees for a subsidiary of the Group's bank loans amounting to HK$16,666,667 (equivalent to RMB14,000,000) granted to the Group.

(b) Outstanding balances with related parties:

The Group's balances due to directors of the Company as at the end of the reporting period are unsecured, interest-free and have no fixed term of repayment.

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

	2016	2015
	HK$'000	*HK$'000*
Fees, salaries and allowances	**5,280**	1,460
Retirement benefits scheme contribution	**–**	4
	5,280	1,464

34. BUSINESS COMBINATION (continued)

On 25 January 2016, the Group acquired the entire equity interest in Maxpark Group from an independent third party for consideration of HK$250,000,000. This acquisition has been accounted for using the acquisition method.

The fair values of identifiable assets and liabilities of Maxpark Group as at the date of the acquisition were as follows:

	HK$'000
Property, plant and equipment	813
Other intangible asset	14,220
Trade receivables	4,837
Deposits, prepayments and other receivables	63,695
Inventories	24,171
Cash and cash equivalents	8,596
Trade payables	(3,097)
Accruals, other payables and deposits received	(1,698)
Tax payable	(4,065)
Deferred tax liabilities	(2,346)
Net identifiable assets acquired	105,126
Non-controlling interest	(498)
Net identifiable assets attributable to owners of the Company	104,628
Goodwill arising on business combination	98,626
Total consideration at fair value	203,254

	HK'000
Satisfied by:	
Cash	50,000
Convertible bond with principal amount of HK$100,000,000	100,000
Contingent consideration payable *(note 28)*	53,254
Total	203,254

An analysis of the cash flows in respect of the acquisition is as follows:

	HK$'000
Cash consideration	(50,000)
Less: Cash and cash equivalents acquired	8,596
Net cash outflow in respect of the acquisition of subsidiaries	(41,404)

Acquisition-related costs of HK$950,000 have been charged to administrative expenses in the consolidated statement of profit or loss for the year ended 31 December 2016.

Since the acquisition of Maxpark Group contributed approximately HK$179,791,000 to the Group's turnover from continuing operations and approximately HK$35,879,000 to the Group's loss for the year ended 31 December 2016 from continuing operations.

Had the combination taken place at the beginning of the year, the revenue from continuing operations and loss of the Group for the year from continuing operations would have been approximately HK$182,001,000 and approximately HK$19,255,000 respectively.

35. DISPOSAL OF SUBSIDIARIES

On 30 December 2016, the Group completed the disposal of its entire equity interest in Million Zone Holdings Limited and its subsidiaries (collectively "Million Zone Group") to an independent third party, for a consideration of HK$240,000,000, settled in cash.

The aggregate amounts of the assets and liabilities attributable to the subsidiaries on the date of disposal were as follows:

	HK$'000
Net assets disposed of:	
Property, plant and equipment	5,295
Goodwill	26,223
Deferred tax assets	604
Inventories	162,426
Trade receivables	28,388
Other receivables, deposits and prepayments	235,530
Refundable deposits for acquisition of investments	112,438
Cash and cash equivalents	172
Trade payables	(99,654)
Accruals, other payables and deposits received	(103,443)
Tax payable	(11,418)
Bank borrowings	(50,619)
	305,942
Release of foreign currency translation reserve	36,758
	342,700
Cash consideration	(240,000)
Loss on disposal of subsidiaries	102,700

An analysis of the cash flow in respect of the disposal of subsidiaries is as follows:

	HK$'000
Cash consideration	240,000
Less: bank balances and cash disposed of	(72)
Net cash inflow from disposal of subsidiaries	239,828

36. FINANCIAL INSTRUMENTS BY CATEGORY

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

2016

Financial assets	**2016** *HK$'000*	2015 *HK$'000*
Loan and receivables		
– Trade receivables	**13,991**	709
– Refundable deposits for acquisition of investments	**41,380**	119,524
– Promissory note receivable	**–**	17,600
– Financial assets included in other receivables, deposit and prepayments	**40,698**	83,927
– Cash and cash equivalents	**195,530**	9,268
	291,599	231,028

Financial liabilities	**2016** *HK$'000*	2015 *HK$'000*
Financial liabilities at amortised cost		
– Trade payables	**1,333**	10,067
– Financial liabilities included in accruals, other payables and deposits received	**11,186**	108,940
– Interest-bearing bank borrowings	**–**	57,171
– Amounts due to directors	**7,219**	6,113
– Convertible bonds	**240,409**	150,398
Financial liabilities at FVTPL		
– Contingent consideration payable	**49,529**	–
	309,676	332,689

37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

(i) Fair value of the Group's financial instruments that are measured at fair value

At the end of the reporting period, the carrying amounts of the Group's and the Company's financial assets and financial liabilities approximated their fair values.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

	Level 3 ***HK$'000***
As at 31 December 2016	
Contingent consideration payable *(note 28)*	49,529

Note:

The fair value of contingent consideration payable classified as Level 3 was determined by management's valuation assessment with reference to the valuation report provided by respective independent valuation firm. The following table gives information about how the fair value of contingent consideration payable are determined (in particular, the valuation techniques(s) and inputs used).

	2016 **HK$'000**	2015 HK$'000	**Fair value hierarchy**	**Valuation technique(s)**	**Significant unobservable inputs**	**Relationship of unobservable inputs to fair value**
Contingent consideration payable	**49,529**	–	Level 3	Monte Carlo simulation model	Discount rate – 16.33%	The higher the discount rate, the lower the fair value
					Volatility – 43.17%	The higher the volatility, the higher the fair value

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

(i) Fair value of the Group's financial instrument, that are measured at fair value

Fair value hierarchy *(continued)*

Note: (continued)

Reconciliation for financial instruments carried at fair value based on significant unobservable inputs (Level 3) are as follow:

	Contingent consideration payable HK$'000
At 1 January 2015, 31 December 2015 and 1 January 2016	–
Recognition upon acquisition of subsidiaries	53,254
Change in fair value	(3,725)
At 31 December 2016	49,529

The Group did not have any financial liabilities measured at fair value as at 31 December 2015.

During the year, there were no transfers of fair value measurement between Level 1 and Level 2 and no transfers into or out of Level 3 (2015: Nil).

(ii) Financial instruments carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2016 and 2015.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise trade receivables, other receivables, deposits and prepayments, refundable deposits for acquisition of investments, cash and cash equivalents, trade payables, accruals, other payables and deposits received, amounts due to directors and convertible bonds. The main purpose of these financial instruments is to raise finance for the Group's operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for these risks and they are summarised below.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk

The Group's exposure tot the risk of changes in market interest rates relates primarily to the Group's interest-bearing bank deposits.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 100 basis points (2015: 100 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis points (2015: 100 basis points) higher/lower and all other variables were held constant, the Group's loss for the year ended 31 December 2016 would decrease/increase by HK$1,955,000 (2015: HK$93,000). This is mainly attributable to the Group's exposure to interest rates on its interest-bearing bank deposits.

Foreign currency risk

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

A reasonably possible appreciation of 5% (2015: 5%) of the exchange rate of the Hong Kong dollar against RMB would have no significant effect on the Group's loss before tax for the year ended 31 December 2016 and 31 December 2015 and there would be no material impact on the Group's equity.

Credit risk

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

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

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

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

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

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

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of the internal source of funds to meet its working capital and capital expenditure requirements.

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

	2016			
	On demand or less than 12 months	**2 to 5 years**	**Undiscounted cash flow**	**Carrying amount**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Trade payables	**1,333**	**–**	**1,333**	**1,333**
Financial liabilities included in accruals, other payables and deposits received	**11,186**	**–**	**11,186**	**11,186**
Amounts due to directors	**7,219**	**–**	**7,219**	**7,219**
Convertible bonds	**69,000**	**267,330**	**336,330**	**240,409**
	88,738	**267,330**	**356,068**	**260,147**

	2015			
	On demand or less than 12 months	2 to 5 years	Undiscounted cash flow	Carrying amount
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables	10,067	–	10,067	10,067
Financial liabilities included in accruals, other payables and deposits received	108,940	–	108,940	108,940
Interest-bearing bank borrowings	57,171	–	57,171	57,171
Amounts due to directors	6,113	–	6,113	6,113
Convertible bonds	–	183,330	183,330	150,398
	182,291	183,330	365,621	332,689

39. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure the 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 balances. The Group's overall strategy remains unchanged from prior years.

The capital structure of the Group consists of equity attributable to owners of the Company, comprising issued share capital, reserves and accumulated losses.

The management of the Group reviews the capital structure periodically. The Group considers the cost of capital and the risks associated with the capital, and will balance its overall capital structure through payment of dividends, issuance of new shares and share buy-backs as well as the raising of new debts, if required.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issues new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2016 and 31 December 2015.

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES

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

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/registered paid-up capital	Percentage of equity attributable to the Company 2016	2015	Principal activities
Directly held:					
Ample Rich Capital Limited#	British Virgin Islands ("BVI")	US$1	**100**	100	Investment holding
Forever Wise Developments Limited#	BVI	US$1	**100**	100	Investment holding
Maxpark Enterprises Limited*#	BVI	US$1	**100**	–	Investment holding
Indirectly held:					
Great Rise Limited**	Hong Kong	HK$1	**100**	100	Investment holding and sale of diamond products
Beijing City-In-Love Market Limited**#	PRC/Mainland China	RMB20,000,000	**100**	100	Sale of diamond and jewellery products
Chengdu City-In-Love Market Limited**#	PRC/Mainland China	RMB200,000	**100**	100	Sale of diamond and jewellery products
Sky Topworld Limited	Hong Kong	HK$1	**100**	100	Holding of a motor vehicle
Queensway Wine International Limited*	Hong Kong	HK$2,000,000	**100**	–	Sales of wine (wholesales)
Queensway Wine (Hong Kong) Limited*	Hong Kong	HK$2,000,000	**100**	–	Sales of wine (retail sales)
Queensway Golf International Limited*	Hong Kong	HK$800,000	**100**	–	Sales of golf products (retail sales)
Mass Fortune (Asia) Limited*	Hong Kong	HK$1	**100**	–	Sales of golf products (wholesales)
Kasco (HK) Limited*	Hong Kong	HK$1,500,000	**90.5**	–	Sales of golf products (wholesales)

* *Acquired on 25 January 2016.*

** *Disposed on 30 December 2016.*

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

41. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period includes:

	2016	2015
	HK$'000	*HK$'000*
Non-current assets		
Property, plant and equipment	**1,973**	482
Deposits	**1,067**	38,736
Investment in subsidiaries *(Note a)*	**239,264**	278,912
	242,304	318,130
Current assets		
Promissory note receivables	**–**	17,600
Deposits and other receivables	**55,478**	2,746
Cash and cash equivalents	**2,637**	8,820
	58,115	29,166
Current liabilities		
Accrual and other payables	**3,590**	3,579
Amounts due to directors	**6,538**	5,098
Interest-bearing bank borrowings	**–**	504
Convertible bonds	**61,856**	–
	71,984	9,181
Net current (liabilities) assets	**(13,869)**	19,985
Total assets less current liabilities	**228,435**	338,115
Non-current liabilities		
Convertible bonds	**178,553**	150,398
Contingent consideration payable	**49,529**	–
	228,082	150,398
Net assets	**353**	187,717
Capital and reserves		
Issued capital	**11,965**	11,965
Reserves *(Note b)*	**(11,612)**	175,752
Total equity	**353**	187,717

Mr. Pan Xiaodong
Director

Mr. Cheng Chun Tak
Director

41. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (continued)

Note a: Investment in subsidiaries

	2016	2015
	HK$'000	HK$'000
Unlisted shares, at cost	**203,254**	582,211
Amounts due from subsidiaries	**232,350**	274,408
Amounts due to subsidiaries	**(195,340)**	(2,646)
	240,264	853,973
Provision for impairment	**(1,000)**	(575,061)
	239,264	278,912

Movements in the provision for impairment are as follows:

	2016	2015
	HK$'000	HK$'000
At 1 January	**575,061**	181,415
Write off	**(574,061)**	–
Provision for impairment	**–**	393,646
At 31 December	**1,000**	575,061

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

Note b: Movements of the reserves of the Company are as follows:

	Share premium account	**Convertible bonds equity reserve**	**Accumulated losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2015	1,531,679	14,652	(1,192,777)	353,554
Issue of shares	251,629	–	–	251,629
Issue of convertible bonds	–	21,096	–	21,096
Share issue expenses	(9,970)	–	–	(9,970)
Eliminated upon redemption of convertible bonds	–	(12,454)	12,454	–
Loss and total comprehensive expense for the year	–	–	(440,557)	(440,557)
At 31 December 2015 and 1 January 2016	1,773,338	23,294	(1,620,880)	175,752
Issue of convertible bonds	–	86,800	–	86,800
Eliminated upon redemption of convertible bonds	–	(21,290)	21,290	–
Loss and total comprehensive expense for the year	–	–	(274,164)	(274,164)
At 31 December 2016	**1,773,338**	**88,804**	**(1,873,754)**	**(11,612)**

42. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 29 March 2017.

FINANCIAL SUMMARY

31 December 2016

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

RESULTS

	Year ended 31 December				
	2016	2015	2014	2013	2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE	**179,791**	127,037	146,188	291,771	235,729
(Loss) profit before tax	**(11,787)**	(423,493)	(18,168)	(195,124)	23,556
Income tax expense	**(7,246)**	(1,911)	(2,528)	(13,434)	(8,338)
(Loss) profit for the year from continuing operations	**(19,033)**	(425,404)	(20,696)	(208,558)	15,218
(Loss) profit before tax from discontinued operation	**(87,905)**	–	–	25,809	(785,925)
Income tax expense	**(7,550)**	–	–	–	(4,533)
(Loss) profit for the year from discontinued operations	**(95,455)**	–	–	25,809	(790,458)
(Loss) profit for the year	**(114,488)**	(425,404)	(20,696)	(182,749)	(775,240)
Attributable to:					
Owners of the Company	**(114,476)**	(425,404)	(20,696)	(182,804)	(748,372)
Non-controlling interests	**(12)**	–	–	55	(26,868)
	(114,488)	(425,404)	(20,696)	(182,749)	(775,240)

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2016	2015	2014	2013	2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
TOTAL ASSETS	**524,726**	552,182	845,698	827,448	967,421
TOTAL LIABILITIES	**(318,626)**	(338,293)	(462,612)	(654,067)	(809,359)
NON-CONTROLLING INTERESTS	**(486)**	–	–	–	1,644
NET ASSETS ATTRIBUTABLE TO OWNERS OF THE COMPANY	**205,614**	213,889	383,086	173,381	159,706