Annual Report 2013

中金投集团

China Financial Services Holdings Ltd

China Financial Services Holdings Limited

(Incorporated in Hong Kong with limited liability)

(Stock Code: 605)

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Cheung Siu Lam *(Chairman)*
Mr. Chan Yuk Ming *(Vice-Chairman)*
Mr. Luo Rui *(Chief Executive Officer)*
Madam Guan Xue Ling

Non-Executive Directors

Mr. Tao Ye
Madam Lo Wan

Independent Non-Executive Directors

Mr. Wang Jian Sheng
Mr. Chan Chun Keung
Mr. Tsang Kwok Wai
Mr. Liu Hui

COMPANY SECRETARY

Mr. Chung Chin Keung FCCA, FCPA, ACA, CTA

AUDITORS

Crowe Horwath (HK) CPA Limited

AUDIT COMMITTEE

Mr. Tsang Kwok Wai *(Chairman)*
Mr. Wang Jian Sheng
Mr. Chan Chun Keung
Mr. Liu Hui

REMUNERATION COMMITTEE

Mr. Tsang Kwok Wai *(Chairman)*
Mr. Wang Jian Sheng
Mr. Chan Chun Keung
Madam Lo Wan
Mr. Liu Hui

NOMINATION COMMITTEE

Mr. Cheung Siu Lam *(Chairman)*
Mr. Wang Jian Sheng
Mr. Chan Chun Keung
Mr. Tsang Kwok Wai
Mr. Liu Hui

PRINCIPAL BANKERS

ICBC
Huaxia Bank

SHARE REGISTRARS

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

PUBLIC RELATIONS

Porda Havas International Finance
Communications Group
Unit 2009-2018, 20/F,
Shui On Centre, 6-8 Harbour Road,
Wanchai, Hong Kong

REGISTERED OFFICE

Suite 5606
56th Floor
Central Plaza
18 Harbour Road
Wanchai
Hong Kong

STOCK CODE: 605

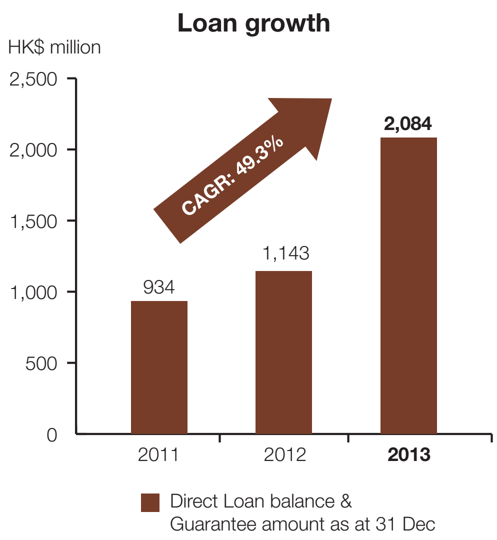
WEBSITE

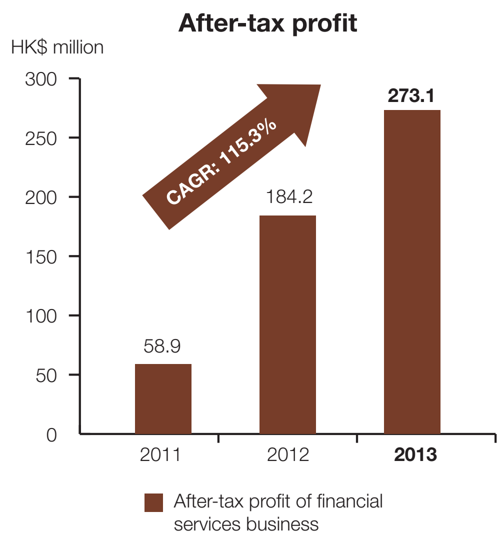
www.cfsh.com.hk

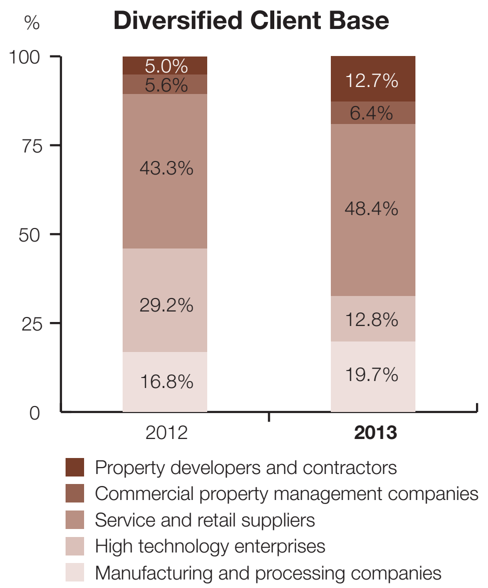
FINANCIAL HIGHLIGHTS

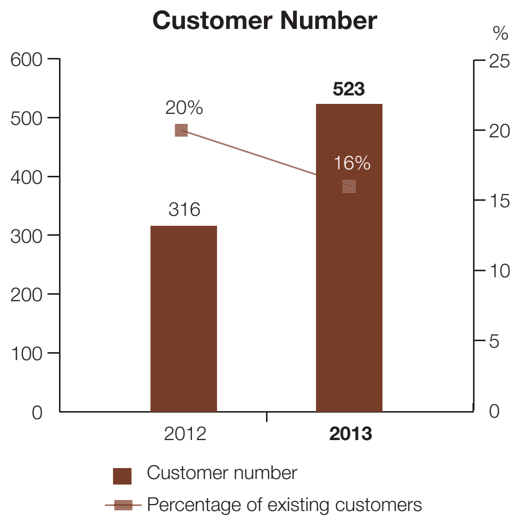
	For the year ended 31 December		
	2013	2012	Percentage change
	HK$'000	HK$'000	%
Turnover	**440,724**	300,601	46.61
After-tax profit of financial services business (excluding effect on fair value change on convertible note)	**273,115**	184,215	48.26
ROA on financial services business (excluding goodwill and effect on fair value change on convertible note)	**12.2%**	10.4%	17.31
ROE on financial services business (excluding goodwill and effect on fair value change on convertible note)	**18.6%**	15.9%	16.98
Profit for the year attributable to equity shareholders of the Company	**237,478**	254,039	-6.52
Basic earnings per share (HK cents)	**7.749**	8.476	-8.58

FINANCIAL HIGHLIGHTS









CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "Board" or the "Directors") of China Financial Services Holdings Limited ("CFS" or the "Company", together with its subsidiaries, collectively the "Group"), I am pleased to present to the shareholders the annual results of CFS for the twelve months ended 31 December 2013 (the "Year").

In 2013, the Group once again delivered impressive performance. During the Year, the Group recorded a turnover of HK$440,724,000, representing a significant increase of 46.6% as compared with HKHK300,601,000 of last year. After-tax profit of financial services business recorded a significant growth of 48.3% to HK$273,115,000 as compared to HK$184,215,000 of last year. Such a remarkable performance achieved by the Group was mainly attributable to China's rising demand for short-term financing business, which promoted a substantial increase in the Group's loan size and an excellent performance in business. Fair value change on convertible note has a negative impact of approximately HK$35,637,000 on the profit of the Group. As a result, profit attributable to equity shareholder of the Company recorded a decrease of 6.5% to HK$237,478,000 as compared to HK$254,039,000 of last year.

Looking back on the year's financial market, various reform and development policies and measures were promoted steadily. The government was committed to improving the situation of financing difficulties and shortage of liquidity for small and medium-sized enterprises through continued promotion of China's financial market reform and the development of non-bank financial institutions.

On the other hand, small and medium-sized enterprises had a very strong demand for financing. According to the People's Bank of China data, China's microfinance sector recorded a significant growth during the period from 2008 to 2012, representing a CAGR of 188.1%. The loan balance of the microfinance sector was still negligible compared to total RMB loan despite the rapid growth. And the difficulty in bank financing remained widespread among micro, small and medium-sized enterprises.

Since acquiring the financial service business, by leveraging on its professional and experienced operation management and risk control teams, by closely grasping the increasing demand of small and medium-sized enterprises for non-bank financial services in the market, the Company has grown to become the largest private owned financial service provider in Beijing to provide financing for small and medium-sized enterprises. The Company has obtained various licences, including financial guarantee licence, pawn, small loan licence and finance lease licence, and intends to apply for other financial service licences to further expand its scope of financial services and enrich its product portfolio to meet the different financing needs of domestic small and medium-sized enterprises.

CHAIRMAN'S STATEMENT

During the year, the Group actively cooperated with banks , and other non-bank financial institutions, and expanded funding sources through a variety of ways. In March 2013, the Group issued a total amount of approximately US$12 million convertible bonds to CCB International. In July 2013, the Group issued an asset securitization product jointly with Kunshan Noah Xingguang Investment Management Co., Ltd. ("Kunshan Noah"), a subordinate of Noah (China) Holdings, China's largest third-party wealth manager, and Wanjia Gongying Asset Management Co., Ltd. ("Wanjia Gongying"), with a plan to raise funds of RMB400 million in the next one to two years, and the first two phases of product launched last year have successfully raised approximately HK$308 million. The product is the first private asset securitization product in the industry, and has provided impetus for growth and development of the Group's loan business.

In 2014, we will continue to maintain a sound operation principle, actively develop business in other cities while consolidating the Beijing market, expand license resources, seek to apply for loan license in Tianjin, Shanghai, Shenzhen, Chengdu and other cities and try to conduct the corresponding business. Furthermore, the Group will intensify the development of professional market, expand financing channels, and try a variety of ways of financing with non-bank institutions while strengthening communication and cooperation with banks, so as to reduce financing costs and secure more development opportunities in the financing service business. In addition, the Group will expand the elite team, strengthen all-round service, and deepen the brand image. We are confident to provide more solutions to our clients, and strengthen and extend the existing businesses to escalate the overall profitability level, and thereby achieving the long-term development targets of the Group.

The Board recommends a final dividend of HK1 cent (2012: HK1 cent) per ordinary share for the year ended 31 December 2013, payable to shareholders whose names appear on the register of members of the Company on 23 May 2014.

On behalf of the Board, I would like to thank our shareholders for their continued confidence and support, and would like to take this opportunity to sincerely thank our board of directors, management team and every member of the dedicated staff for their hard work and significant contribution in the previous year. In the coming year, we will continue to work diligently, and endeavour to achieve outstanding performance to bring more fruitful returns to our shareholders.

Cheung Siu Lam
Chairman

Hong Kong, 20 March 2014

CORPORATE GOVERNANCE REPORT

Corporate Governance Practices

The board of directors (the "Directors") of the Company (the "Board") has committed to achieving high corporate governance standards.

The Board believes that high corporate governance standards are essential in providing a framework for the Group to safeguard the interests of shareholders and to enhance corporate value and accountability.

The Company has applied the principles as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules").

The Board is of the view that throughout the year ended 31 December 2013, the Company has complied with most of the code provisions as set out in the CG Code, save and except for code provision A1.1, A.2.1, A.6.1 and A.6.7 and details will be set out below.

Model Code for Securities Transactions

The Company has adopted its own code of conduct regarding Directors' dealings in the Company's securities (the "Company Code") on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Company Code throughout the year ended 31 December 2013.

The Company has also established written guidelines no less exacting than the Model Code (the "Employees Written Guidelines") for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company. No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

Board of Directors

The Board currently comprises ten members, consisting of four Executive Directors, two Non-executive Directors and four Independent Non-executive Directors as follows:

Executive Directors:
Cheung Siu Lam *(Chairman)* *
Chan Yuk Ming *(Vice-chairman)*
Luo Rui *(Chief executive officer)*
Guan Xue Ling

CORPORATE GOVERNANCE REPORT

Non-executive Directors:
Lo Wan +
Tao Ye

Independent Non-executive Directors:
Wang Jian Sheng ★+•
Chan Chun Keung ★+•
Tsang Kwok Wai ♦#•
Liu Hui ★+•

♦	Audit Committee Chairman
★	Audit Committee Members
#	Remuneration Committee Chairman
+	Remuneration Committee Members
*	Nomination Committee Chairman
•	Nomination Committee Members

The biographical information of the Directors are set out in the section headed “Biographical Details of Directors and Senior Management” on pages 23 to 26 of the annual report for the year ended 31 December 2013.

The relationships between the members of the Board are disclosed under “Biographical Details of Directors and Senior Management” on page 23 to 25.

Chairman and Chief Executive Officer

The Chairman of the Board is Cheung Siu Lam, and the Chief Executive Officer is Luo Rui. With the support of the senior management, the Chairman is responsible for ensuring that the Directors receive adequate, complete and reliable information in a timely manner and appropriate briefing on issues arising at Board meetings, and that all key and appropriate issues are discussed by the Board in a timely manner. The Chief Executive Officer focuses on implementing objectives, policies and strategies approved and delegated by the Board. He is in charge of the Company’s day-to-day management and operations. The Chief Executive Officer is also responsible for developing strategic plans and formulating the organizational structure, control systems and internal procedures and processes for the Board’s approval.

Code provision A.2.1 of the CG Code stipulates that the division of responsibilities between the chairman and chief executive should be clearly established and set out in writing.

The Board considers that the responsibilities of the Chairman and Chief Executive Officer respectively are clear and distinctive and hence written terms thereof are not necessary.

Independent Non-executive Directors

During the year ended 31 December 2013, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the Independent Non-executive Directors in respect of his independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company considers all Independent Non-executive Directors are independent.

Non-executive Directors and Directors' Re-election

Code provision A.4.1 of the CG Code stipulates that Non-executive Directors shall be appointed for a specific term, subject to re-election, whereas code provision A.4.2 states that all directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after appointment and that every director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years.

Each of the Non-Executive Directors of the Company is engaged on a service contract for a term of one year. The appointment may be terminated by not less than two months' written notice.

In accordance with the Company's Articles of Association, all Directors of the Company are subject to retirement by rotation at least once every three years and any new Director appointed to fill a casual vacancy or as an addition to the Board shall submit himself/herself for re-election by shareholders at the first general meeting after appointment.

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. Directors of the Board take decisions objectively in the interests of the Company.

All Directors, including Non-executive Directors and Independent Non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

All Directors have full and timely access to all the information of the Company as well as the services and advice from the company secretary and senior management. The Directors may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

The Directors shall disclose to the Company details of other offices held by them and the Board regularly reviews the contribution required from each Director to perform his responsibilities to the Company.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operation and management of the Company are delegated to the management.

Continuous Professional Development of Directors

Directors keep abreast of responsibilities as a Director of the Company and of the conduct, business activities and development of the Company.

Code provision A.6.1 of the CG Code stipulates that every newly appointed director of the issuer should receive a comprehensive, formal and tailored induction on his first appointment, and subsequently such briefing and professional development as is necessary to ensure that he has a proper understanding of operations and business of the issuer and his responsibilities under statute, common law, Listing Rules, applicable legal requirements and other regulatory requirements and the business/governance policies of the issuer.

There is currently no arrangement in place for providing professional briefings and training programmes to Directors. Nevertheless, the Directors are continually updated with legal and regulatory developments, and the business and market changes to facilitate the discharge of their responsibilities. The Company would consider to engage external legal and other professional advisers for providing professional briefings and training programmes to Directors whenever necessary.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant.

During the year ended 31 December 2013, a summary of training received by Directors according to the records provided by the Directors is as follows:

Directors	Training on Corporate Governance, Regulatory Development and Other Relevant Topics
Executive Directors	
Cheung Siu Lam *(Chairman)*	✓
Chan Yuk Ming *(Vice-chairman)*	✓
Luo Rui *(Chief Executive Officer)*	✓
Guan Xue Ling	✓
Non-Executive Directors	
Lo Wan	✓
Tao Ye	✓
Independent Non-Executive Directors	
Wang Jian Sheng	✓
Chan Chun Keung	✓
Tsang Kwok Wai	✓
Liu Hui	✓

Board Committees

The Board has established three committees, namely, the Audit Committee, Remuneration Committee and Nomination Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the Company's website and the Stock Exchange's website and are available to shareholders upon request.

The majority of the members of each Board committee are Independent Non-executive Directors and the list of the chairman and members of each Board committee is set out under "Corporate Information" on page 2.

Audit Committee

The main duties of the Audit Committee are to assist the Board in reviewing the financial information and reporting process, internal control procedures and risk management system, audit plan and relationship with external auditors, and arrangements to enable employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

CORPORATE GOVERNANCE REPORT

The Audit Committee held two meetings to review interim and annual financial results and reports in respect of the year ended 31 December 2013 and significant issues on the financial reporting and compliance procedures, internal control and risk management systems, scope of work and appointment of external auditors, and arrangements for employees to raise concerns about possible improprieties.

The Audit Committee also met the external auditors twice.

Remuneration Committee

The primary functions of the Remuneration Committee include reviewing and making recommendations to the Board on the remuneration packages of individual Executive Directors and senior management, the remuneration policy and structure for all Directors and senior management; and establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration.

The Remuneration Committee met once to review and make recommendation to the Board on the remuneration policy and structure of the Company, and the remuneration packages of the Executive Directors and senior management and other related matters.

Nomination Committee

The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for the nomination and appointment of Directors, making recommendations to the Board on the appointment and succession planning of Directors, and assessing the independence of Independent Non-executive Directors.

In assessing the Board composition, the Nomination Committee would take into account various aspects set out in the Board diversity policy, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and industry and regional experience. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's character, qualifications, experience, independence and other relevant criteria necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board.

The Nomination Committee met once to review the structure, size and composition of the Board and the independence of the Independent Non-executive Directors, to consider the qualifications of the retiring Directors standing for election at the annual general meeting and to consider and recommend to the Board on the appointment of Mr Luo Rui and Madam Guan Xue Ling as Executive Directors and re-designation of Mr Liu Hui from Non-executive Director to Independent Non-executive Director. The Nomination Committee considered an appropriate balance of diversity perspectives of the Board is maintained and proposed the following recommendations to the board of Directors for implementing the Board diversity policy: (i) increasing the number of female board member to more than one, and (ii) considering to include board member who have knowledge of financing services in the People's Republic of China.

Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision D.3.1 of the CG Code.

The Board reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and Written Employee Guidelines, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

Attendance Record of Directors and Committee Members

Code provision A.1.1 of the CG Code stipulates that at least 4 regular Board meetings a year at approximately quarterly intervals with active participation of majority of directors, either in person or through other electronic means of communication.

The Company does not announce its quarterly results and hence not consider the holding of quarterly meetings as necessary. The Board met twice during the year ended 31 December 2013 for approving the final results for the year ended 31 December 2012 and interim results for the period ended 30 June 2013 and transacting other business.

The attendance record of each Director at the Board and Board Committee meetings and the general meetings of the Company held during the year ended 31 December 2013 is set out in the table below:

	Attendance/Number of Meetings				
Name of Director	Board	Nomination Committee	Remuneration Committee	Audit Committee	Annual General Meeting
Cheung Siu Lam	5/9	1/1	–	–	1/1
Chan Yuk Ming	3/9[Δ]	–	–	–	0/1
Luo Rui*	–	–	–	–	–
Guan Xue Ling*	–	–	–	–	–
Lo Wan	8/9	–	1/1	–	1/1
Tao Ye	2/9	–	–	–	0/1[+]
Wang Jian Sheng	1/9[Δ]	–	–	1/2	0/1[+]
Chan Chun Keung	0/9[Δ]	–	–	–	1/1
Tsang Kwok Wai	6/9	1/1	1/1	2/2	1/1
Liu Hui◆	2/9[Δ]	–	1/1	1/1	1/1

* Appointed on 13 August 2013.

◆ Re-designated from Non-executive Director to Independent Non-executive Director and appointed as a member of the Audit Committee, Remuneration Committee and Nomination Committee on 13 August 2013.

Δ Mr Chan Yuk Ming, the Executive Director of the Company, Mr Wang Jian Sheng, Mr Chan Chun Keung and Mr Liu Hui, the Independent Non-executive Directors of the Company, did not attend regular board meetings of the Company because of their job arrangements.

\+ Mr Tao Ye, the Non-executive Director and Mr Wang Jian Sheng, the Independent Non-executive Director of the Company, did not attend the annual general meeting of the Company because of their job arrangements.

Apart from regular Board meetings, the Chairman also held meetings with the Non-executive Directors (including Independent Non-executive Directors) without the presence of Executive Directors during the year.

Directors' Responsibility in Respect of the Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2013.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report on pages 37 to 38.

Auditors' Remuneration

During the year under review, the remuneration paid to the auditors of the Company, is set out below:

Service Category	Fees Paid/ Payable HK$
Audit Services	1,161,055
Non-audit Services	
– Internal Control Reviews	147,000
	1,308,055

Internal Controls

During the year under review, the Board conducted a review of the effectiveness of the internal control system of the Company, including the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function.

Shareholders' Rights

To safeguard shareholder interests and rights, a separate resolution is proposed for each substantially separate issue at shareholder meetings, including the election of individual Directors. All resolutions put forward at shareholder meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each shareholder meeting.

Convening a General Meeting

Extraordinary general meetings may be convened by the Board on requisition of shareholder(s) of the Company representing at least 5% of the total voting rights of all the shareholders having a right to vote at general meetings or by such shareholder(s) who made the requisition (the "Requisitionist(s)") (as the case may be) pursuant to Sections 566 and 568 respectively of the Companies Ordinance (Chapter 622 of the laws of Hong Kong) (the "Companies Ordinance"). Shareholders should follow the requirements and procedures as set out in the Companies Ordinance for convening an extraordinary general meeting.

CORPORATE GOVERNANCE REPORT

Putting Forward Proposals at General Meeting

Pursuant to Section 615 of the Companies Ordinance, shareholders representing at least 2.5% of the total voting rights of all shareholders; or at least 50 shareholders (as the case may be) who have a right to vote at the relevant annual general meeting, may request to circulate a resolution to be moved at an annual general meeting. Shareholders should follow the requirements and procedures as set out in the Companies Ordinance for circulating a resolution for annual general meeting.

Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board of the Company, shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

Contact Details

Shareholders may send their enquiries or requests as mentioned above to the following:

Address:	Suite 5606, 56/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong (For the attention of the Company Secretary)
Fax:	(852) 2598 8305
Email:	info@cfsh.com.hk

For the avoidance of doubt, shareholders must deposit and send the original duly signed written requisition, notice or statement, or enquiry to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

Communication with Shareholders and Investors/Investor Relations

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavours to maintain an on-going dialogue with shareholders and in particular, through annual general meetings and other general meetings. The Chairman of the Board, all other members of the Board including Non-executive Directors, Independent Non-executive Directors, and the chairmen of all Board committees (or their delegates) will make themselves available at the annual general meetings to meet shareholders and answer their enquiries.

During the year under review, the Company has not made any changes to Articles of Association. An up to date version of the Company's Articles of Association is also available on the Company's website and the Stock Exchange's website.

On behalf of the Board
Cheung Siu Lam
Chairman

MANAGEMENT DISCUSSION AND ANALYSIS

Macroeconomic Environment

In 2013, despite the slow recovery of the global economy and existence of uncertainties in macro-economic growth, China's economy maintained a good momentum of growth on a relatively stable basis. In 2013, China's GDP reached RMB56.88 trillion, and the economic growth rate was 7.7%. As an important contributor to GDP, SMEs was still facing challenges from financing difficulties and shortage of liquidity in the financial system. In order to safeguard the sustained and healthy development of the SME sector, the central government last year continued to increase efforts in financial marketization reform and development of non-bank financial institutions, introduced a number of reform measures and the development policies to improve the financial environment for SMEs. With the support of the favorable domestic economic environment and financial reform, the SME financing market had a gradually increasing space of development, so as to promote a long-term stable development of SME financial service institutions.

Business Review

Being the largest private owned SME financial service provider in Beijing region, the Group is always committed to the innovation of financial products to meet the diverse financial needs of the market. With a good low-cost financing capability, the Group provides SMEs with rich and flexible financial products through pawn, small loan, financial guarantee, finance lease and other existing licence resources, a wide range of funding sources and strict risk control ability under the leadership of professional management team.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review *(Continued)*

During the year, benefiting from China's rising demand for short-term financing business, the Group's total revenue achieved a remarkable increase: the Group recorded a turnover of HK$440,724,000, representing a significant increase of 46.6% as compared with HK$300,601,000 of last year. Excluding the impact of fair value change on convertible note of approximately HK$35,637,000, the Company's after-tax profit of financial services business recorded a significant growth of 48.3% to HK$273,115,000 as compared to HK$184,215,000 of last year. Return on assets of financial services business (excluding goodwill and effect on fair value change on convertible note) was 12.2%, an increase of 17.3% and return on net assets of financial business (excluding goodwill and effect on fair value change on convertible note) is 18.6%, an increase of 17.0% as compared to corresponding ratios in last year. Profit attributable to equity shareholders of the Company after taking into accounts of the effect on fair value change on convertible note amounted to approximately HK$237,478,000, a decrease of 6.5% as compared to HK$254,039,000 of last year. Earnings per share reached 7.749 HK cents, representing an decrease of 8.6% (2012: 8.476 HK cents). Scale of direct loans exceeded HK$1,800,000,000, a significant increase of 76.8% over the same period last year.

Innovating financing channels and expanding scale of loans

During the year, the Group actively carried out strategic cooperation with banks, trust agencies and funds, to effectively broaden the financing channels, reduce financing costs and enhance the profitability of the Group.

In March 2013, the Group issued a total amount of approximately US$12 million convertible bonds to CCB International (Holdings) Limited, which not only complemented the Company's available credit funds reserves, but also further strengthened the cooperation between CFS and state-owned banks, and provided a wider channel for future expansion of the capital base of the Group.

Since July 2013, the Group has issued an asset securitization product jointly with Kunshan Noah Xingguang Investment Management Co., Ltd., a subordinate of Noah (China) Holdings, China's largest third-party wealth manager, and Wanjia Gongying Asset Management Co., Ltd., with a plan to raise funds of RMB500 million in the next one to two years. As at the end of 2013, the product asset securitization obtained overwhelming response from the market and approximately HK$308 million has been raised by the Group. By innovatively launching this industry's first private asset securitization product, the Group not only seized the rising market demand for financing-related products, but also achieved broadening of financing channels, provided a stable sufficient working capital for the continued growth of our core business, and created greater flexibility for loan portfolio management.

Business Review *(Continued)*

Enriching licence resources and expanding product range

In order to provide diversified and professional products with flexible structures, expand its business scale in Beijing and increase its market share, the Group has been committed to expanding its own licence resources. In October 2013, the Group obtained the consent from the Miyun County Government of Beijing and Miyun County Development and Reform Commission to establish a foreign small loan company in Miyun County. Miyun County Government said it would actively support and assist the Group in communication with the relevant government departments in Beijing. It is expected to get a registered capital of RMB400 million in 2014, and its operating area is not restricted by its place of incorporation. In addition, the Group is expanding its licences and business in cities outside Beijing, mainly targeting at small loan licence in Shanghai, Shenzhen and Chengdu.

Refining business segments and seeking opportunities to expand

The Group's main businesses include: direct financing, financial guarantee, special financing and intermediate service. During the year, the Group actively expanded business scope, sought high-margin market segments, and achieved significant growth in a number of businesses.

During the year, the Group's direct financing business recorded a significant growth, with total loans receivable amounting to HK$1.8 billion, increased by 76.8% year on year. Financial institution secured financing also achieved rapid development, with amount guaranteed up to HK$190 million, increased by 167% year on year.

Furthermore, benefiting from rising demands of car dealers, the Group's unique car trade financing service also achieved significant growth during the year, with revenue recorded over HK$1,000,000. As the Group's another innovative financial service product, such business serves small and medium-sized car dealers. By working with the banks, the Group provided small and medium-sized car dealers with bank credit financial support, which not only reduced the financing cost for clients in the car trade market, but also increased the merchants' cash flow flexibility to achieve the healthy development of enterprises.

Business Review *(Continued)*

Optimizing information management and improving efficiency of operation

During the year, in order to meet the needs for rapid growth and expansion in other cities, the Group further optimized the information management system, strengthened the unified management of customer resources, and speeded up the approval process for the company's business, so that accounting efficiency can be improved, and thus providing real-time and effective data support for the Group's decision-making in various levels.

Prospects

Looking forward to 2014, China's economy is expected to maintain steady growth, the financial market environment will be more open, and urban development will create more business opportunities. Benefit from this, SMEs will usher in more opportunities for business growth and thus face a greater demand for short-term financing, which will create a favorable market environment for the development of SME financing service providers.

In the future, the Group will not only strive to consolidate its strategic position in Beijing, improve local licence resources, such as registering licences with a greater capital scale, but also strategically expanded business into Tianjin, Shanghai, Shenzhen, Chengdu and other cities. Currently, the Group has started or planned to apply for small loan company and financing guarantee company licences in Tianjin, Shanghai, Chengdu and other cities. In addition, the Group will continue to broaden the financing channels, and continue to raise funds through asset securitization, trust schemes and other non-bank financing channels, to expand the scale of business and promote improvement of profitability. The Group will also introduce more talents and strengthen all-round service to enhance customer stickiness.

Financial Review

Turnover generated from financing business includes interest income of approximately HK$11,120,000, financing consultancy service income of approximately HK$427,780,000 and loan guarantee service income of approximately HK$1,824,000.

As at 31 December 2013, the aggregate amount of loan guarantee provided by the Group was approximately HK$189,942,000. The guarantee income is recognized over the life of guarantee contracts. General and administrative expenses for the year 2013 were approximately HK$90,180,000. The increase in administrative expenses was due to more talented people was recruited to cater future business growth during the year.

Financial Review *(Continued)*

Finance Costs

Finance costs for the year under review were approximately HK$24,074,000, representing an increase of 192% over HK$8,245,000 for 2012. The increase in financial costs was mainly due to the cost of funds we raised from assets securitization schemes during the year.

Financial Resources and Capital Structure

The Group maintains a healthy cash position and sufficient capital for business development. As at 31 December 2013, current assets of the Group comprised cash and bank balances of approximately HK$103,288,000, short-term loans receivables of approximately HK$1,893,678,000, accounts and interests receivable of approximately HK$38,242,000, other receivables, deposits and prepayments of approximately HK$7,812,000, and security deposits paid of approximately HK$103,610,000. Non-current assets mainly comprised property, plant and equipment of about HK$7,089,000, goodwill of about HK$656,730,000, and available-for-sale investments of approximately HK$45,536,000. Current liabilities mainly comprised liabilities arising from loan guarantee contracts of approximately HK$6,325,000, other payables, deposits received and accrual of approximately HK$18,299,000, short-term borrowings of approximately HK$416,040,000, security deposits received of approximately HK$109,833,000, tax payable of approximately HK$65,031,000 and short-term bank loans of about HK$22,894,000. Non-current liabilities mainly comprised fair value of convertible note of approximately HK$57,802,000, bank loans of about HK$17,806,000 and deferred tax liabilities of about HK$5,356,000.

Financial Review *(Continued)*

Liquidity and Gearing Ratio

The Group maintains a healthy liquidity position. As at 31 December 2013, the current ratio of the Group was 3.3 times. The Group monitors capital on the basis of the gearing ratio, which is calculated as total borrowings (including current and non-current borrowings and security deposits received) less cash and cash equivalents and security deposits paid divided by total equity. As at 31 December 2013, the gearing ratio was about 19.58%.

Fair Value Estimation

The carrying amounts less impairment provision of the financial assets and the carrying amounts of the financial liabilities are assumed to approximate their fair values.

Employee and Remuneration Policies

As at 31 December 2013, the Group had approximately 110 employees in Mainland China and Hong Kong. Competitive remuneration packages and performance-based bonuses are structured to commensurate with individual responsibilities, qualifications, experience and performance. The Group also set up a share option scheme for the purpose of providing incentives to eligible employees. For the year under review, total staff costs were about HK$21,811,000.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Cheung Siu Lam, aged 55, is a co-founder and Chairman of the Group. Before establishing the Group, Mr. Cheung worked for Beijing Machinery Import & Export Company for many years. Mr. Cheung has extensive experience in trading and retailing business in the People's Republic of China ("PRC"). Mr. Cheung is responsible for the overall strategic planning and corporate development of the Group. Mr. Cheung is the Chairman of the Nomination Committee of the Company.

Mr. Cheung is the spouse of Madam Lo Wan, the non-executive director of the Company. Save as disclosed above, Mr. Cheung does not have any relationship with any other directors, senior management or substantial or controlling shareholders of the Company.

Mr. Chan Yuk Ming, aged 55, is the Vice-Chairman of the Group. Mr. Chan graduated from the Hangzhou Institute of Business, following which he worked in the accounting department of the Ministry of Commerce. He joined the Group in 1985 and is responsible for business development of the Group.

Mr. Chan does not have any relationship with any other directors, senior management or substantial, or controlling shareholders of the Company.

Mr. Luo Rui, aged 46, is the chief executive officer of the Group and is responsible for the overall business development and daily operation of the Group. Mr. Luo graduated with a Bachelor and Master's degree in Building Construction of Xi'an University of Architecture and Technology (西安建築科技大學). Mr. Luo has over 16 years of experience and a proven track record in commercial real estate investment and financing, assets acquisition, project development, market development and corporate management. Mr. Luo has been the chief architect and deputy general manager of a property developer in Hainan and the deputy general manager of a property management company in Beijing. Mr. Luo has extensive networks with senior management of property developers, major commercial banks and local authorities in Beijing. He is currently a councilor of the Beijing Guarantee Association (北京市擔保協會), the Beijing Association of Small and Medium Enterprises (北京市中小企業協會), the Beijing Association of Pawn Business (北京市典當協會) and the Beijing Microcredit Association (北京市小額貸款協會). He joined the Group in June 2011.

Mr. Luo does not have any relationship with any other directors, senior management or substantial, or controlling shareholders of the Company.

Madam Guan Xue Ling, aged 39, is the executive Vice President of the Group. Madam Guan has over 12 years of strategic decision making and practical experiences in listed companies auditing, corporate merger and acquisition, equity acquisition, transfer as well as project investment and financing.

Madam Guan joined the Group in June 2011, mainly responsible for risk management, accounting affairs and treasury management of the Group.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Madam Guan successively held the posts of quality control manager, auditing manager, assessment manager, chief auditor and head of the auditing department in domestic accounting firms, large state-owned enterprises, large private companies and foreign-invested companies. She is familiar with accounting and valuation standards. During her years with accounting firms, she had participated in the auditing work of a number of large state-owned enterprises, foreign-invested enterprises and private enterprises, such as China Resources Land, Sinobo Group and Suning Corporation. She also participated in various IPOs audit and internal audit, such as BBMG Corporation, Enlight Media and Ningxia Yellow River Rural Commercial Bank. She had led and participated in various auditing projects spanning across the real estate, manufacturing, media, retail, logistic and finance sectors and has extensive experiences in financial auditing and internal auditing.

Madam Guan graduated from Capital University of Economics and Business with a Postgraduate Degree in Business Administration. She is also a certified public accountant, a qualified asset appraiser in the PRC and a party member of China Democratic National Construction Association.

Madam Guan does not have any relationship with any other directors, senior management or substantial, or controlling shareholders of the Company.

Non-Executive Directors

Mr. Tao Ye, aged 41, joined the Group in January 2004. He was appointed as an executive director on 15 July 2011 and re-designated from executive director to non-executive director on 11 December 2012. Mr. Tao graduated in Peking University in 1995 and obtained a Bachelor Degree in Science and a certificate in Law. Mr. Tao further obtained a Master Degree in Science from Peking University in 1998 and a Master Degree in Business Administration from the Guanghua School of Management of Peking University in 2001. He has extensive experience in strategic planning, business administration and corporate management and possesses unparalleled strength in the areas of overall corporate structuring as well as risk management over various business and operations.

Mr. Tao does not have any relationship with any other directors, senior management or substantial or controlling shareholders of the Company.

Madam Lo Wan, aged 52, joined the Group in 1989 and re-designated from executive director to non-executive director on 15 July 2011. Prior to joining the Group, she worked for a PRC trading company. Madam Lo is also a member of the Remuneration Committee of the Company.

Madam Lo is the spouse of Mr. Cheung Siu Lam, the Chairman of the Group. Save as disclosed above, Madam Lo does not have any relationship with any other directors, senior management or substantial or controlling shareholders of the Company.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Independent Non-Executive Directors

Mr. Wang Jian Sheng, aged 61, graduated from Luoyang Industrial Institution (currently known as Henan Technology University) with a degree in engineering. He has been involved in industrial businesses for more than 28 years and has worked in the Project Department of China Everbright Industrial Company for four years. Mr. Wang is the chairman of Strong Petrochemical Holdings Limited (a company listed on The Stock Exchange of Hong Kong Limited). Mr. Wang joined the Group in 1996. Mr. Wang is also a member of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company.

Mr. Wang does not have any relationship with any other directors, senior management or substantial or controlling shareholders of the Company.

Mr. Chan Chun Keung, aged 63, joined the Group in November, 2000. Mr. Chan has extensive experience in trading and investment in the PRC and is currently the vice-chairman of the Fukien Chamber of Commerce in Hong Kong and a committee member of the Foreign Investment Enterprises Association in the PRC. Mr. Chan is also a member of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company.

Mr. Chan does not have any relationship with any other directors, senior management or substantial or controlling shareholders of the Company.

Mr. Tsang Kwok Wai, aged 44, joined the Group in May 2007. He is a fellow member of the Hong Kong Institute of Certified Public Accountants; The Association of Chartered Certified Accountants; and The Taxation Institute of Hong Kong. Mr. Tsang is also an independent non-executive director of Century Ginwa Retail Holdings Limited (a company listed on The Stock Exchange of Hong Kong Limited). At present, Mr. Tsang runs his own firm and practices public accounting. He is also the chairman of the Audit Committee and the Remuneration Committee and a member of the Nomination Committee of the Company.

Mr. Tsang does not have any relationship with any other directors, senior management or substantial or controlling shareholders of the Company.

Mr. Liu Hui, aged 57, is graduated from Beijing University of International Business and Economics and Westminster University of UK. Mr. Liu has over 30 years of experience in advising and investing in the PRC, especially in the retail and consumer sectors. Mr. Liu co-founded the US$165 million China Retail Fund, LDC with American International Group, Inc in 1996. He is currently an independent non-executive director of China-Hong Kong Photo Products Holdings Limited (a company listed on The Stock Exchange of Hong Kong Limited) and Gold One International Limited (a company listed on the Australian Securities Exchange and the Johannesburg Stock Exchange). Mr. Liu is also a member of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company.

Mr. Liu does not have any relationship with any other directors, senior management or substantial or controlling shareholders of the Company.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Senior Management

Mr. Sun Yu, aged 45, is the executive Vice President of the Group. Mr. Sun has more than 12 years of experiences in special project investment and over 6 years of experiences in bank credit guarantee and pawn business operation.

Mr. Sun joined the Group in 2009, mainly responsible for daily management of the sales team. Mr. Sun was the general manager of the business division of 北京寶瑞通典當行. He has extensive practical experiences in the extension of loans of non-bank financial institutions, especially in relation to loan using real estate as collateral. He had led his team successfully accomplished 70 loan transactions with aggregate size exceeding RMB1.5 billion. Before that, Mr. Sun had participated in and led a number of investment projects in different industries, including investment and merger and acquisition in new energy, medical, pharmaceutical, catering, home appliance, electronic and environmental industries. In addition, Mr. Sun also served as the sales manager of the Beijing branch of Shanghai Dalu Futures Company Limited, mainly to deal with futures and securities investment.

Mr. Sun graduated from Tsinghua University in 1991.

Mr. Lu Wei Jun, aged 40, is the general manager of financial guarantee business of the Group. Mr. Lu has approximately 21 years of working experience in banks and non-bank financial institutions and has over 10 years of practical experience in loan guarantee industry. Mr. Lu is responsible for the Group's loan guarantee business. Mr. Lu graduated with a Bachelor degree in Law of Minzu University of China. Mr. Lu joined the Group in 2012.

Mr. Chung Chin Keung, aged 46, is the company secretary and financial controller of the Group. He joined the Group in October, 2004. Mr. Chung holds a bachelor degree of Business Administration from the Hong Kong Baptist University and a master degree in Business Administration from Manchester Business School. He has more than 21 years of experience in finance, accounting and management. Before joining the Group, Mr. Chung worked for various listed companies in Hong Kong and overseas and was a company secretary for a listed company in Hong Kong. Mr. Chung is a fellow member of The Association of Chartered Certified Accountants, a fellow member of The Hong Kong Institute of Certified Public Accountants, an associate member of The Institute of Chartered Accountants in England and Wales and a member of The Taxation Institute of Hong Kong.

REPORT OF THE DIRECTORS

The directors present herewith their report and the audited financial statements of the Company and the Group for the year ended 31 December 2013.

Principal Activities

The principal activity of the Company is investment holding. The principal activities and other particulars of the subsidiaries, are set out in note 14 to the financial statements respectively.

Segment Information

An analysis of the Group's segment revenue, results, assets and liabilities for the year ended 31 December 2013 is set out in note 3 to the financial statements.

Results and Dividends

The Group's profit for the year ended 31 December 2013 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 39 to 44. The directors recommend the payment of a final dividend of HK1 cent per ordinary share for year ended 31 December 2013 (2012: HK1 cent per ordinary share).

Reserves

Details of movements in the reserves of the Company and of the Group during the year are set out in note 36 to the financial statements.

Property, Plant and Equipment

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

Share Capital and Share Options

Details of movements in share capital and share options of the Company during the year, together with the reasons therefore, are set out in notes 35 and 37 to the financial statements, respectively.

Distributable Reserves

Loss for the year attributable to equity shareholders of the Company of HK$42,242,000 (2012: profit of HK$78,216,000) has been transferred to reserves. As at 31 December 2013, the Company's reserve available for distribution to shareholders amounted to approximately HK$126,953,000 (2012: HK$199,540,000) in accordance with the provisions of Section 79B of the Hong Kong Companies Ordinance.

REPORT OF THE DIRECTORS

Major Customers and Suppliers

The Group is principally engaged in retail business and provision of short term financing services. The five largest customers and the five largest suppliers of the Group accounted for less than 30% of the Group's revenue and purchases respectively during the year.

As far as the directors are aware, neither the directors, their associates nor any shareholder of the Company (which, to the best of knowledge of the directors, owns more than 5% of the Company's share capital) had any beneficial interest in these major customers and suppliers.

Directors

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

Executive Directors

Cheung Siu Lam *(Chairman)*
Chan Yuk Ming *(Vice-chairman)*
Luo Rui *(Chief Executive Officer)* (appointed on 13 August 2013)
Guan Xue Ling (appointed on 13 August 2013)

Non-Executive Directors

Tao Ye
Lo Wan

Independent Non-Executive Directors

Wang Jian Sheng
Chan Chun Keung
Tsang Kwok Wai
Liu Hui (re-designated on 13 August 2013)

According to Article 105(A) of the Company's Articles of Association, Mr. Wang Jian Sheng, Mr. Chan Chun Keung and Mr. Tsang Kwok Wai shall retire by rotation at the annual general meeting, and are eligible to offer themselves for re-election at the annual general meeting. Mr. Wang Jian Sheng will not offer himself for re-election and will therefore retire at the annual general meeting as he would like to spend more time on his personal business development whereas the other two retiring Directors, i.e. Mr. Chan Chun Keung and Mr. Tsang Kwok Wai will offer themselves for re-election at the annual general meeting. According to Article 96, Mr. Luo Rui and Madam Guan Xue Ling shall retire at the annual general meeting, and will offer themselves for re-election at the annual general meeting. The directors of the Company, including the independent non-executive directors are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's Articles of Association and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules").

Directors' Service Contracts

The non-executive director, Mr. Tao Ye and Madam Lo Wan have entered into a service contract with the Company for one year commencing on 11 December 2012 and 15 July 2011 respectively and is subject to retirement by rotation and re-election at the Annual General Meeting of the Company in accordance with the Articles of Association of the Company.

Independent non-executive directors, namely Mr. Wang Jian Sheng and Mr. Chan Chun Keung entered into service contracts with the Company respectively for a term of one year commencing on 9 September 2004. Mr. Tsang Kwok Wai has entered into a service contract with the Company for one year commencing on 28 May 2007. Mr. Liu Hui has entered into a service contract with the Company for one year commencing on 8 October 2007. All of them are subject to retirement by rotation and re-election at the Annual General Meeting of the Company in accordance with the Articles of Association of the Company.

Either party may terminate the contract by giving not less than two months' notice in writing or payment of remuneration in lieu of such notice or the unexpired part of such period. Their remuneration is determined by the board of directors on the anniversary of the dates of their appointments.

No director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

Directors' Interests in Contracts

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' Interests in Share Capital

As at 31 December 2013, the interests and short positions of the directors in the shares, underlying shares and debentures of the Company or its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register maintained by the Company pursuant to Section 352 of Part XV of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transaction by Directors of Listed Companies ("Model Code"), were as follows:

Long Positions in Shares and Underlying Shares of the Company

Name of Director	Capacity	Number of Ordinary Shares held	Underlying Shares Interested *(Note 1)*	Aggregate Long Position in Shares and Underlying Shares to Issued Share Capital
Cheung Siu Lam	Beneficial owner of 1,710,044,240 ordinary shares and 11,000,000 underlying shares, family interest of 237,728,000 ordinary shares and 11,000,000 underlying shares *(Note 2)* and interest in controlled corporation of 86,400,000 ordinary shares *(Note 3)*	2,034,172,240	22,000,000	65.72%
Lo Wan	Beneficial owner of 237,728,000 ordinary shares and 11,000,000 underlying shares, family interest of 1,710,044,240 ordinary shares and 11,000,000 underlying shares *(Note 4)* and interest in controlled corporation of 86,400,000 ordinary shares *(Note 3)*	2,034,172,240	22,000,000	65.72%
Chan Yuk Ming	Beneficial owner	10,000,000	12,000,000	0.71%
Tao Ye	Beneficial owner	–	7,000,000	0.23%
Luo Rui	Beneficial owner	1,000,000	2,000,000	0.09%
Guan Xue Ling	Beneficial owner	–	2,000,000	0.06%

Notes:

1. The number of shares represents the shares in which the directors are deemed to be interested as a result of holding share options.

2. By virtue of the SFO, Cheung Siu Lam is deemed to be interested in 237,728,000 ordinary shares and 11,000,000 underlying shares held by Lo Wan.

3. Arbalice Holdings Limited is beneficially owned as to 60% by Cheung Siu Lam and 40% by Lo Wan. By virtue of the SFO, Cheung Siu Lam and Lo Wan are deemed to be interested in 86,400,000 shares held by Arbalice Holdings Limited.

4. By virtue of the SFO, Lo Wan is deemed to be interested in 1,710,044,240 ordinary shares and 11,000,000 underlying shares held by Cheung Siu Lam.

Long Positions in Shares and Underlying Shares of Associated Corporation

Name of Director	Name of Associated Corporation	Approximate Percentage
Cheung Siu Lam	K.P.I. Convenience Retail Company Limited	28%

Save as disclosed above, none of the directors, chief executives or any of their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations were recorded in the register required to be kept under Section 352 of Part XV of the SFO as at 31 December 2013.

Directors' Rights to Acquire Shares

Save as disclosed under the headings "Directors' Interests in Share Capital" above and "Share Option Scheme" below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company 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 to acquire such rights in any other body corporate.

Interests in Substantial Shareholders

As at 31 December 2013, the following companies and person were interested in more than 5% of the issued share capital of the Company according to the register kept by the Company under Section 336 of Part XV of the SFO:

Long Positions in Shares and Underlying Shares of the Company

Name	Capacity	Number of Ordinary Shares held	Underlying Shares Interested	Aggregate Long Position in Shares and Underlying Shares to Issued Share Capital
Cheung Siu Lam	Beneficial owner of 1,710,044,240 ordinary shares and 11,000,000 underlying shares, family interest of 237,728,000 ordinary shares and 11,000,000 underlying shares and interest in controlled corporation of 86,400,000 ordinary shares	2,034,172,240	22,000,000	65.72%
Lo Wan	Beneficial owner of 237,728,000 ordinary shares and 11,000,000 underlying shares, family interest of 1,710,044,240 ordinary shares and 11,000,000 underlying shares and interest in controlled corporation of 86,400,000 ordinary shares	2,034,172,240	22,000,000	65.72%

Save as disclosed above, no person had registered an interest or a short position in the shares and underlying shares or debentures of the Company that was required to be recorded under Section 336 of Part XV of the SFO.

Share Option Scheme

The Company adopted a new share option scheme on 7 June 2004 (the “New Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations.

A summary of the New Scheme of the Company is as follows:

Purpose	To provide incentives and rewards to eligible participants for their contributions to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and any entity in which the Group holds an equity interest (the “Invested Entity”).
Participants	(i) any employee (whether full-time or part-time), executive directors, non-executive directors and independent non-executive directors of the Company, any of its subsidiaries or any Invested Entity; (ii) any supplier of goods or services to any member of the Group or any Invested Entity, any customer of the Group or any Invested Entity; any person or entity that provides technical, financial and legal support to the Group or any Invested Entity; and (iii) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity.
Total number of ordinary shares available for issue under the New Scheme and the percentage of the issued share capital that it represents as at the date of the annual report	172,590,233 ordinary shares and 5.52% of the existing issued share capital.
Maximum entitlement of each participant	Where any grant or further grant of options to a participant would result in the total number of shares issued and to be issued upon exercise of all the options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such grant or further grant representing in aggregate over 1% of the total number of shares in issue, such grant or further grant must be separately approved by the shareholders in a general meeting.

	Where any grant or further grant of options to a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates, would result in the shares issued and to be issued upon exercise of all options already granted and to be granted (including exercised, cancelled and outstanding options) to such person in the 12-month period up to and including the date of such grant: (a) representing in aggregate over 0.1% of the relevant class of shares in issue; and (b) having an aggregate value, based on the closing price of the shares at the date of each grant, in excess of HK$5,000,000, such grant or further grant of options must be approved by the shareholders in a general meeting.
Period within which the securities must be taken up under an option	An option may be exercised at any time during a period to be determined and notified by the directors to each grantee, but shall end in any event not later than 10 years from the date of offer of the grant of options subject to the provisions for early termination set out in the New Scheme.
Minimum period for which an option must be held before it can be exercised	There is no minimum period for which an option granted must be held before it can be exercised except otherwise imposed by the directors.
Amount payable on acceptance of the option and the period within which such payment must be made	The offer of a grant of share options may be accepted within 28 days from the date of the offer with a consideration of HK$1.00 being payable by the grantee.
Basis of determining the exercise price	Determined by the directors but shall not be less than the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet on the date of offer of grant of options, which must be a trading day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of offer of grant of options; and (iii) the nominal value of the Company's shares.
The remaining life of the New Scheme	The New Scheme remains in force until 6 June 2014.

During the year under review, no share options were granted. Details of the share options granted under the New Scheme are as follows:

As at 31 December 2013, the executive directors, non-executive directors and employees of the Group have the following interests under the New Scheme.

Director	Date of Offer	Exercise Price HK$	Outstanding at 1.1.2013	Granted During the Year	Exercised During the Year	Lapsed During the Year	Outstanding at 31.12.2013	Exercise Period	Closing Price of the Securities Immediately before the Date on Which the Options were Offered HK$
Cheung Siu Lam	04.10.07	0.479	10,000,000	–	–	–	10,000,000	04.10.07 – 03.10.17	0.460
	22.10.10	0.359	1,000,000	–	–	–	1,000,000	22.10.10 – 21.10.20	0.360
Lo Wan	04.10.07	0.479	10,000,000	–	–	–	10,000,000	04.10.07 – 03.10.17	0.460
	22.10.10	0.359	1,000,000	–	–	–	1,000,000	22.10.10 – 21.10.20	0.360
Chan Yuk Ming	04.10.07	0.479	10,000,000	–	–	–	10,000,000	04.10.07 – 03.10.17	0.460
	22.10.10	0.359	2,000,000	–	–	–	2,000,000	22.10.10 – 21.10.20	0.360
Tao Ye	04.10.07	0.479	5,000,000	–	–	–	5,000,000	04.10.07 – 03.10.17	0.460
	22.10.10	0.359	2,000,000	–	–	–	2,000,000	22.10.10 – 21.10.20	0.360
Luo Rui	22.10.10	0.359	2,000,000	–	–	–	2,000,000	22.10.10 – 21.10.20	0.360
Guan Xue Ling	22.10.10	0.359	2,000,000	–	–	–	2,000,000	22.10.10 – 21.10.20	0.360
Employees in aggregate	04.10.07	0.479	28,000,000	–	16,000,000	2,000,000	10,000,000	04.10.07 – 03.10.17	0.460
	22.10.10	0.359	24,000,000	–	23,000,000	–	1,000,000	22.10.10 – 21.10.20	0.360

REPORT OF THE DIRECTORS

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

During the year, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Retirement Schemes

The Group also operates a Mandatory Provident Fund Scheme under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance, and participates in various defined contribution retirement plans organised by the relevant authorities for its employees in the PRC.

Corporate Governance

Details of the corporate governance are set out in the section headed "Corporate Governance Report" in this annual report.

Sufficiency of Public Float

Based on the information that is publicly available to the Company and to the knowledge of the directors, the directors confirm that the Company has maintained the amount of public float as required under the Listing Rules during the year.

Auditor

The financial statements have been audited by Crowe Horwath (HK) CPA Limited, Certified Public Accountants. A resolution for their re-appointment as the Company's auditor for the ensuing year is to be proposed at the forthcoming annual general meeting of the Company.

On behalf of the board

Cheung Siu Lam
Chairman

Hong Kong, 20 March 2014

Crowe Horwath™

國富浩華(香港)會計師事務所有限公司
Crowe Horwath (HK) CPA Limited
Member Crowe Horwath International

9/F Leighton Centre,
77 Leighton Road,
Causeway Bay, Hong Kong

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF CHINA FINANCIAL SERVICES HOLDINGS LIMITED
(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of China Financial Services Holdings Limited ("the Company") and its subsidiaries (together "the Group") set out on pages 39 to 137, which comprise the consolidated and company statements of financial position as at 31 December 2013, and the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

INDEPENDENT AUDITOR'S REPORT

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Crowe Horwath (HK) CPA Limited
Certified Public Accountants
Hong Kong, 20 March 2014

Yau Hok Hung
Practising Certificate Number P04911

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2013

	Note	2013 HK$'000	2012 HK$'000
Continuing operations			
Turnover	3	**440,724**	300,601
Other revenue	3	**32,569**	14,867
Other net (loss)/income	4	**(28,691)**	19,093
General and administrative expenses		**(90,180)**	(72,891)
Profit from operations		**354,422**	261,670
Share of loss of an associate		**(40)**	–
Finance costs	5(a)	**(24,074)**	(8,245)
Profit before taxation from continuing operations	5	**330,308**	253,425
Income tax	6(a)	**(90,173)**	(68,218)
Profit for the year from continuing operations		**240,135**	185,207
Discontinued operations			
Profit for the year from discontinued operations	9	**–**	2,208
Gain on disposal of a subsidiary	9	**–**	68,234
		–	70,442
Profit for the year		**240,135**	255,649
Attributable to:			
Equity shareholders of the Company		**237,478**	254,039
Non-controlling interests		**2,657**	1,610
Profit for the year		**240,135**	255,649
Profit attributable to equity shareholders of the Company arising from:			
– Continuing operations		**237,478**	184,215
– Discontinued operation		**–**	69,824
		237,478	254,039

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2013

	Note	2013 HK$'000	2012 HK$'000
Earnings per share (in HK cent)	12		
From continuing and discontinued operations			
– Basic		**HK7.749 cents**	HK8.476 cents
– Diluted		**HK7.700 cents**	HK8.453 cents
From continuing operations			
– Basic		**HK7.749 cents**	HK6.147 cents
– Diluted		**HK7.700 cents**	HK6.129 cents
From discontinued operations			
– Basic		**N/A**	HK2.329 cents
– Diluted		**N/A**	HK2.324 cents

The notes on pages 48 to 137 form an integral part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 11.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2013

	2013 HK$'000	2012 HK$'000
Profit for the year	**240,135**	255,649
Other comprehensive income/(loss) for the year, net of nil income tax		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of overseas subsidiaries	**31,269**	(13,007)
Change in fair value of available-for-sale financial assets	**(2,038)**	3,336
Other comprehensive income/(loss) for the year, net of nil income tax	**29,231**	(9,671)
Total comprehensive income for the year	**269,366**	245,978
Attributable to:		
Equity shareholders of the Company	**257,988**	244,175
Non-controlling interests	**11,378**	1,803
Total comprehensive income for the year	**269,366**	245,978
Total comprehensive income attributable to equity shareholders of the Company arising from:		
– Continuing operations	**257,988**	174,351
– Discontinued operation	**–**	69,824
	257,988	244,175

The notes on pages 48 to 137 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

	Note	2013 HK$'000	2012 HK$'000
Non-current assets			
Property, plant and equipment	13	**7,089**	10,732
Goodwill	15	**656,730**	622,703
Interest in an associate	16	**3,860**	–
Available-for-sale investments	17	**45,536**	55,359
		713,215	688,794
Current assets			
Accounts receivable	18	**22,607**	25,388
Short-term loans receivables	19	**1,893,678**	1,071,318
Interests receivable	20	**15,635**	5,533
Security deposits paid	21	**103,610**	10,923
Forfeited collateral held for sales	22	**533**	638
Consideration receivable from disposal of a subsidiary	38	**–**	61,543
Other receivables, deposits and prepayments	23	**7,812**	210,967
Tax recoverable	6(c)	**151**	–
Cash and cash equivalents	25	**103,288**	313,460
		2,147,314	1,699,770
Current liabilities			
Short-term borrowings	26	**416,040**	308,103
Bank loans	27	**22,894**	3,700
Security deposits received	28	**109,833**	–
Amount due to an associate		**3,561**	–
Other payables, deposits received and accruals	29	**18,299**	189,652
Liabilities arising from loan guarantee contracts	30	**6,325**	1,111
Income received in advance	31	**5,371**	–
Financial derivatives	32	**1,000**	–
Tax payable	6(c)	**65,031**	44,177
		648,354	546,743
Net current assets		**1,498,960**	1,153,027
Total assets less current liabilities		**2,212,175**	1,841,821

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

	Note	2013 HK$'000	2012 HK$'000
Non-current liabilities			
Bank loans	27	**17,806**	20,966
Convertible note	33	**57,802**	–
Deferred tax liabilities	34	**5,356**	10,964
		80,964	31,930
NET ASSETS		**2,131,211**	1,809,891
EQUITY			
Share capital	35	**312,908**	299,700
Reserves	36	**1,777,557**	1,480,823
TOTAL EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY		**2,090,465**	1,780,523
Non-controlling interests		**40,746**	29,368
TOTAL EQUITY		**2,131,211**	1,809,891

The consolidated financial statements on pages 39 to 137 were approved and authorised for issue by the board of directors on 20 March 2014 and were signed on its behalf by:

Cheung Siu Lam
Director

Chan Yuk Ming
Director

The notes on pages 48 to 137 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

	Note	2013 HK$'000	2012 HK$'000
Non-current assets			
Property, plant and equipment	13	**2,322**	3,020
Interests in subsidiaries	14	**63,669**	63,669
Interest in an associate	16	**3,900**	–
		69,891	66,689
Current assets			
Amounts due from subsidiaries	24	**1,477,496**	1,378,956
Other receivables, deposits and prepayments	23	**1,262**	1,227
Cash and cash equivalents	25	**8,673**	81,233
		1,487,431	1,461,416
Current liabilities			
Amounts due to subsidiaries	24	**102,210**	102,740
Other payables, deposits received and accruals	29	**559**	38,326
		102,769	141,066
Net current assets		**1,384,662**	1,320,350
Total assets less current liabilities		**1,454,553**	1,387,039
Non-current liabilities			
Convertible note	33	**57,802**	–
NET ASSETS		**1,396,751**	1,387,039
EQUITY			
Equity attributable to equity shareholders of the Company			
Share capital	35	**312,908**	299,700
Reserves	36	**1,083,843**	1,087,339
TOTAL EQUITY		**1,396,751**	1,387,039

Approved and authorised for issue by the board of directors on 20 March 2014 and were signed on its behalf by:

Cheung Siu Lam	**Chan Yuk Ming**
Director	*Director*

The notes on pages 48 to 137 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

	Attributable to equity shareholders of the Company									
	Share capital HK$'000	Share premium HK$'000	Share-based compensation reserve HK$'000	Exchange fluctuation reserve HK$'000	Fair value reserve HK$'000	Statutory surplus reserve HK$'000	Retained earnings HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
Balance at 1 January 2012	299,700	865,692	22,117	29,665	(2,751)	9,187	312,738	1,536,348	30,930	1,567,278
Changes in equity in 2012:										
Profit for the year	–	–	–	–	–	–	254,039	254,039	1,610	255,649
Other comprehensive loss	–	–	–	(13,200)	3,336	–	–	(9,864)	193	(9,671)
Total comprehensive income	–	–	–	(13,200)	3,336	–	254,039	244,175	1,803	245,978
Pre-acquisition dividend paid	–	–	–	–	–	–	–	–	(778)	(778)
Transfer to reserve	–	–	–	–	–	8,773	(8,773)	–	–	–
Disposal of a subsidiary	–	–	–	–	–	–	–	–	(2,587)	(2,587)
Balance at 31 December 2012 and 1 January 2013	299,700	865,692	22,117	16,465	585	17,960	558,004	1,780,523	29,368	1,809,891
Changes in equity in 2013:										
Profit for the year	–	–	–	–	–	–	237,478	237,478	2,657	240,135
Other comprehensive income	–	–	–	22,548	(2,038)	–	–	20,510	8,721	29,231
Total comprehensive income	–	–	–	22,548	(2,038)	–	237,478	257,988	11,378	269,366
Conversion of convertible note	9,308	57,540	–	–	–	–	–	66,848	–	66,848
Shares issued under share option scheme	3,900	20,749	(8,728)	–	–	–	–	15,921	–	15,921
Transfer to retained earnings upon lapse of share options	–	–	(470)	–	–	–	470	–	–	–
Dividend paid	–	–	–	–	–	–	(30,815)	(30,815)	–	(30,815)
Transfer to reserve	–	–	–	–	–	808	(808)	–	–	–
Balance at 31 December 2013	**312,908**	**943,981**	**12,919**	**39,013**	**(1,453)**	**18,768**	**764,329**	**2,090,465**	**40,746**	**2,131,211**

The notes on pages 48 to 137 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	Note	2013 HK$'000	2012 HK$'000
Operating activities			
Profit before taxation			
– Continuing operations		**330,308**	253,425
– Discontinued operations		**–**	70,793
Adjustments for			
Depreciation of property, plant and equipment	13	**4,497**	4,087
Amortisation of intangible assets		**–**	9
Gain on disposal of property, plant and equipment	4	**–**	(6,189)
Gain on disposal of available-for-sale investments	4	**(3,160)**	(5,239)
Impairment loss for short-term loans receivables	19(b)	**578**	366
Reversal of provision of impairment loss for short-term loans receivables	19(b)	**–**	(35)
Bank interest income	3	**(2,289)**	(1,039)
Finance costs	5(a)	**24,074**	8,245
Dividend income from listed investments	3	**(1,366)**	(1,274)
Gain on disposal of a subsidiary	38	**–**	(68,234)
Share of loss of an associate		**40**	–
Fair value change of financial derivatives	4	**1,000**	–
Fair value change of convertible note	4	**35,637**	–
Gain on translation of convertible note at FVTPL denominated in a foreign currency into the functional currency	4	**(516)**	–
		388,803	254,915
Changes in working capital			
Increase in inventories		**–**	(4,430)
Decrease/(increase) in accounts receivable		**2,781**	(23,347)
Increase in short-term loans receivables		**(827,866)**	(262,053)
(Increase)/decrease in interests receivable		**(10,102)**	750
(Increase)/decrease in security deposits paid		**(92,687)**	7,580
Decrease in financial assets at fair value through profit or loss		**–**	3,898
Decrease/(increase) in forfeited collateral held for sales		**105**	(638)
Decrease/(increase) in other receivables, deposits and prepayments		**203,155**	(252,657)
Decrease in accounts payable		**–**	(18,932)
(Decrease)/increase in other payables, deposits received and accruals		**(171,353)**	71,414
Increase/(decrease) in liabilities arising from loan guarantee contracts		**5,041**	(740)
Increase/(decrease) in income received in advance		**5,288**	(16,275)
Cash used in operations		**(496,835)**	(240,515)
Taxation paid			
– PRC enterprise income tax	6(c)	**(77,150)**	(52,265)
– Hong Kong Profits Tax	6(c)	**(38)**	(105)
Taxation refund			
– PRC enterprise income tax	6(c)	**16**	224
Net cash used in operating activities		**(574,007)**	(292,661)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	Note	**2013** **HK$'000**	2012 HK$'000
Investing activities			
Purchase of property, plant and equipment	13	**(666)**	(5,640)
Proceeds on disposal of property, plant and equipment		**–**	8,453
Purchase of available-for-sale investments		**(377)**	(15,111)
Proceeds from sale of available-for-sale investments		**11,322**	30,339
Investment in an associate		**(3,900)**	–
Proceeds on disposal of a subsidiary, net of cash disposed		**61,543**	64,539
Proceeds on disposal of an investment property		**–**	61,454
Bank interest received	3	**2,289**	1,039
Dividend received from listed investment	3	**1,366**	1,274
Net cash inflow from investing activities		**71,577**	146,347
Financing activities			
Proceeds from new bank loans		**18,784**	67,599
Repayment of bank loans		**(2,750)**	(94,144)
Proceeds from new short-term borrowings		**406,704**	308,103
Repayment of short-term borrowings		**(308,103)**	–
Security deposit received		**109,833**	–
Proceeds from issuance of convertible note		**93,600**	–
Advance from an associate		**3,561**	–
Proceeds from exercise of share option		**15,921**	–
Coupon interest paid for convertible note		**(4,071)**	–
Other interest paid		**(14,738)**	(8,245)
Dividends paid		**(30,815)**	–
Pre-acquisition dividend paid		**–**	(778)
Net cash inflow from financing activities		**287,926**	272,535
(Decrease)/increase in cash and cash equivalents		**(214,504)**	126,221
Effect of foreign exchange rate changes		**4,332**	–
Cash and cash equivalents at beginning of the year		**313,460**	187,239
Cash and cash equivalents at end of the year	25	**103,288**	313,460

Major non-cash transaction

On 26 April 2013 and 20 November 2013, the convertible note of US$6,000,000 (equivalent to HK$46,542,000) was converted into the Company's ordinary shares, creating a total of 93,084,000 new ordinary shares at a conversion price of HK$0.5 per share. Details are set out in note 35 to the financial statements.

The notes on pages 48 to 137 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

1. Corporate Information

The Company is a limited liability company incorporated in Hong Kong. The address of its registered office is Suite 5606, 56th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 14 to the financial statements.

2. Significant Accounting Policies

a) *Statement of compliance*

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Company and its subsidiaries (together referred to as the "Group") are set out below.

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

b) *Basis of preparation of the financial statements*

The consolidated financial statements for the year ended 31 December 2013 comprise the Company and its subsidiaries and the Group's interest in an associate.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

– financial instruments classified as available-for-sale financial assets and financial assets at fair value through profit or loss (see note 2(j));

– derivative financial instruments (see note 2(g)); and

– convertible note (see note 2(n)).

Non-current assets and disposal group held for sale are stated at the lower of carrying amount and fair value less costs to sell (see note 2(x)).

2. Significant Accounting Policies *(Continued)*

b) Basis of preparation of the financial statements (Continued)

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 42.

c) Changes in accounting policies

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

Amendments to HKAS 1 "Presentation of Financial Statements" – Presentation of items of other comprehensive income
HKFRS 10 "Consolidated Financial Statements"
HKFRS 12 "Disclosure of interests in Other Entities"
HKFRS 13 "Fair Value Measurement"
Annual Improvements to HKFRSs 2009-2011 Cycle
Amendments to HKFRS 7 "Financial Instruments: Disclosures" – Offsetting financial assets and financial liabilities

2. Significant Accounting Policies *(Continued)*

c) *Changes in accounting policies (Continued)*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of new or amended HKFRSs are discussed below:

Amendments to HKAS 1 "Presentation of Financial Statements" – Presentation of items of other comprehensive income

The amendments require entities to present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The presentation of other comprehensive income in the consolidated statement of profit or loss and other comprehensive income in these financial statements has been modified accordingly. In addition, the Group has chosen to use the new titles "statement of profit or loss" and "statement of profit or loss and other comprehensive income" as introduced by the amendments in these financial statements.

HKFRS 10 "Consolidated Financial Statements"

HKFRS 10 replaces the requirements in HKAS 27 "Consolidated and Separate Financial Statements" relating to the preparation of consolidated financial statements and HK(SIC) – Int 12 "Consolidation – Special Purpose Entities". It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns.

As a result of the adoption of HKFRS 10, the Group has changed its accounting policy with respect to determining whether it has control over an investee. The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013.

HKFRS 12 "Disclosure of Interests in Other Entities"

HKFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required by HKFRS 12 are generally more extensive than those previously required by the respective standards.

2. Significant Accounting Policies *(Continued)*

c) *Changes in accounting policies* *(Continued)*

HKFRS 13 “Fair Value Measurement”

HKFRS 13 replaces existing guidance in individual HKFRSs with a single source of fair value measurement guidance. HKFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. The adoption of HKFRS 13 does not have any material impact on the fair value measurements of the Group’s assets and liabilities.

Annual Improvements to HKFRSs 2009-2011 Cycle

This cycle of annual improvements contains amendments to five standards with consequential amendments to other standards and interpretations. These amendments do not have any material impact on the results of operations and financial position of the Group for the years presented.

Amendments to HKFRS 7 “Financial Instruments: Disclosures – Offsetting financial assets and financial liabilities

The amendments introduce new disclosures in respect of offsetting financial assets and financial liabilities. Those new disclosures are required for all recognised financial instruments that are set off in accordance with HKAS 32 “Financial Instruments: Presentation” and those that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments and transactions, irrespective of whether the financial instruments are set off in accordance with HKAS 32. The adoption of the amendments does not have any significant impact on these financial statements.

2. Significant Accounting Policies *(Continued)*

d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with notes 2(m), (n) or (o) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

2. Significant Accounting Policies *(Continued)*

d) Subsidiaries and non-controlling interests (Continued)

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(j)) or, when appropriate, the cost on initial recognition of an investment in an associate (see note 2(e)) or joint venture.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 2(k)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale) (see note 2(x)).

e) Associates

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale) (see note 2(x)). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 2(f) and (k)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

2. Significant Accounting Policies *(Continued)*

e) Associates (Continued)

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(j)).

In the Company's statement of financial position, investments in associates are stated at cost less impairment losses (see note 2(k)), unless classified as held for sale (or included in a disposal group that is classified as held for sale) (see note 2(x)).

f) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 2(k)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

g) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

2. Significant Accounting Policies *(Continued)*

h) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 2(k)).

Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised in profit or loss during the financial period in which they are incurred.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

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

– Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion;

–	Leasehold improvements	3 years or over the remaining term of the lease, if shorter
–	Furniture and equipment	3 to 5 years
–	Motor vehicles	4 to 5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. Significant Accounting Policies *(Continued)*

i) Leased assets

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

i) Classification of assets leased to the Group

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

ii) Operating lease charges

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

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

j) Financial assets

Financial assets are recognised in the consolidated statement of financial position when a Group entity becomes a party to the contractual provisions of the instrument.

Financial assets are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets (other than financial assets at fair value through profit or loss) are added to the fair value of the financial assets on initial recognition. Transaction costs directly attributable to the acquisition or issue of financial assets at fair value through profit or loss are recognized immediately in profit or loss.

The Group's financial assets are classified into one of the three categories, including available-for-sale financial assets, financial assets at fair value through profit or loss ("FVTPL") and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

2. Significant Accounting Policies *(Continued)*

j) Financial assets (Continued)

i) Available-for-sale financial assets

Equity and debt securities held by the Group that are classified as available-for-sale financial assets are measured at fair value at the end of each reporting period, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve.

As an exception to this, available-for-sale financial assets that do not have a quoted market price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the statement of financial position at cost less impairment losses (see note 2(k)).

Dividend income from these investments is recognised in profit or loss in accordance with the policy set out in note 2(u)(v) and, where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss as set out in note 2(u)(vi). When these investments are derecognised or impaired (see note 2(k)), the cumulative gain or loss is reclassified from equity to profit or loss.

Investments are recognised/derecognised on the date the Group and/or the Company commits to purchase/sell the investments or when they expire.

ii) Financial assets at fair value through profit or loss

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- on initial recognition it is part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

2. Significant Accounting Policies *(Continued)*

j) *Financial assets* *(Continued)*

ii) *Financial assets at fair value through profit or loss* *(Continued)*

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

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

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

- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 "Financial Instruments: Recognition and Measurement" permits the entire combined contract (asset or liability) to be designated as at FVTPL.

At the end of each reporting period subsequent to initial recognition, financial assets at FVTPL are stated at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset.

Assets in this category are classified as current assets if expected to be settled within 12 months after the end of reporting period; otherwise, they are classified as non-current.

iii) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method less allowance for impairment of doubtful debts (see note 2(k)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such case, loan and receivables are stated at cost less allowance for impairment of doubtful debts. They are included in current assets, except for the amount that are settled or expected to be settled more than 12 months after the end of reporting period. These are classified as non-current assets.

2. Significant Accounting Policies *(Continued)*

j) *Financial assets* *(Continued)*

iii) *Loans and receivables* *(Continued)*

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset 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 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 asset, 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.

k) *Impairment of assets*

i) *Impairment of investments in equity securities and other financial assets*

Investments in equity securities and other current and non-current financial assets that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

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

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

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

2. Significant Accounting Policies *(Continued)*

k) *Impairment of assets* *(Continued)*

i) *Impairment of investments in equity securities and other financial assets* *(Continued)*

If any such evidence exists, any impairment loss is determined and recognised as follows:

- For investments in associates accounted for under the equity method in the consolidated financial statements (see note 2(e)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 2(k)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 2(k)(ii).

- For available-for-sale equity securities that are measured at fair value at the end of the reporting period, the cumulative loss that had been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

  Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

- For financial assets that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured and are carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

2. Significant Accounting Policies *(Continued)*

k) *Impairment of assets* (Continued)

i) *Impairment of investments in equity securities and other financial assets* (Continued)

– For loans and receivables, the Group use two methods of assessing impairment losses: those assessed individually and those assessed on a collective basis.

- Individual assessment

  Loans and receivables, which are considered individually significant, are assessed individually for impairment. If there is objective evidence of impairment of loans and receivables, the amount of loss is measured as the excess of its carrying amount over the present value of the estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. The impairment losses are recognised in profit or loss.

  The calculation of the present value of the estimated future cash flows of a collateralised loan or receivable reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

- Collective assessment

  Loans and receivables which are assessed collectively for impairment include individually assessed loans and receivables with no objective evidence of impairment on an individual basis, and homogeneous groups of loans and receivables which are not considered individually significant and not assessed individually. Loans and receivables are grouped for similar credit risk characteristics for collective assessment. The objective evidence of impairment mainly includes that, though it is unable to identify the decrease of cash flow of each individual asset, after collective assessment based on observable data, there is observable evidence indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets.

The Group periodically reviews and assesses the impaired loans and receivables for any subsequent changes to the estimated recoverable amounts and the resulted changes in the provisions for impairment losses.

2. Significant Accounting Policies *(Continued)*

k) *Impairment of assets* (Continued)

i) *Impairment of investments in equity securities and other financial assets* (Continued)

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

When the Group determines that a loan or receivable has no reasonable prospect of recovery after the Group has completed all the necessary legal or other claim proceedings, the loan is written off against its provisions for impairment losses upon necessary approval.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of financial assets, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against financial assets directly and any amounts held in the allowance account relating to that assets are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

ii) *Impairment of other assets*

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- goodwill; and
- investments in subsidiaries and an associate in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

2. Significant Accounting Policies *(Continued)*

k) *Impairment of assets (Continued)*

ii) *Impairment of other assets (Continued)*

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable), or value in use (if determinable).

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. Significant Accounting Policies *(Continued)*

k) *Impairment of assets* *(Continued)*

iii) *Interim financial reporting and impairment*

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see note 2(k)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill, available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates. Consequently, if the fair value of an available-for-sale equity security increases in the remainder of the annual period, or in any other period subsequently, the increase is recognised in other comprehensive income and not profit or loss.

l) *Cash and cash equivalents*

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

m) *Accounts and other payables*

Accounts and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 2(r), accounts and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

2. Significant Accounting Policies *(Continued)*

(n) Convertible note

The convertible note consists of both liability component, conversion option and other embedded derivatives which are not closely related to the host liability contract. Conversion options that will not be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the issuer's own equity instruments are not equity instruments and are considered as embedded derivatives not closely related to the host contract.

The Group has elected to designate its convertible note with embedded derivatives as financial liabilities at FVTPL on initial recognition as the convertible note contains one or more embedded derivatives. Subsequent to initial recognition, the convertible note is measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The change in fair value recognised in profit or loss includes any interest paid for the convertible note.

Transaction costs that are directly attributable to the issue of the convertible note designated as financial liabilities at FVTPL are recognised immediately in profit or loss.

o) Interest-bearing borrowings

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

p) Forfeited collateral held for sale

Forfeited collateral held for sale consists of forfeited collateral, from moneylending loans not repaid. The forfeited collateral is stated at the lower of cost (moneylending loan principal) and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale. The cost of forfeited collateral held for sale, computed on the specific identification basis, is recorded as a cost of revenue at the time of sale.

2. Significant Accounting Policies *(Continued)*

q) *Employee benefits*

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

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

ii) *Share-based payments*

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

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

iii) *Termination benefits*

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

2. Significant Accounting Policies *(Continued)*

r) *Financial guarantees issued*

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

Undue liability provision is recognised at 50% of the guarantee income in the year it is generated.

Guarantee compensation provision is recognised at 1% of the year-end balance of the guarantee liability in the year it arisen.

s) *Provisions and contingent liabilities*

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

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

2. Significant Accounting Policies *(Continued)*

t) *Income tax*

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

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

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

2. Significant Accounting Policies *(Continued)*

t) *Income tax (Continued)*

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

u) *Revenue recognition*

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

i) *Sale of goods*

Revenue from the sale of merchandise is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the merchandise are delivered to customers and title has passed.

ii) Promotion and store display income, income from leasing of merchandise storage space are recognised according to contract terms and as services are provided.

2. Significant Accounting Policies *(Continued)*

u) Revenue recognition (Continued)

iii) Revenue from short term financing services

– 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 revenue can be measured reliably. Interest income from a financial assets 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 assets to that asset's net carrying amount on initial recognition.

– Loan guarantee service income, consists of guarantee fee and related service income and is recognised in profit or loss on a straight-line basis over the guarantee period.

– Financing consulting service income, which is collected from the customer at the inception of pawn loan and other short term loan, is recognised when the services are rendered.

iv) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

v) Dividends

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

– Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

vi) Other interest income

Other interest income is recognised as it accrues using the effective interest method.

2. Significant Accounting Policies *(Continued)*

u) Revenue recognition *(Continued)*

vii) Service income

Revenue arising from the provision of the services is recognised when the relevant services are rendered.

viii) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

v) Translation of foreign currencies

i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

ii) Transactions and balances

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss, except those arising from translation of the financial statements of overseas subsidiaries and the associate which are recognised in other comprehensive income.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

2. Significant Accounting Policies *(Continued)*

v) *Translation of foreign currencies* (Continued)

ii) *Transactions and balances* (Continued)

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items, including goodwill arising on consolidation of foreign operations acquired on or after 1 January 2005, are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve. Goodwill arising on consolidation of a foreign operation acquired before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of foreign operation.

On disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), the cumulative amount of the exchange differences in respect of that operation attributable to the equity shareholders of the Company are reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

In the case of a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates that do not result in the Group losing significant influence), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

w) *Borrowing costs*

All borrowing costs are expensed in the period in which they are incurred.

2. Significant Accounting Policies *(Continued)*

x) Non-current assets held for sale

A non-current asset (or disposal group) is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for sale in its present condition. A disposal group is a group of assets to be disposed of together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all the assets and liabilities of that subsidiary are classified as held for sale when the above criteria for classification as held for sale are met, regardless of whether the Group will retain a non-controlling interest in the subsidiary after the sale.

Immediately before classification as held for sale, the measurement of the non-current assets (and all individual assets and liabilities in a disposal group) is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below), or disposal groups, are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the financial statements of the Group and the Company are concerned are deferred tax assets and financial assets (other than investments in subsidiaries and associates). These assets, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in note 2.

Impairment losses on initial classification as held for sale, and on subsequent remeasurement while held for sale, are recognised in profit or loss. As long as a non-current asset is classified as held for sale, or is included in a disposal group that is classified as held for sale, the non-current asset is not depreciated or amortised.

y) Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. It also occurs if the operation is abandoned.

Where an operation is classified as discontinued, a single amount is presented on the face of the statement of profit or loss, which comprises:

– the post-tax profit or loss of the discontinued operation; and

– the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

2. Significant Accounting Policies *(Continued)*

z) Related parties

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

i) has control or joint control over the Group;

ii) has significant influence over the Group; or

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

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

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

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

iii) Both entities are joint ventures of the same third party.

iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

v) The entity is a post-employment benefit plan for the benefit of 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).

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

aa) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Company's board of directors for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

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

3. Revenue and Segment Reporting

a) Revenue

The amount of each significant category of revenue during the year arose from continuing operations is as follows:

	Group 2013 HK$'000	Group 2012 HK$'000
Turnover		
Interest income on provision of short-term financing services	**11,120**	21,378
Loan guarantee service income	**1,824**	2,612
Financing consultancy service income	**427,780**	276,611
	440,724	300,601
Other revenue		
Bank interest income	**2,289**	1,039
Rental receivable from operating leases, less direct outgoings of HK$Nil (2012: HK$Nil)	**–**	8,138
Dividend income from listed investments	**1,366**	1,274
Income from government subsidies	**14,565**	4,416
Property consultancy service income (see note below)	**11,289**	–
Sundry income	**3,060**	–
	32,569	14,867
Total revenue	**473,293**	315,468

Note: The property consultancy service income was received from two related companies of the Group, 北京嘉澤潤豐投資諮詢有限公司(“北京嘉澤潤豐”) and 北京嘉潤智德國際投資諮詢有限公司(“北京嘉潤智德”). Mr Cheung Siu Lam, the executive director of the Company, is a key management personnel of 北京嘉澤潤豐 and 北京嘉潤智德.

3. Revenue and Segment Reporting *(Continued)*

b) *Segmental Information*

i) *Operating segment information*

The Group engaged in a single type business of provision of short-term financing services. Accordingly, no operating segment information is presented.

ii) *Geographical Information*

The geographical location of customers is based on the location at which the goods are delivered and services are rendered. Substantially, all of the Group's revenue from external customers, non-current assets and capital expenditure are located in the People's Republic of China ("PRC"), no analysis on revenue from external customers and non-current assets by location are presented.

iii) *Information about major customers*

The Group's customer base is diversified, and turnover of approximately HK$48,411,000 is derived from a customer which has exceeded 10% of the Group's turnover for the year ended 31 December 2013. No single customer of the Group contributed 10% or more of the Group's turnover for year ended 31 December 2012.

4. Other Net (Loss)/Income

	Group	
	2013	2012
	HK$'000	HK$'000
Gain on disposal of available-for-sale investments	**3,160**	5,239
Gain on disposal of property, plant and equipment	**–**	6,189
Loss on fair value change on convertible note	**(35,637)**	–
Gain on translation of convertible note at FVTPL denominated in a foreign currency into the functional currency	**516**	–
	(35,121)	–
Loss on fair value change of financial derivatives in respect of a decumulator contract	**(1,000)**	–
Gain on disposal of forfeited collateral held for sales	**124**	–
Exchange gain, net	**4,021**	104
Others	**125**	7,561
	(28,691)	19,093

5. Profit Before Taxation from Continuing Operations

The Group's profit from continuing operations before taxation is arrived at after charging/(crediting):

Continuing operations	2013 HK$'000	2012 HK$'000
(a) Finance costs:		
Interest on bank loans wholly repayable within five years	**1,729**	501
Interest on short-term borrowings (see note 26)	**22,345**	7,744
Total interest expenses on financial liabilities not at fair value through profit or loss	**24,074**	8,245
(b) Staff costs (including directors' remuneration – note 7):		
Salaries, allowances and other benefits	**21,811**	18,785
Contributions to defined contribution retirement plans (see note below)	**2,975**	2,453
	24,786	21,238

Note: The Group operated a Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Scheme Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$25,000 (HK$20,000 prior to June 2012). Contributions to the plan vest immediately.

The employees of the Group's subsidiaries in the PRC are members of the state-managed retirement benefit scheme operated by the government of the PRC. The subsidiaries of the Group are required to contribute certain percentage of their payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

	2013 HK$'000	2012 HK$'000
(c) Other items:		
Depreciation	**4,497**	4,087
Operating lease charges in respect of properties	**5,645**	6,410
Auditors' remuneration	**1,285**	1,235
Reversal of impairment loss for short-term loans receivables	**–**	(35)
Impairment loss for short-term loans receivables	**578**	366

6. Income Tax

a) Taxation (relating to continuing operations) in the consolidated statement of profit or loss represents:

	Group	
	2013	2012
	HK$'000	HK$'000
Current tax – Hong Kong Profits Tax		
Over-provision in respect of prior years	**(8)**	–
Current tax – PRC Enterprise Income Tax		
Provision for the year	**95,603**	57,281
Under-provision in respect of prior years	**366**	309
Deferred tax		
Origination and reversal of temporary differences	**(5,788)**	10,628
	90,173	68,218

No provision for profits tax arising in Hong Kong has been made as the Group has no income assessable for profits tax for the year in Hong Kong (2012: Nil).

The provision for the PRC Enterprise Income Tax of the subsidiaries established in the PRC is calculated at 25% (2012: 25%) of the estimated taxable profits for the year.

b) Reconciliation between tax expense charged to profit or loss and accounting profit at the applicable tax rates:

	2013	2012
	HK$'000	HK$'000
Profit before taxation from continuing operations	**330,308**	253,425
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	**86,609**	55,482
Tax effect of non-taxable income	**(3,033)**	(74,488)
Tax effect of non-deductible expenses	**11,052**	80,364
Tax effect of temporary difference not recognised	**427**	(3,590)
Tax effect of utilisation of unused tax losses previously not recognised	**(304)**	(487)
Under-provision of PRC Enterprise Income Tax in prior years	**366**	309
Over-provision of Hong Kong Profits Tax in prior years	**(8)**	–
Tax effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	**(5,788)**	10,628
Others	**852**	–
Actual tax expense	**90,173**	68,218

6. Income Tax *(Continued)*

c) Current taxation in the consolidated statement of financial position represents:

	Group	
	2013	2012
	HK$'000	HK$'000
At 1 January	**(44,177)**	(34,743)
Provision for the year		
– PRC Enterprise Income Tax	**(95,603)**	(57,281)
Under-provision in respect of prior years	**(366)**	(309)
Over-provision in respect of prior years	**8**	–
Taxation paid for PRC Enterprise Income Tax	**77,150**	52,265
Taxation paid for Hong Kong Profits Tax	**38**	105
Tax refunded from PRC Enterprise Income Tax	**(16)**	(224)
Reclassified from deferred tax liabilities upon disposal of an investment property	**–**	(4,203)
Exchange adjustment	**(1,914)**	213
At 31 December	**(64,880)**	(44,177)
Analysed for reporting propose as:		
Tax recoverable	**151**	–
Tax payable	**(65,031)**	(44,177)
	(64,880)	(44,177)

7. Directors' And Chief Executive's Remuneration

Director's remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance and the chief executive's remuneration are as follows:

	Year ended 31 December 2013			
	Fees	Salaries, allowances and other benefits in kind	Retirement scheme contributions	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Executive directors				
Cheung Siu Lam *(Chairman)*	–	4,006	15	4,021
Chan Yuk Ming *(Vice chairman)*	–	939	15	954
Luo Rui (Chief executive officer) (note i)	15	571	67	653
Guan Xue Ling (note i)	15	116	–	131
Non-executive directors				
Lo Wan	40	–	–	40
Tao Ye	42	155	28	225
Independent non-executive directors				
Wang Jian Sheng	40	–	–	40
Chan Chun Keung	40	–	–	40
Tsang Kwok Wai	80	–	–	80
Liu Hui (note ii)	40	–	–	40
	312	5,787	125	6,224

7. Directors' And Chief Executive's Remuneration *(Continued)*

	Year ended 31 December 2012			
	Fees	Salaries, allowances and other benefits in kind	Retirement scheme contributions	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Executive directors				
Cheung Siu Lam *(Chairman)*	–	3,847	14	3,861
Chan Yuk Ming *(Vice chairman)*	–	903	14	917
Non-executive directors				
Liu Hui	40	–	–	40
Lo Wan	40	–	–	40
Tao Ye (note iii)	–	539	26	565
Independent non-executive directors				
Wang Jian Sheng	40	–	–	40
Chan Chun Keung	40	–	–	40
Tsang Kwok Wai	80	–	–	80
Chief executive officer				
Luo Rui	–	111	49	160
	240	5,400	103	5,743

Notes:

i) These directors were appointed during the year ended 31 December 2013. The amounts for the year represented the remuneration of the directors from the date of appointment.

ii) Mr. Liu Hui was re-designated from non-executive director to independent non-executive director on 13 August 2013.

iii) Mr. Tao Ye was re-designated from executive director to non-executive director on 11 December 2012.

As at 31 December 2013, the directors held share options under the Company's share option scheme. The details of the share options are disclosed under the paragraph "Share Option Scheme" in the report of the directors and in note 37.

During the years ended 31 December 2013 and 2012, no emoluments were paid by the Group to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the years ended 31 December 2013 and 2012.

8. Individuals with Highest Paid Emoluments

Of the five individuals with the highest emoluments in the Group, three (2012: three) were directors of the Company whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other two (2012: two) individuals were as follows:

	2013	2012
	HK$'000	HK$'000
Salaries, allowances and other benefits	**1,410**	1,318
Retirement scheme contributions	**30**	28
	1,440	1,346

The emoluments of the two (2012: two) individuals with the highest emoluments are within the following bands:

	2013	2012
Number of individuals		
HK$Nil up to HK$1,000,000	**2**	2

During the year ended 31 December 2013 and 2012, no emoluments were paid to any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

9. Discontinued Operations

On 26 November 2012, the Company's indirect wholly-owned subsidiary, K.P.B. Marketing Limited, entered into a sale and purchase agreement with MSPEA CVS Holding B.V. to dispose of 72% of issued share capital in Idea Thrive Limited, a company incorporated in the Cayman Islands with limited liability which directly and indirectly holds 100% of the equity interests in New Prosper Holdings Limited and 北京中港佳鄰商業諮詢有限公司 which mainly engaged in convenience store operations ("Disposal Group"), at the total consideration of RMB107,998,000 (equivalent to HK$133,575,000). The disposal of the convenience store operations is consistent with the Group's long-term policy to focus its resources in the short-term financing service business. The disposal was completed on 11 December 2012, on which date control of the Disposal Group and in effect the convenience store operations passed to the acquirer. Details of the assets and liabilities disposed of, and the calculation of the profit or loss on disposal, are disclosed below:

9. Discontinued Operations *(Continued)*

Analysis of profit for the year from discontinued operations

The results of the discontinued operations (i.e. convenience store operations) included in the consolidated statement of profit or loss and consolidated statement of cash flows are set out below.

	2012 HK$'000
Profit for the year from discontinued operations:	
Turnover	272,208
Cost of sales	(204,837)
Other net income	36,879
General and administrative expenses	(101,691)
Profit before tax	2,559
Income tax expense	(351)
Profit for the year from discontinued operations	2,208
Gain on disposal of a subsidiary (note 38)	68,234
	70,442
Profit for the year from discontinued operations attributable to:	
– Equity shareholders of the Company	69,824
– Non-controlling interests	618
Profit for the year from discontinued operations	70,442
Profit for the year from discontinued operations include the following:	
Amortisation of intangible asset	9
Cash flows from discontinued operations:	
Net cash inflows from operating activities	11,575
Net cash inflows from investing activities	58
Net cash outflows from financing activities	(35,128)
Net cash outflows	(23,495)

10. Profit Attributable to Equity Shareholders of the Company

The consolidated profit attributable to equity shareholders of the Company includes a loss of HK$42,242,000 (2012: profit of HK$78,216,000) which has been dealt with in the financial statements of the Company.

11. Dividend

The directors recommend the payment of a final dividend of HK1 cent per share for the year ended 31 December 2013 (2012: HK1 cent per share). The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

12. Earnings Per Share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company from continuing operations and discontinued operations of HK$237,478,000 and HK$Nil (2012: HK$184,215,000 and HK$69,824,000) respectively and the weighted average of 3,064,612,374 ordinary shares (2012: 2,997,002,336 ordinary shares) in issue during the year, calculated as follows:

(i) Profit attributable to equity shareholders of the Company

	2013 **HK$'000**	2012 HK$'000
Profit attributable to equity shareholders		
– Continuing operations	**237,478**	184,215
– Discontinued operations	**–**	69,824
	237,478	254,039

(ii) Weighted average number of ordinary shares (basic)

	2013 **Number of** **Shares**	2012 Number of Shares
Issued ordinary shares at 1 January	**2,997,002,336**	2,997,002,336
Effect of convertible note converted	**37,233,600**	–
Effect of share options exercised	**30,376,438**	–
Weighted average number of ordinary shares at 31 December	**3,064,612,374**	2,997,002,336

12. Earnings Per Share *(Continued)*

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to equity shareholders of the Company from continuing operations and discontinued operations of HK$42,242,000 and HK$Nil (2012: HK$184,215,000 and HK$69,824,000) respectively and the weighted average number of ordinary shares of 3,084,113,830 shares (2012: 3,005,451,262 shares), calculated as follows:

(i) Profit attributable to equity shareholders of the Company (diluted)

	2013 **HK$'000**	2012 HK$'000
Profit attributable to equity shareholders		
– Continuing operations	**237,478**	184,215
– Discontinued operations	–	69,824
Profit attributable to equity shareholders (diluted)	**237,478**	254,039

(ii) Weighted average number of ordinary shares (diluted)

	2013 **Number of Shares**	2012 Number of Shares
Weighted average number of ordinary shares (basic) at 31 December	**3,064,612,374**	2,997,002,336
Effect of deemed issue of shares under the Company's share option scheme	**19,501,456**	8,448,926
Weighted average number of ordinary shares (diluted) at 31 December	**3,084,113,830**	3,005,451,262

Note: During the year ended 31 December 2013, the computation of diluted earnings per share did not assume the exercise of the Company's outstanding convertible note since the conversion would result in an increase in diluted earning per share.

13. Property, Plant and Equipment

Group

	Leasehold land and building held for own use carried at cost HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Furniture and equipment HK$'000	Total HK$'000
Cost					
At 1/1/2012	2,125	6,643	4,535	2,688	15,991
Additions	–	1,590	3,776	274	5,640
Disposals	(1,776)	(1,215)	(1,223)	(107)	(4,321)
Exchange adjustment	–	58	1	(67)	(8)
At 31/12/2012 and 1/1/2013	349	7,076	7,089	2,788	17,302
Additions	–	238	–	428	666
Written off	(349)	–	–	(326)	(675)
Exchange adjustment	–	213	73	86	372
At 31/12/2013	**–**	**7,527**	**7,162**	**2,976**	**17,665**
Accumulated depreciation and impairment					
At 1/1/2012	1,005	498	2,189	931	4,623
Charge for the year	26	2,308	1,075	678	4,087
Written back on disposals	(682)	(45)	(1,223)	(107)	(2,057)
Exchange adjustment	–	(77)	2	(8)	(83)
At 31/12/2012 and 1/1/2013	349	2,684	2,043	1,494	6,570
Charge for the year	–	2,366	1,389	742	4,497
Written off	(349)	–	–	(321)	(670)
Exchange adjustment	–	109	26	44	179
At 31/12/2013	–	5,159	3,458	1,959	10,576
Carrying amounts					
At 31/12/2013	**–**	**2,368**	**3,704**	**1,017**	**7,089**
At 31/12/2012	–	4,392	5,046	1,294	10,732

The leasehold land and building of the Group is held under medium term lease and situated in the PRC.

13. Property, Plant and Equipment *(Continued)*

Company

	Leasehold improvements HK$'000	Motor vehicles HK$'000	Furniture and equipment HK$'000	Total HK$'000
Cost				
At 1/1/2012	378	1,992	596	2,966
Additions	–	3,410	–	3,410
Disposals	–	(1,223)	–	(1,223)
At 31/12/2012 and 1/1/2013	378	4,179	596	5,153
Additions	–	–	10	10
At 31/12/2013	**378**	**4,179**	**606**	**5,163**
Accumulated depreciation				
At 1/1/2012	378	1,992	505	2,875
Charge for the year	–	455	26	481
Written back on disposals	–	(1,223)	–	(1,223)
At 31/12/2012 and 1/1/2013	378	1,224	531	2,133
Charge for the year	–	682	26	708
At 31/12/2013	**378**	**1,906**	**557**	**2,841**
Carrying amounts				
At 31/12/2013	**–**	**2,273**	**49**	**2,322**
At 31/12/2012	–	2,955	65	3,020

14. Interests in Subsidiaries

	Company 2013 HK$'000	Company 2012 HK$'000
Unlisted shares, at cost	**63,669**	63,669

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group:

Name	Country of incorporation/ registration and operations	Nominal value of issued and paid-up share/ registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
K.P.B. Group Holdings Limited	British Virgin Islands ("BVI")/Hong Kong	Ordinary US$12	100%	–	Investment holding
北京華夏興業融資擔保有限公司 (note j)	PRC	Registered capital RMB300,000,000	100%	–	Provision of loan guarantee service
Charter Merit Limited	Hong Kong	Ordinary HK$2	–	100%	Holding of a club membership
Charter Paradise Limited	Hong Kong	Ordinary HK$2	–	100%	Holding of a club membership
K.P.A. Company Limited	Hong Kong	Ordinary HK$2 Deferred HK$2	–	100%	Investment holding
K.P.B. Asset Holdings Limited	BVI/Hong Kong	Ordinary US$6	–	100%	Investment holding
K.P.B. Marketing Limited	BVI/Hong Kong	Ordinary US$2	–	100%	Investment holding
K.P.B. – T.C. Holdings Limited	BVI/Hong Kong	Ordinary US$1	–	100%	Investment holding
K.P.B. Trading Limited	BVI/Hong Kong	Ordinary US$4	–	100%	Investment holding
K.P.I. Development Limited	Hong Kong	Ordinary HK$2 Deferred HK$10,000	–	100%	Trading of financial securities
K.P.I. Industries Limited	Hong Kong	Ordinary HK$2 Deferred HK$2	–	100%	Investment holding

14. Interests in Subsidiaries *(Continued)*

Name	Country of incorporation/ registration and operations	Nominal value of issued and paid-up share/ registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
K.P.I. International Trading Company Limited	Hong Kong	Ordinary HK$2 Deferred HK$2	–	100%	Holding of a club membership and trading of financial securities
K.P.I. Convenience Retail Company Limited	BVI/Hong Kong	Ordinary US$50,000	–	72%	Investment holding
K.P.I. Property Investment Company Limited	Hong Kong	Ordinary HK$2	–	100%	Investment holding
北京嘉鑫銘物業管理有限公司 (note e)	PRC	Registered capital US$3,000,000	–	100%	Provision of property management service
北京中金投財務諮詢有限公司 (note f)	PRC	Registered capital US$300,000	–	100%	Provision of financing consultancy service
北京中金投商業經紀有限公司 (note g)	PRC	Registered capital RMB500,000	–	100%	Provision of rental service
北京中金港資產管理有限公司 (note h)	PRC	Registered capital RMB500,000	–	100%	Provision of financing consultancy service
北京惠豐融金小額貸款有限公司 (note i)	PRC	Registered capital RMB50,000,000	–	70%	Provision of short-term financing services
K.P. Financial Group Limited	BVI/Hong Kong	Ordinary US$1	–	100%	Investment holding
KP Financial Holdings Limited	Hong Kong	Ordinary HK$1	–	100%	Investment holding
KP Financial Services Limited	Hong Kong	Ordinary HK$1	–	100%	Money lending business
海口港佳貿易有限公司 (海口港佳) (note a)	PRC	Registered capital US$25,400,000	–	100%	Investment holding
北京中嘉利通商貿有限公司 (note b)	PRC	Registered capital RMB30,000,000	–	100%	Investment holding

14. Interests in Subsidiaries *(Continued)*

Name	Country of incorporation/ registration and operations	Nominal value of issued and paid-up share/ registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
北京中港佳鄰商業有限公司 (note c)	PRC	Registered capital US$13,000,000	–	72%	Provision of consultancy service
北京中金投典當行有限公司 (note d)	PRC	Registered capital RMB80,000,000	–	100%	Provision of short-term financing services

Notes:

a) 海口港佳 is a wholly foreign-owned enterprise established in the PRC to be operated for 20 years up to August 2015.

b) 北京中嘉利通商貿有限公司 is a wholly foreign-owned enterprise established by 海口港佳 to be operated for 15 years up to March 2023.

c) 北京中港佳鄰商業有限公司 is a wholly foreign-owned enterprise established in the PRC to be operated for 20 years up to March 2028.

d) 北京中金投典當行有限公司 is a limited liability company established in the PRC.

e) 北京嘉鑫銘物業管理有限公司 is a wholly foreign-owned enterprise established in the PRC to be operated for 20 years up to December 2030.

f) 北京中金投財務諮詢有限公司 is a wholly foreign-owned enterprise established in the PRC to be operated for 20 years up to December 2030.

g) 北京中金投商業經紀有限公司 is a limited liability company established in the PRC.

h) 北京中金港資產管理有限公司 is a limited liability company established in the PRC.

i) 北京惠豐融金小額貸款有限公司 is a limited liability company established in the PRC.

j) 北京華夏興業融資擔保有限公司 is a wholly foreign-owned enterprise established in the PRC to be operated for 20 years up to June 2031. On 28 May 2012, 北京華夏興業融資擔保有限公司, a wholly-owned subsidiary of the Company, increased its registered capital from RMB100,000,000 to RMB300,000,000.

   As at 31 December 2013, the Company had contributed RMB40,122,680. The remaining amount of RMB159,877,320 (approximately HK$203,347,000) will be settled within one year.

   As at 31 December 2012, the Company had contributed RMB40,122,680. The remaining amount of RMB159,877,320 (approximately HK$203,347,000) will be settled within two years.

k) The Group had no subsidiaries which have material non-controlling interests for the years ended 31 December 2013 and 2012.

15. Goodwill

	Group	
	2013	2012
	HK$'000	HK$'000
Cost and carrying amount		
At 1 January	**622,703**	622,703
Exchange adjustment	**34,027**	–
At 31 December	**656,730**	622,703

Impairment test for cash-generating unit containing goodwill

Goodwill is allocated to the Group's cash-generating unit ("CGU") of short-term financing business in the PRC.

The recoverable amount of the CGU is determined based on the value-in-use calculations, which are based on a business valuation report on the CGU prepared by an independent qualified professional valuer, Peak Vision Appraisals Limited (2012: Peak Vision Appraisals Limited). These calculations use cash flow projections based on financial budgets approved by management covering a three-year period (2012: three-year period). Cash flows beyond the three-year period (2012: three-year period) are extrapolated using an estimated growth rate stated below which is by reference to the forecasts based on the funds available for the Group's loan financing business and does not exceed the forecasts included in industry reports. The growth rates used do not exceed the long-term average growth rates for the business in which the CGU operates. The cash flows are discounted using a discount rate stated below. The discount rates used are pre-tax and reflects specific risks relating to the relevant operating segment.

Key assumptions used for the value-in-use calculations are as follows:

	2013	2012
Growth rate	**3%**	3%
Gross margin	**80%**	88%
Discount rate	**15.72%**	13.52%

Management determined the budgeted gross margin based on past performance and its expectation for market development.

The directors believe that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the CGU to exceed its recoverable amount.

16. Interest in An Associate

	Group		Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Unlisted shares, at cost	**–**	–	**3,900**	–
Share of net assets	**3,860**	–	**–**	–
	3,860	–	**3,900**	–

The following list contains the particulars of the associate, which is an unlisted corporate entity whose quoted market price is not available.

			Proportion of ownership interest		
Name of associate	**Place of incorporation and business**	**Particulars of registered capital**	**Group's effective interest**	**Held by the Company**	**Principal activity**
北京中匯豐源融資租賃有限公司 (see note below)	The PRC	Registered capital USD10,000,000	25%	25%	Not yet commenced operations

Note: 北京中匯豐源融資租賃有限公司 is established in the PRC in the form of sino-foreign equity enterprise.

On 30 August 2012, the Company and an independent third party (collectively the "Parties") entered into an investment agreement, whereby the Parties agreed to set up an enterprise (the "Associate") for the purpose of developing the property leasing sector. The Company shall contribute an amount of US$2,500,000 as its capital contribution, representing 25% equity interest in the Associate.

As at 31 December 2013, the Company had contributed US$500,000 (equivalent to approximately HK$3,900,000). The remaining amount of US$2,000,000 (equivalent to approximately HK$15,507,000) will be settled within two years.

The above associate is accounted for using the equity method in the consolidated financial statements.

16. Interest in An Associate *(Continued)*

Summarised financial information of the above associate, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, is disclosed below:

	北京中匯豐源融資租賃有限公司 2013 HK$'000
Gross amounts of the associate's	
Current assets	15,440
Equity	(15,440)
Revenue	(13)
Loss from continuing operations	159
Reconciled to the Group's interest in the associate	
Gross amount of net assets of the associate	15,440
Group's effective interest	25%
Group's share of net assets of the associate	3,860
Carrying amount in the consolidated financial statements	3,860

17. Available-for-Sale Investments

	Group	
	2013	2012
	HK$'000	HK$'000
Listed securities, at fair value – Hong Kong	**42,002**	51,825
Unlisted investments:		
– Golf club memberships, at cost (see note below)	**2,761**	2,761
– Long term equity interest, at cost (see note below)	**773**	773
Total	**45,536**	55,359

Note: As at 31 December 2012 and 2013, the Group's investments in golf club memberships and long term equity interest were not stated at fair value but at cost because it did not have a quoted market price in an active market and the fair value cannot be reliably measured. No impairment is recognised since there is no objective evidence that investments in golf club memberships and the long term equity interests will be impaired.

18. Accounts Receivable

	Group	
	2013	2012
	HK$'000	HK$'000
Accounts receivable	**22,607**	25,388

All of the Group's accounts receivable in the PRC are denominated in Renminbi ("RMB") and are expected to be recovered within one year.

18. Accounts Receivable *(Continued)*

a) Ageing analysis

As at the end of the reporting period, the ageing analysis of accounts receivable, based on the invoice date, is as follows:

	2013	2012
	HK$'000	HK$'000
Within 30 days	**4,205**	23,036
31 – 90 days	**5,559**	–
Over 90 days	**12,843**	2,352
	22,607	25,388

Accounts receivable are due on the date of billing. Further details on the Group's credit policy are set out in the note 43(a).

b) Accounts receivable that are not impaired

	2013	2012
	HK$'000	HK$'000
Past due but not impaired	**22,607**	25,388

Accounts receivable that was past due but not impaired relates to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

19. Short-Term Loans Receivables

	Group 2013 HK$'000	2012 HK$'000
Pawn loan receivables	**182,201**	153,374
Other short-term loan receivables	**1,714,022**	919,843
	1,896,223	1,073,217
Allowance for doubtful debts		
– Collectively assessed (see note b below)	**(2,545)**	(1,899)
	1,893,678	1,071,318

All the Group's short-term loans receivables in the PRC are denominated in RMB. The short-term loans receivables in the PRC carry interest plus service charge at a monthly effective rate of 0.9% to 4.6% (2012: 1% to 3.5%). As at 31 December 2013, the Group held collateral with value of approximately RMB4,580 million (2012: RMB3,191 million) in total over the pawn loan receivables and other short-term loan receivables.

A typical short-term loan generally has a term of 30 days to 180 days. All of the short-term loans receivables are expected to be recovered within one year.

a) *Maturity profile*

As at the end of the reporting period, the maturity profile of short-term loans receivables, based on maturity date, is as follows:

	2013 Pawn loan receivables HK$'000	2013 Other short-term loan receivables HK$'000	2013 Total HK$'000	2012 Pawn loan receivables HK$'000	2012 Other short-term loan receivables HK$'000	2012 Total HK$'000
Due within 1 month or on demand	**58,637**	**296,276**	**354,913**	97,999	580,065	678,064
Due after 1 month but within 3 months	**47,912**	**658,332**	**706,244**	28,736	208,596	237,332
Due after 3 months	**75,652**	**759,414**	**835,066**	26,639	131,182	157,821
Allowance for doubtful debts – Collectively assessed	**(1,822)**	**(723)**	**(2,545)**	(1,534)	(365)	(1,899)
	180,379	**1,713,299**	**1,893,678**	151,840	919,478	1,071,318

19. Short-Term Loans Receivables *(Continued)*

b) Impairment of short-term loans receivables

Impairment losses in respect of short-term loans receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against short-term loans receivables directly (see note 2(k)).

The movements in allowance for doubtful debts, which are collectively assessed, during the year is as follows:

	2013			2012		
	Pawn loan receivables HK$'000	**Other short-term loan receivables HK$'000**	**Total HK$'000**	Pawn loan receivables HK$'000	Other short-term loan receivables HK$'000	Total HK$'000
At 1 January	**1,534**	**365**	**1,899**	1,167	400	1,567
Impairment loss recognised	**237**	**341**	**578**	366	–	366
Reversal of impairment loss	**–**	**–**	**–**	–	(35)	(35)
Exchange adjustment	**51**	**17**	**68**	1	–	1
At 31 December	**1,822**	**723**	**2,545**	1,534	365	1,899

19. Short-Term Loans Receivables *(Continued)*

c) *Analysed by credit quality*

	2013			2012		
	Pawn loan receivables HK$'000	Other short-term loan receivables HK$'000	Total HK$'000	Pawn loan receivables HK$'000	Other short-term loan receivables HK$'000	Total HK$'000
Short-term loans receivables that are not impaired						
– Neither past due nor impaired	–	1,560,643	1,560,643	–	883,326	883,326
– Past due but not impaired	–	81,072	81,072	–	–	–
	–	1,641,715	1,641,715	–	883,326	883,326
Short-term loans receivables that are impaired collectively						
– Not past due	182,201	72,307	254,508	153,374	36,517	189,891
– Past due	–	–	–	–	–	–
Allowance for doubtful debts	(1,822)	(723)	(2,545)	(1,534)	(365)	(1,899)
	180,379	71,584	251,963	151,840	36,152	187,992
Total	180,379	1,713,299	1,893,678	151,840	919,478	1,071,318

Short-term loans receivables that were neither past due nor impaired relate to recognised and creditworthy borrowers for whom there was no recent history of default.

Short-term loans receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

20. Interests Receivable

	Group	
	2013	2012
	HK$'000	HK$'000
Interests receivable	**15,635**	5,533

Interests receivable are due on the date of billing (or maturity date of the loan receivables, if earlier).

All of the interests receivable are denominated in RMB and expected to be recovered within one year.

a) *Maturity profile*

As at the end of the reporting period, the maturity profile of interests receivable, based on invoice date (or maturity date of loans receivables, if earlier), is as follows:

	2013	2012
	HK$'000	HK$'000
Due within 1 month or on demand	**15,321**	1,977
Due after 1 month but within 3 months	**–**	3,556
Due after 3 months but within 6 months	**314**	–
	15,635	5,533

b) *Interests receivable that are not impaired*

	2013	2012
	HK$'000	HK$'000
Neither past due nor impaired	**342**	5,533
Past due but not impaired	**15,293**	–
	15,635	5,533

Interests receivable that were neither past due nor impaired relate to a number of customers for whom there was no recent history of default.

Interests receivable that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

21. Security Deposits Paid

Security deposits of RMB50,621,000 (equivalent to approximately HK$64,385,000) (2012: RMB8,857,000 (equivalent to approximately HK$10,923,000)) are placed by the Group with the financial institutions according to the requirements of the financial institutions for credit guarantees that the Group provides to third parties for their borrowings from the financial institutions.

Security deposits of RMB30,840,000 (equivalent to approximately HK$39,225,000) (2012: HK$Nil) are placed by the Group with a bank to secure a bank loan of RMB15,000,000 (equivalent to approximately HK$19,078,000).

All of the deposits paid are expected to be recovered within one year except for deposit of RMB5,000,000 (equivalent to approximately HK$6,359,000) (2012: RMB8,857,000 (equivalent to approximately HK$10,923,000)) which are expected to be recovered after more than one year.

22. Forfeited Collateral Held for Sales

a) Forfeited collateral held for sales in the consolidated statement of financial position comprise:

	2013	2012
	HK$'000	HK$'000
Forfeited collateral held for sales	**533**	638

Note: Forfeited collateral held for sales mainly include gold and jewellery.

b) The analysis of the amount of forfeited collateral held for sales recognised as an expense and included in the consolidated statement of profit or loss is as follow:

	2013	2012
	HK$'000	HK$'000
Carrying amount of forfeited collateral sold	**4,873**	913

23. Other Receivables, Deposits and Prepayments

	Group		Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Other receivables	**2,584**	80,136	**128**	159
Amounts due from related parties	**2,134**	128,504	**–**	–
	4,718	208,640	**128**	159
Prepayments	**1,260**	834	**365**	299
Utility and sundry deposits	**1,834**	1,493	**769**	769
	7,812	210,967	**1,262**	1,227

All of the other receivables (including amounts due from related parties) and prepayments are expected to be recovered or recognised as expense within one year. Utility and sundry deposits are expected to be recovered or recognised as expense after more than one year.

The details of the amounts due from related parties are as follows:

Name	Notes	**2013 HK$'000**	2012 HK$'000
北京典佳盛投資有限公司("典佳盛")	(a), (b)	**–**	19,955
中金佳晟投資基金管理(北京)有限公司	(a), (c)	**–**	80,460
北京萬方有限公司("北京萬方")	(a), (d)	**–**	28,089
北京萬方達隆物業管理有限公司("達隆物業")	(a), (e)	**382**	–
北京嘉澤潤豐投資諮詢有限公司("北京嘉澤潤豐")	(a), (f)	**1,752**	–
		2,134	128,504

Notes:

a) The amounts due from related parties are unsecured, non-interest bearing and have no fixed terms of repayment.

b) Mr. Cheung Siu Lam, the executive director of the Company, has 37.67% equity interest in 典佳盛. The receivable represented the net balance of fund deposited to 典佳盛 as instructed by the vendor, which will be used for future settlement of the consideration payable to the vendor for the acquisition of subsidiaries, as included in the "other payables, deposits received and accruals" under current liabilities.

c) Mr. Cheung Siu Lam, the executive director of the Company, is the legal representative of 中金佳晟投資基金管理(北京)有限公司. Included in the balance is an amount of approximately HK$76 million represented fund advanced to 中金佳晟投資基金管理(北京)有限公司 for arranging an entrusted loan to a third party. The amount of approximately HK$4 million represented consultancy income receivables from such entrusted loan.

d) Mr. Cheung Siu Lam, the executive director of the Company, being a director of 北京萬方. The amount will be used for repayment of short-term loan from 北京萬方 (note 26).

e) Mr. Cheung Siu Lam, the executive director of the Company, is the legal representative of 達隆物業. The amount represented fund advanced to 達隆物業.

f) Mr. Cheung Siu Lam, the executive director of the Company, is a key management personnel of 北京嘉澤潤豐. The amount represented consultancy income receivables from 北京嘉澤潤豐.

24. Amounts Due from/(to) Subsidiaries

The amounts due from/(to) subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment.

25. Cash and Cash Equivalents

	Group	
	2013	2012
	HK$'000	HK$'000
Cash at financial institutions and on hand	**103,288**	313,460
Cash and cash equivalents in the consolidated statements of financial position and cash flows	**103,288**	313,460

	Company	
	2013	2012
	HK$'000	HK$'000
Cash at financial institutions	**8,673**	81,233
Cash and cash equivalents in the statement of financial position	**8,673**	81,233

Deposits with financial institutions carry interest at market rates ranged from 0.02% to 0.385% (2012: 0.35% to 0.5%) per annum.

Cash at financial institutions as at 31 December 2013 include HK$70,174,000 (2012: HK$208,292,000) equivalent placed with financial institutions in the PRC, the remittance of which are subject to relevant rules and regulations of foreign exchange control promulgated by the government of the PRC.

26. Short-Term Borrowings

	2013 **HK$'000**	2012 HK$'000
Entrusted loan (note a)	**–**	61,664
Borrowings under a strategic cooperation and investment agreements (note b)	**317,392**	–
Other borrowings (note c)	**98,648**	246,439
	416,040	308,103

Notes:

a) In November 2012, the Group borrowed an entrusted loan through a bank in the PRC. The entrusted loan was not secured by any assets and guarantors. As at 31 December 2013, the effective interest rate of the entrusted loan (which also equals to contract interest rates) was 8.30% per annum. The amount was fully repaid during the year ended 31 December 2013.

The amount of interest expense incurred during the year amounting to HK$2,055,000 is included in finance costs (note 5 (a)).

b) During the year, 北京中金港資產管理有限公司 ("Beijing Zhongjinggang"), a subsidiary of the Company, Wanjia Co-win Asset Management Co. Ltd. (萬家共赢資產管理有限公司) ("Wanjia Co-win") and Kunshan Noah Xingguang Investment Management (昆山諾亞星光投資管理有限公司) ("Noah Xingguang") entered into a strategic cooperation agreement and investment agreement (the "Agreements") for the development of securitization business pursuant to which Wanjia Co-win shall establish an asset management schemes and other financing products on behalf of Beijing Zhongjingang with durations of one to two years of about RMB500 million in stages using the Group's short-term loans receivables as assets for securitization. In this regard, the Group shall assign all its rights and benefits in its receivables from its financing services into such asset management schemes and shall guarantee the due recoverability of such receivables. At the expiry of the asset management schemes, Beijing Zhongjingang shall repay all the proceeds from the schemes to Wanjia Co-win. During the year ended 31 December 2013, the schemes raised a net proceeds of approximately HK$307,910,000, with financing cost measured at an annualized rate of 11.5%.

In addition, the Company agreed to provide guarantee for Beijing Zhongjingang in respect of the investment agreement in case Beijing Zhongjingang fail to make repayment to Wanjia Co-win at the expiry of those asset management schemes. As at the end of the reporting period, the directors do not consider it probable that a claim will be made against the Company under this guarantee. The maximum liability of the Company at the end of the reporting period under the single guarantee issued is the outstanding amount of this facility drawn down by Beijing Zhongjingang of approximately HK$307,910,000. The Company has not recognised any deferred income in respect of this guarantee as its fair value at the end of the reporting period was insignificant.

At the end of the reporting period, the borrowings under the strategic cooperation and investment agreements were secured by certain of short-term loans receivables of approximately HK$609,787,000.

The amount of interest expense incurred during the year amounting to HK$9,336,000 is included in finance costs (note 5 (a)).

c) 北京中金港資產管理有限公司 ("Beijing Zhongjinggang"), a subsidiary of the Company, entered into a contractual and a financial arrangement agreements with 北京萬方. Pursuant to the contractual agreement, 北京萬方will provide funding with maximum amount of RMB200 million to Beijing Zhongjinggang and its fellow subsidiary, 北京中金投財務諮詢有限公司, for the short-term financing services. The fund provided by 北京萬方 bears interest at 7% per annum (2012: 9% per annum). The amount of interest expense incurred during the year amounting to HK$10,954,000 (2012: HK$7,744,000) is included in finance costs (note 5(a)). The amount was fully repaid during the year ended 31 December 2013.

In January 2013, Beijing Zhongjinggang, a subsidiary of the Company, entered into a contractual and a financial arrangement agreements with 中金佳晟投資基金管理(北京)有限公司 ("中金佳晟"). Pursuant to the contractual agreement, 中金佳晟 will provide funding with maximum amount of RMB400 million to Beijing Zhongjinggang for the short-term financing services. The amount was unsecured and non-interest bearing.

(d) All of short-term borrowings are denominated in RMB and carried at amortised cost.

27. Bank Loans

At the end of the reporting period, all the bank loans of the Group, which were all obtained in the PRC and denominated in RMB, were repayable as follows:

	Group	
	2013	2012
	HK$'000	HK$'000
Current liabilities		
Within 1 year or on demand	**22,894**	3,700
Non-current liabilities		
After 1 year but within 2 years	**17,806**	3,700
After 2 years but within 5 years	**–**	17,266
	17,806	20,966
	40,700	24,666

All of bank loans are denominated in RMB and carried at amortised cost. None of the non-current interest-bearing bank loans is expected to be settled within one year.

The ranges of effective interest rates on the Group's bank loans are as follows:

	Group	
	2013	2012
	%	%
Effective interest rates:		
Bank loans	**5.04%-6.95% per annum**	6.95% per annum

As at 31 December 2013, bank loans of HK$21,622,000 (2012: HK$24,666,000) were secured by corporate guarantee from related parties, third parties and personal guarantee from a director of the Company.

As at 31 December 2013, bank loans of HK$19,078,000 (2012: Nil) were secured by a security deposit of HK$39,225,000 (2012: Nil).

Note:

All of the Group's bank loans are subject to the fulfilment of covenants commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the bank loans would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 43(b). As at 31 December 2013, none of the covenants relating to the bank loans had been breached (2012: Nil).

28. Security Deposits Received

Security deposits received refer to deposits received from customers as collateral security of credit guarantees issued by the Group. These deposits, which are denominated in RMB, are interest-free, and will be returned to customers after the relevant guarantee contracts expire.

29. Other Payables, Deposits Received and Accruals

	Group		Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Accrued salaries, wages and other benefits	**1,171**	233	**70**	–
Accrued expenses	**1,152**	1,636	**134**	385
Balance of consideration for acquisition of subsidiaries (note b)	**–**	37,915	**–**	37,915
Dividend payable	**329**	–	**329**	–
Amount due to a related company (note a)	**–**	1,036	**–**	–
Others	**5,991**	22,013	**26**	26
Financial liabilities measured at amortised cost	**8,643**	62,833	**559**	38,326
Rental and other deposit received	**6**	6	**–**	–
Deposits received	**1,369**	120,286	**–**	–
VAT and other tax payables	**8,281**	6,527	**–**	–
	18,299	189,652	**559**	38,326

All of the other payables, deposits received and accruals are expected to be settled or recognised as income within one year or are repayable on demand.

Notes:

a) The amount due to a related company was unsecured, non-interest bearing and had no fixed terms of repayment. Mr. Cheung Siu Lam, the executive director of the Company, indirectly held 18.84% equity interest in this related company. The amount was fully settled during the year ended 31 December 2013.

b) The balance was arising from the acquisition of subsidiaries in the year of 2011. The amount was fully settled during the year ended 31 December 2013.

30. Liabilities Arising from Loan Guarantee Contracts

	Group 2013 HK$'000	Group 2012 HK$'000
Deferred income (note 30 (a))	**2,509**	–
Provision for guarantee losses (note 30 (b))	**3,816**	1,111
Current liabilities	**6,325**	1,111

(a) Deferred income

Deferred income from the loan guarantee business is amortised and recognised as revenue on a straight line basis over the guarantee period.

(b) Provision for guarantee losses

	2013			2012
	Undue liability provision (note i) HK$'000	**Guarantee compensation provision** (note ii) HK$'000	**Total** HK$'000	**Total** HK$'000
At 1 January	533	578	1,111	1,851
Charge/(credited) to profit or loss for the year	1,606	1,022	2,628	(737)
Exchange adjustment	42	35	77	(3)
At 31 December	2,181	1,635	3,816	1,111

Notes:

i) Pursuant to Article 31 of Tentative Measures for the Administration of Financing Guarantee Companies, a financial guarantee company shall provide 50% of its guarantee income in the year it derived, as undue liability provision ("未到期責任準備金").

ii) Pursuant to Article 31 of Tentative Measures for the Administration of Financing Guarantee Companies, a financial guarantee company shall provide no less than 1% of the year-end balance of the guarantee liability in the year it arising as guarantee compensation provision ("擔保賠償準備金").

31. Income Received in Advance

	Group 2013 HK$'000	2012 HK$'000
Financing consultancy services income	**5,371**	–

Income received in advance represents income received under the financing consultancy services, is recognised as revenue when the consultancy services are rendered.

32. Financial Derivatives

As at 31 December 2013, the Group has an outstanding equity decumulator contract with maturity date on 23 February 2015. Based on the contents of this contract, the Group has an obligation to sell a specified number of a Hong Kong Listed equity securities ("Equity Security") daily at the strike price if the stock price is lower than the predetermined forward price, and sell double the number of the Equity Security daily if such stock price is higher than the predetermined forward price. The counterparty financial institution can terminate the contract when the market price of the underlying equity securities is lower than a knock-out price set out in the relevant contract. The Group has sufficient number of Equity Securities to fulfil this decumulator contract.

The Group relies on the valuation provided by an independent professional valuer to determine the fair value of the derivative financial instrument which is based on Monte Carlo Simulation model. The key inputs applied to the valuation are time to maturity, knock-out probability, volatility, spot price of the underlying asset, interest rate level and the accumulating forward price of the transaction. The fair value of the derivative financial instrument for this decumulator contract as at 31 December 2013 is approximately HK$1,000,000 (2012: HK$nil), which was recognised in the consolidated statement of financial position.

As at 31 December 2013, this decumulator contract was secured by legal charges over certain of available-for-sale investments of HK$7,200,300 (as included in "available-for-sale investments" (note 17)) and cash of HK$735,645 (as included in "cash and cash equivalent (note 25)) held by the Group in the account with the relevant financial institution.

33. Convertible Note

On 26 March 2013, the Company issued a 10% guaranteed convertible bonds due 2015/16 in the aggregate principal amount of US$12,000,000 (equivalent to approximately HK$93,600,000) (the "Convertible Note") to an independent third party (the "Holder"). The Convertible Note is denominated in US dollars ("US$") and carried an interest of 10% per annum payable semi-annually in arrears. The Convertible Note is (i) secured by a fixed legal mortgage over the Company's entire shareholding in K.P.B. Group Holdings Limited, a direct wholly owned subsidiary of the Company, and (ii) unconditionally and irrevocably guaranteed by Mr. Cheung Siu Lam, the Chairman and executive director of the Company, and Ms Lo Wan, a non-executive director of the Company, (together the "Guarantors").

The Guarantors have agreed to (i) guarantee the due performance of the Company of its obligations under the relevant subscription agreement and convertible bond instrument and (ii) deposit, together with Arbalice Holdings Limited (a company controlled by the Guarantors) a total of 2,032,552,240 shares of the Company held by them into the cash securities trading accounts open and maintained with a custodian, which is an affiliated company of the Holder and an independent third party.

The principal terms of the Convertible Note are as follows:

(a) Optional conversion

The Convertible Note will, at the option of the Holder, be convertible (unless previously redeemed, converted or purchased and cancelled) at any time on and after 26 March 2013 up to (i) the second anniversary of the issue date of the Convertible Note or (ii) the third anniversary of the issue date of the Convertible Note (subject to the prior written agreement by the Company, the Holder and the Guarantors for such extension) into fully paid ordinary shares with par value of HK$0.10 each of the Company (the "Shares") at an initial conversion price (the "Conversion Price") of HK$0.50 per share and a fixed exchange rate of US$1.00 to HK$7.757 (the "Prevailing Rate").

The Conversion Price is subject to adjustment in the manner set out in the relevant convertible bond instrument. According to this convertible bond instrument, the Conversion Price will be reset as follows:

(i) Upon each and every exercise of the conversion right of the Holder, if the volume weighted average of the closing price of the Shares (the "Weighted Average Market Price") for the period of 30 consecutive trading days ending on the trading day immediately prior to the date of conversion and multiplied by 110% (the "Conversion Reset Price") is less than the then current conversion price, the then conversion price will be adjusted to the Conversion Reset Price for and only for the purpose of such exercise, subject to the floor price of HK$0.50 per share.

33. Convertible Note *(Continued)*

(a) Optional conversion *(Continued)*

(ii) At the option of the Holder, if the Weighted Average Market Price for the period of 30 consecutive trading days ending on the trading day immediately prior to 31 December of a financial year (the "Annual Reset Date") (the "Annual Reset Price") is less than the then current conversion price, the then conversion price will be reset to the Annual Reset Price on the relevant Annual Reset Date, subject to the floor price of HK$0.50 per share.

(iii) At the option of the Company, if the Weighted Average Market Price for the period of 30 consecutive trading days ending on the trading day immediately prior to the Annual Reset Date is higher than the Annual Reset Price of the previous financial year, the then conversion price will be reset to the Annual Reset Price of such financial year on the Annual Reset Date, subject to the floor price of HK$0.50 per share.

(b) Redemption at maturity

Unless previously redeemed, converted or purchased and cancelled as provided herein, the Convertible Note will be redeemed by the Company on:

(i) the date falling on the second anniversary of issue date of the Convertible Note at the redemption amount equal to the principal amount of the outstanding Convertible Note together with unpaid accrued interest thereon plus an amount that would yield an internal rate of return of 17% on the outstanding Convertible Note calculated from the issue date of the Convertible Note up to and including the date falling on the second anniversary of issue date of the Convertible Note; or

(ii) the date falling on the third anniversary of issue date of the Convertible Note (subject to the prior written agreement by the Company, the Holder and the Guarantors for such extension) at the redemption amount equal to the principal amount of the outstanding Convertible Note together with unpaid accrued interest thereon plus (1) an amount that would yield an internal rate of return of 17% on the outstanding Convertible Note calculated from the date of issue up to and including the date falling on the second anniversary of issue date of the Convertible Note and (2) an additional amount that would yield an internal rate of return of 18% on the outstanding Convertible Note calculated from the date immediately following the second anniversary of issue date of the Convertible Note up to and including the date falling on the third anniversary of issue date of the Convertible Note.

33. Convertible Note *(Continued)*

(c) Redemption at the option of the Company

On giving not less than 30 days but not more than 60 days' notice to the Holder at any time after expiry of the first anniversary of the issue date of the Convertible Note and prior to the date of maturity, the company may redeem all or some only of the Convertible Note at a redemption price equal to the principal amount of the outstanding Convertible Note together with unpaid accrued interest thereon plus an amount that would yield an internal rate of return of 17% on the outstanding Convertible Note calculated from the issue date of the Convertible Note up to and including the date fixed for early redemption.

If the Company redeems 50% or more of the principal amount of the outstanding Convertible Note, a written consent of the Holder approved by an ordinary resolution of the Holder must be obtained.

(d) Redemption at the option of the Holder

The Holder will have the right to require the Company to redeem all or some of the Convertible Note at the principal amount of the outstanding Convertible Note together with unpaid accrued interest thereon plus an amount that would yield an internal rate of return of 22% on the outstanding Convertible Note calculated from the issue date of the Convertible Note up to and including the date fixed for such redemption when one of the following events of default occurs:

(i) there is a change of control of the Company;

(ii) the Shares cease to be listed or admitted to trading on The Stock Exchange of Hong Kong Limited or, if applicable, the Alternative Stock Exchange; or

(iii) the other events as mentioned in the announcement of the Company dated 15 March 2013 and the relevant convertible bond instrument.

(e) Compulsory conversion at the option of the Company

The Company will have an one-off right to require the Holder, by giving not less than 30 days but not more than 60 days' prior notice in writing, to exercise the conversion rights for one-quarter of the principal amount of the outstanding Convertible Note, provided that (i) the company has delivered audited accounts showing that the Company has attained either the 2012 financial targets or the 2013 financial targets to the satisfaction of the Holder and (ii) no event of default specified above having occurred.

During the year ended 31 December 2013, the Company exercised this right to require the Holder to convert one-quarter of the principal amount of the outstanding Convertible Note.

33. Convertible Note *(Continued)*

The Convertible Note consists of liability component, conversion option and other embedded derivatives which are not closely related to the host liability contract. As the functional currency of the Company is HK$, the conversion of the Convertible Note denominated in US$ and the effect of optional conversion mentioned in part (a) above will not result in settlement by exchange of a fixed amount of cash in HK$, the functional currency of the Company, for a fixed number of the Company's shares. In accordance with the requirement of HKAS 39 "Financial Instruments – Recognition and Measurement", it was determined that the Convertible Note does not contain any equity component and the entire Convertible Note was designated as "financial liabilities at FVTPL" which requires the Convertible Note to be carried at fair value at the end of the reporting period and the changes in fair values are recognised in the consolidated statement of profit or loss. During the year ended 31 December 2013, a loss on change in its fair value of approximately HK$35,637,000 is included in "Other net (Loss)/Income" in the consolidated statement of profit or loss.

On 26 April 2013, the Company reached the 2012 financial target. So the Company executed it right to request the Holder to convert one-quarter of the principal amount of the Convertible Note in aggregate principal amount of US$3,000,000 (equivalent to approximately HK$23,271,000) at a conversion price of HK$0.50 per share.

On 20 November 2013, the Holder converted the Convertible Note in aggregate principal amount of US$3,000,000 (equivalent to HK$23,271,000) at the conversion price of HK$0.50 per share.

The Company totally allotted 93,084,000 new ordinary shares in respect of the above two conversions (see note 35).

The Convertible Note was valued at fair value by the management with reference to a valuation report carried out by Greater China Appraisal Limited, an independent and recognised international business valuer, on 31 December 2013, at approximately US$7,455,000 (equivalent to approximately HK$57,802,000).

33. Convertible Note *(Continued)*

The Convertible Note was measured at fair value with changes in fair value recognised in profit or loss. The movement of the Convertible Note is set out below:

	Original currency US$'000	Shown as HK'000
At 1 January 2013	–	–
Issue of convertible note	12,000	93,600
Interest payment	(522)	(4,071)
Change in fair value recognised in profit or loss	4,595	35,637
Conversion	(8,618)	(66,848)
Exchange gain	–	(516)
At 31 December 2013	7,455	57,802

The fair value of the Convertible Note at the end of the reporting period is determined by using the Monte Carlo Simulation model. The inputs into the model are as follows:

	2013
Stock price	**HK$0.61**
Conversion price	**HK$0.50**
Expected volatility (note a)	**37.884%**
Expected life (note b)	**1.23 years**
Risk-free rate (note c)	**0.1683%**
Expected dividend yield (note d)	**2.119%**

Notes:

(a) Expected volatility was determined by calculating the historical volatility of the Company's share price.

(b) Expected life was the expected remaining life of the option.

(c) The risk free rate is determined by reference to the yield of the USD Treasury Actives (IYC 25) Zero Coupon Yield.

(d) The expected dividend yield was based on the historical dividend payment record of the Company.

Any changes in the major inputs into the model will result in changes in the fair value of the Convertible Note.

34. Deferred Taxation

a) The components of deferred tax liabilities recognised in the consolidated statement of financial position and the movements during the year are as follow:

	Group		
	Revaluation of investment property	**Withholding tax**	**Total**
	HK$'000	HK$'000	HK$'000
Deferred tax arising from:			
At 1 January 2012	4,203	3,982	8,185
Reclassified to income tax payable upon disposal of investment property (note 6(c))	(4,203)	–	(4,203)
Charged to profit or loss (note 6(a))	–	10,628	10,628
Disposal of a subsidiary (note 38)	–	(3,646)	(3,646)
At 31 December 2012 and 1 January 2013	–	10,964	10,964
Credited to profit or loss (note 6(a))	–	(5,788)	(5,788)
Exchange adjustment	–	180	180
At 31 December 2013	–	5,356	5,356

b) ***Withholding tax***

Pursuant to the New EIT Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between China and jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable to withholding taxes on dividends distributed by its subsidiary established in Mainland China in respect of earnings generated from 1 January 2008. Deferred tax liabilities is only provided to the extent that such earnings are estimated to be distributable in the foreseeable future.

c) ***Deferred tax assets not recognised***

Deferred tax assets in respect of the unused tax losses carried forward are to be recognised to the extent that it is probable that future taxable profits against which the unused tax losses can be utilised will be available in the relevant tax jurisdiction and entity.

The Group has not recognised deferred tax assets in respect of the cumulative tax losses of HK$113,966,000 (2012: HK$60,876,000) due to the unpredictability of future profit streams. The tax losses do not expire under current tax legislation.

34. Deferred Taxation *(Continued)*

d) Deferred tax liabilities not recognised

At 31 December 2013, temporary differences relating to the undistributed profits of subsidiaries amounted to HK$410,680,000 (2012: HK$127,510,000). Deferred tax liabilities of HK$41,068,000 (2012: HK$12,751,000) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that these profits will not be distributed in the foreseeable future.

e) Company's deferred taxation

At 31 December 2013, the Company does not have any material deferred taxation assets and liabilities (2012: HK$Nil).

35. Share Capital

	2013		2012	
	No. of shares	**HK$'000**	No. of shares	HK$'000
Authorised:				
Ordinary shares of HK$0.10 each	**4,000,000,000**	**400,000**	4,000,000,000	400,000
Issued and fully paid:				
At beginning of the year	**2,997,002,336**	**299,700**	2,997,002,336	299,700
Conversion of the Convertible Note (note a)	**93,084,000**	**9,308**	–	–
Shares issued under share option scheme (note b)	**39,000,000**	**3,900**	–	–
At end of the year	**3,129,086,336**	**312,908**	2,997,002,336	299,700

Notes:

a) On 26 April 2013 and 20 November 2013, the Convertible Note in aggregate principal amount of US$6,000,000 (equivalent to HK$46,542,000) was converted into ordinary shares, creating a total of 93,084,000 new ordinary shares of the Company at a conversion price of HK$0.5 per share.

b) During the year, options were exercised to subscribe for 39,000,000 ordinary shares in the Company at a total consideration of HK$15,921,000 of which HK$3,900,000 was credited to share capital and the balance of HK$12,021,000 was credited to the share premium account. HK$8,728,000 has been transferred from the share-based compensation reserve to the share premium account in accordance with in note 2(q)(ii).

36. Reserves

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

Company

	Share premium HK$'000	Share-based compensation reserve HK$'000	Retained earnings HK$'000	Total HK$'000
At 1 January 2012	865,682	22,117	121,324	1,009,123
Profit for the year	–	–	78,216	78,216
At 31 December 2012 and 1 January 2013	865,682	22,117	199,540	1,087,339
Loss for the year	–	–	(42,242)	(42,242)
Shares issued under share option scheme	20,749	(8,728)	–	12,021
Conversion of the Convertible Note	57,540	–	–	57,540
Transfer to retained earnings upon lapse of share options	–	(470)	470	–
Dividend paid	–	–	(30,815)	(30,815)
At 31 December 2013	**943,971**	**12,919**	**126,953**	**1,083,843**

At 31 December 2013 the Company has reserve available for distribution to shareholders as calculated in accordance with the provisions of the Hong Kong Companies Ordinance at HK$126,953,000 (2012: HK$199,540,000).

Nature and purpose of reserves

i) ***Share premium***

The application of the share premium account is governed by section 48B of the Hong Kong Companies Ordinance.

ii) ***Share-based compensation reserve***

The share-based compensation reserve represents the portion of the grant date fair value of unexercised share options granted to employees of the Group that has been recognised in accordance with the accounting policy adopted for share-based payments in note 2(q)(ii).

36. Reserves *(Continued)*

Nature and purpose of reserves (Continued)

iii) Exchange fluctuation reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside Hong Kong. The reserve is dealt with in accordance with the accounting policy set out in note 2(v).

iv) Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale securities held at the end of the reporting period and is dealt with in accordance with the accounting policies in note 2(j).

v) Statutory surplus reserve

According to the Company's PRC subsidiaries' articles of association, the PRC company is required to transfer 10% of its net profit after tax, as determined in accordance with the PRC accounting rules and regulations, to the statutory surplus reserve. When the balance of the statutory surplus reserve reaches 50% of the PRC company's registered capital, any further appropriation is optional. The transfer to this reserve must be made before distribution of a dividend to the shareholders.

Statutory surplus reserve can be used to make up previous years' losses, if any, and may be converted into capital in proportion to their existing shareholdings, provided that the balance after such conversion is not less than 25% of the registered capital.

37. Share Options

Equity-settled share option schemes

The Company has a share option scheme (the "Share Option Scheme") which was adopted on 7 June 2004 whereby the directors of the Company are authorised, at their discretion, to invite employees or any person who has contributions to the Group including directors of any company in the Group to take up options to subscribe for shares of the Company in accordance with the terms of the Share Option Scheme. The options exercisable within a period of ten years. Each option gives the holder the right to subscribe for one ordinary share in the Company and is settled gross in shares.

37. Share Options *(Continued)*

Equity-settled share option schemes (Continued)

The maximum number of shares in respect of which share options may be granted under the Share Option Scheme and any other schemes of the Group shall not in aggregate exceed 10% of the issued shares of the Company as at the date of approval of the Share Option Scheme (the "Scheme Mandate Limit"). The Company may seek approval from the shareholders in a general meeting to refresh the Scheme Mandate Limit. However, the total number of shares which may be issued upon exercise of all share options to be granted under the Share Option Scheme and any other schemes of the Company under the limit as refreshed must not exceed 10% of the Company's shares in issue as at the date of approval of the limit.

The total number of shares issued and to be issued upon the exercise of share options granted and to be granted to each eligible participant (including both exercised and outstanding options) under the Share Option Scheme shall not in any 12-month period up to the date of grant exceed 1% of the total issued shares of the Company.

The exercise price is determined by the directors of the Company, and shall not be less than the highest of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant, and (iii) the nominal value of the Company's shares.

37. Share Options *(Continued)*

Equity-settled share option schemes *(Continued)*

(a) The terms and conditions of the grants are as follows:

Category of grantee	Number of instruments '000	Exercise price per share HK$	Date of grant	Exercisable period	Contractual life of option
Directors	30,000	0.479	4 October 2007	4 October 2007 to 3 October 2017	10 years
	10,000	0.359	22 October 2010	22 October 2010 to 21 October 2020	10 years
Employees	38,500	0.479	4 October 2007	4 October 2007 to 3 October 2017	10 years
	26,000	0.359	22 October 2010	22 October 2010 to 21 October 2020	10 years
Total share options granted	104,500				

37. Share Options *(Continued)*

Equity-settled share option schemes *(Continued)*

(b) The number and weighted average prices of share options are as follows:

Option type	Outstanding at 1/1/13 '000	Granted during the year '000	Exercised during the year '000	Forfeited during the year '000	Expired during the year '000	Outstanding at 31/12/13 '000
2007	63,000	–	(16,000)	(2,000)	–	45,000
2010	34,000	–	(23,000)	–	–	11,000
	97,000	–	(39,000)	(2,000)	–	56,000
Exercisable at the end of the year						56,000
Weighted average exercise price	HK$0.437	–	HK$0.408	HK$0.479	–	HK$0.455

No share options under the Share Option Scheme were granted during the years ended 31 December 2013. No share options under the Share Option Scheme were exercised during the year ended 31 December 2012.

The weighted average share price at the date of exercise for share options exercised during the year ended 31 December 2013 was HK$0.408 (2012: not applicable).

The options outstanding at 31 December 2013 had an exercise price of HK$0.479 or HK$0.359 (2012: HK$0.479 or HK$0.359) and a weighted average remaining contractual life of 4.59 years (2012: 6.05 years).

38. Disposal of A Subsidiary

On 11 December 2012, the Group disposed of the Disposal Group which mainly engaged in convenience store operations (note 9). Details of the disposal are set out below:

	2012 HK$'000
Total consideration from disposal of a subsidiary	
Consideration received in cash and cash equivalents	72,032
Consideration receivable from disposal of a subsidiary	61,543
	133,575

Analysis of asset and liabilities over which control was lost on disposal

	At the date of disposal HK$'000
Net assets disposed of	
Intangible assets	376
Inventories	25,207
Accounts receivable	5,971
Prepayments and other receivables	69,398
Cash and cash equivalents	7,493
Accounts payable	(26,673)
Other payables, deposit received and accruals	(9,477)
Tax payables	(721)
Deferred taxation	(3,646)
Non-controlling interests	(2,587)
	65,341
Gain on disposal of a subsidiary (see note below)	68,234
Total consideration	133,575

Note:

The gain on disposal of a subsidiary is included in the profit for the year from discontinued operations in the consolidated statement of profit or loss (note 9).

38. Disposal of A Subsidiary *(Continued)*

Net cash inflow on disposal of a subsidiary

	2012
	HK$'000
Consideration received	72,032
Less: Cash and cash equivalent balances disposed of	(7,493)
	64,539

The results and cash flows of the convenience store operation were set out in note 9.

39. Operating Lease Arrangements

a) As lessor

At the end of the reporting period, the Group had total future minimum lease receivables in respect of the golf club membership under non-cancellable operating leases with its lessees falling due as follows:

	Group	
	2013	2012
	HK$'000	HK$'000
Within one year	**13**	12
In the second to fifth years, inclusive	**10**	–
	23	12

39. Operating Lease Arrangements *(Continued)*

b) *As lessee*

At the end of the reporting period, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**4,413**	9,006	**2,245**	2,245
In the second to fifth years, inclusive	**3,352**	16,916	**1,073**	3,368
After the fifth year	**–**	1,236	**–**	–
	7,765	27,158	**3,318**	5,613

The Group is the lessee in respect of its office premises and director's quarter held under operating leases. The leases typically run for an initial of one to two years, with an option to renew the lease when all items are renegotiated. None of the leases includes contingent rentals.

40. Contingent Liabilities

The Group provides loan guarantee service to small-to medium-sized enterprises in the PRC. As at 31 December 2013, the Group had contingent liabilities in relation to the loan guarantee business of approximately HK$189,942,000 in which approximately HK$2,181,000 and HK$1,635,000 were recognised as undue liability provision and guarantee compensation provision respectively in the consolidated statement of financial position. The Group may become involved in certain legal proceedings relating to claims arising out of operations in the normal course of business. However, none of these proceedings, individually or in aggregate, is expected to have material adverse effect on the Group's financial situation or operational results.

Other than the above, the Group and the Company did not have any significant contingent liabilities.

41. Material Related Party Transactions

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group had the following transactions with its related parties during the year:

Remuneration of key management personnel of the Group

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 7, is as follows:

	2013	2012
	HK$'000	HK$'000
Salaries, allowances and other benefits	**6,099**	5,640
Post-employment benefit	**125**	103
	6,224	5,743

Total remuneration is included in "staff costs" (see note 5(b)).

42. Critical Accounting Estimates and Judgements

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

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in condition and assumptions are factors to be considered when reviewing the financial statements. The significant accounting policies are set forth in note 2. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the consolidated financial statements.

a) Impairment of property, plant and equipment

If circumstances indicate that the carrying value of an item of the property, plant and equipment may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in profit or loss in accordance with the accounting policy for impairment of property, plant and equipment as described in note 2(k)(ii). The carrying amounts of assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount.

42. Critical Accounting Estimates and Judgements *(Continued)*

a) *Impairment of property, plant and equipment* (Continued)

The recoverable amount is the greater of the fair value less costs to sell and the value in use. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to the level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of the level of revenue and amount of operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future periods.

b) *Impairment of goodwill*

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

c) *Impairment of receivables, loans and advances and available-for-sale financial assets*

The Group reviews portfolios of receivables, loans and advances and available-for-sale financial assets periodically to assess whether any impairment losses exist and the amount of impairment losses if there is any indication of impairment. Objective evidence for impairment includes observable data indicating that there is a measurable decrease in the estimated future cash flows for receivables, loans and advances and available-for-sale financial assets. It also includes observable data indicating adverse changes in the repayment status of the debtors, or change in national or local economic conditions that causes the default in payment.

The impairment loss for receivables and loans and advances that is individually assessed for impairment is the net decrease in the estimated discounted future cash flow of the financial assets. When the financial assets are collectively assessed for impairment, the estimate is based on historical loss experience for assets with credit risk characteristics similar to the financial assets. Historical loss experience is adjusted on the basis of the relevant observable data that reflect current economic conditions and the judgement based on management's historical experience. Management reviews the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual loss.

The objective evidence of impairment for available-for-sale financial assets includes significant or continual decline in fair value of investments. When deciding whether there is significant or continual decline in fair value, the Group will consider the historical fluctuation records of market and debtors' credit condition, financial position and performance of related industry.

42. Critical Accounting Estimates and Judgements *(Continued)*

d) *Income taxes*

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilized, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

e) *Provision for loan guarantees*

The Group makes reasonable estimate on costs required to fulfil the relevant obligation of guarantee contracts when the Group computes the provisions of guarantee losses. Such estimation is made based on the available information as at the end of the reporting period and is determined by the Group's practical experience, taking into consideration of industry information and market data.

f) *Fair value of convertible note*

The fair value of the convertible note is based on independent valuation by a professional valuer. The valuation involves assumptions on the Company's credit spread, discount rate, expected credit rating and future cash flows. Changes in the underlying assumptions could materially impact profit or loss or equity.

g) *Fair value of derivative financial instrument*

The fair value of derivative financial instrument is based on the valuations performed by independent professional valuer. Judgement is required in determining such valuations. Changes in the underlying assumptions could materially impact profit or loss or equity.

43. Financial Risk Management and Fair Values of Financial Instruments

The Group's major financial instruments include available-for-sale investments, accounts receivable, interests receivable, short-term loans receivables, other receivables, security deposits paid, amounts due from subsidiaries, cash and cash equivalents, short-term borrowings, bank loans, security deposits received, amount due to an associate, other payables, financial derivatives and convertible note. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include credit risk, liquidity risk, currency risk, interest rate risk and equity price risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

43. Financial Risk Management and Fair Values of Financial Instruments *(Continued)*

a) *Credit risk*

Credit risk arises from a customer's inability or unwillingness to meet its financial obligations to make timely payments under loans the Group guaranteed or provided. Credit risk is primarily attributable to unexpired guarantee issued by the Group and the short-term loan business of the Group, short-term loans receivables, security deposits paid, cash and cash equivalents and listed investments.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position after deducting any impairment allowance. Except for the guarantee as disclosed below, the Group has no credit risk arising from any other guarantee.

(i) *Credit risk arising from guarantee business*

The Group has taken measures to identify credit risks arising from guarantee business. The Group manages credit risk at every stage of the risk management system, including pre-approval, review and credit approval and post-transaction monitoring processes. The Group conducts customer acceptance and due diligence by business department and risk management department during the pre-approval process. A transaction may be subject to the review and approval of credit approval officer and the executive directors depending on the transaction size.

During the post-transaction monitoring process, all guarantees provided are backed by collateral as security, the Group focuses on ascertaining legal ownership and the valuation of the collaterals. A guarantee provided by the Group is based on the value of the collaterals and generally approximates 9.82%-70% of the estimated value of the collaterals. The Group monitors the value of the collaterals throughout the guarantee period.

When a certain number of customers undertake the same business activities, stay in the same geographical locations, or bear similar economic features for their industries, their ability to fulfill contracts will be effected by the same economic changes. Concentration of credit risk reflects the sensitivity of the Group's operating results to specific industries or geographical locations. As the Group mainly operates its business in the PRC, there exists a certain level of geographical concentration risk for its guarantee portfolio in that it might be affected by the changes in the PRC economic conditions.

The Maximum exposure to credit risk in respect of these financial guarantees at the end of the reporting period is disclosed in note 40.

43. Financial Risk Management and Fair Values of Financial Instruments *(Continued)*

a) *Credit risk* *(Continued)*

(ii) *Credit risk arising short-term loan business*

The Group adopts the same per-approval, review and credit approval risk management system for credit risk arising from short-term loan business. During the post-transaction monitoring process, the Group performs credit evaluations on each and every major customer periodically. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates.

All short-term loans granted are backed by collateral as security. The Group also focuses on ascertaining legal ownership and the valuation of the collaterals. A loan granted is based on the value of the collaterals and generally approximates 5.00%-75.65% of the estimated value of the collaterals. The Group closely monitors the ownership and the value of the collaterals throughout the loan period. The short-term loans receivables are due by the date as specified in the corresponding loan agreements.

In accordance with accounting policies, if there is objective evidence that indicates the cash flows for a particular loan is expected to decrease, and the amount can be estimated, the loan is recorded as an impaired loan and the impairment loss is recognised in the profit or loss.

The Group's policy requires regular review of the quality of individually significant financial assets. For assets for which an allowance for impairment loss is provided individually, the amount is determined by an evaluation of the incurred loss at the reporting date on a case-by-case basis. In making such assessments, the Group considers the value of collateral held and expected future cash flows from the asset.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 7.72% (2012: Nil) and 16.31% (2012: 17.03%) of the total short-term loans receivables was due from the Group's largest customer and the five largest customers respectively.

43. Financial Risk Management and Fair Values of Financial Instruments *(Continued)*

a) *Credit risk* *(Continued)*

(ii) *Credit risk arising short-term loan business (Continued)*

When a certain number of customers undertake the same business activities, stay in the same geographical locations, or bear similar economic features for their industries, their ability to fulfill contracts will be effected by the same economic changes. Concentration of credit risk reflects the sensitivity of the Group's operating results to specific industries or geographical locations. As the Group mainly operates its businesses in the PRC, there exists a certain level of geographical concentration risk for its loan portfolio in that it might be affected by the changes in the PRC economic conditions.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from short-term loans receivables are set out in note 19.

(iii) *Other Credit risks*

In respect of accounts receivable and interests receivable, individual credit valuations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customers as well as pertaining to the economic environment in which the customer operates. Further quantitative disclosures in respect of the Group's exposure to credit risk arising from accounts receivable and interests receivable are set out in notes 18 and 20 respectively.

The majority of the Group's investments are liquid securities listed on the recognised stock exchanges. No exposure to credit risk is expected.

The credit risk on cash and cash equivalents and security deposits paid is limited because the counterparties are banks and other financial institutions with high credit ratings assigned by international credit-rating agencies.

b) *Liquidity risk*

The Group is responsible for its own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demand, subject to board approval. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following liquidity tables show the remaining contractual maturities at the end of the reporting period of the Group's and the Company's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of reporting period) and the earliest date the Group and the Company can be required to pay.

In addition, the following table details the Group's liquidity analysis for its Convertible Note. The tables have been drawn up based on the undiscounted gross outflows on the Convertible Note based on the contractual maturities assuming no conversion of the Convertible Notes into equity will take place.

43. Financial Risk Management and Fair Values of Financial Instruments *(Continued)*

b) *Liquidity risk* (Continued)

Group

	2013 Contractual undiscounted cash outflow				2012 Contractual undiscounted cash outflow				
	Within 1 year or on demand HK$'000	**More than 1 year but less than 2 years HK$'000**	**Total contractual undiscounted cash flow HK$'000**	**Carrying amount at 31 December HK$'000**	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	Total contractual undiscounted cash flow HK$'000	Carrying amount at 31 December HK$'000
Non-derivative financial liabilities:									
Bank loans									
– fixed rates	**5,318**	**19,044**	**24,362**	**21,622**	5,414	5,157	18,466	29,037	24,666
– variable rates	**20,040**	**–**	**20,040**	**19,078**	–	–	–	–	–
Short-term borrowings									
– fixed rates	**322,367**	**–**	**322,367**	**317,392**	335,401	–	–	335,401	308,103
– non-interest bearing	**98,648**	**–**	**98,648**	**98,648**	–	–	–	–	–
Security deposits received	**109,833**	**–**	**109,833**	**109,833**	–	–	–	–	–
Amount due to an associate	**3,561**	**–**	**3,561**	**3,561**	–	–	–	–	–
Other payables, deposits received and accruals	**18,299**	**–**	**18,299**	**18,299**	189,652	–	–	189,652	189,652
	578,066	**19,044**	**597,110**	**588,433**	530,467	5,157	18,466	554,090	522,421
Financial liabilities at FVTPL:									
Convertible Note	**4,680**	**56,577**	**61,257**	**57,802**	–	–	–	–	–
Financial guarantees issued:									
Maximum amount guaranteed arising from:									
– Loan guarantee business*	**189,942**	**–**	**189,942**	**–**	71,240	–	–	71,240	–

* The maximum amount guaranteed represents the total amount of liability less the amount of customer security deposits should be all customers default. Since a significant portion of guarantee is expected to expire without being called upon the maximum liabilities do not represent expected future cash outflows.

Company

	2013 Contractual undiscounted cash outflow				2012 Contractual undiscounted cash outflow			
	Within 1 year or on demand HK$'000	**More than 1 year but less than 2 years HK$'000**	**Total contractual undiscounted cash flow HK$'000**	**Carrying amount at 31 December HK$'000**	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	Total contractual undiscounted cash flow HK$'000	Carrying amount at 31 December HK$'000
Non-derivative financial liabilities								
Other payables, deposits received and accruals	**559**	**–**	**559**	**559**	38,326	–	38,326	38,326
Amounts due to subsidiaries	**102,210**	**–**	**102,210**	**102,210**	102,740	–	102,740	102,740
	102,769	**–**	**102,769**	**102,769**	141,066	–	141,066	141,066
Financial liabilities at FVTPL								
Convertible Note	**4,680**	**56,577**	**61,257**	**57,802**	–	–	–	–

43. Financial Risk Management and Fair Values of Financial Instruments *(Continued)*

c) *Interest rate risk*

The Group is principally engaged in the provision of short-term financing services. Its interest rate risk arises primarily from deposits with financial institutions, short-term loans receivables, bank and other interest-bearing borrowings.

i) *Interest rate profile*

The following table details the interest rate profile of the Group's and the Company's assets and liabilities at the end of the reporting period:

	Group At December 31		Company At December 31	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Fixed interest rate				
Financial assets				
– Short-term loans receivables	**1,893,678**	1,071,318	**–**	–
Financial liabilities				
– Bank loans	**(21,622)**	(24,666)	**–**	–
– Entrusted loan	**–**	(61,664)	**–**	–
– Other borrowings	**–**	(246,439)	**–**	–
– Borrowings under a strategic cooperation and investment agreements	**(322,367)**	–	**–**	–
– Convertible Note	**(57,802)**	–	**(57,802)**	–
	(401,791)	(332,769)	**(57,802)**	–
Net	**1,491,887**	738,549	**(57,802)**	–
Variable interest rate				
Financial assets				
– Cash at bank/financial institutions	**103,200**	312,588	**8,673**	81,233
– Security deposits paid	**103,610**	10,923	**–**	–
	206,810	323,511	**8,673**	81,233
Financial liabilities				
– Bank loans	**(19,078)**	–	**–**	–
Net	**187,732**	323,511	**8,673**	81,233
Fixed rate borrowings as a percentage of total borrowings	**95.47%**	100.00%	**100.00%**	N/A

43. Financial Risk Management and Fair Values of Financial Instruments *(Continued)*

c) *Interest rate risk* (Continued)

ii) *Sensitivity analysis*

Short-term loans receivables, short-term borrowings, Convertible Note and certain of bank loans of the Group which are fixed rate instruments are insensitive to any change in interest rates. A change in interest rates at the end of the reporting period would not affect profit or loss.

The Group and the Company are exposed to cash flow interest rate risk in relation to bank balances and deposits that carrying interest at variables rates. The Group does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arises. The directors consider the Group's exposure to cash flow interest rate risk of bank balances and deposits is not significant.

At 31 December 2013 it is estimated that a general increase/decrease of 100 basis points in interest rates for variable rate bank borrowings, with all other variables held constant, would decrease/increase the Group's profit after tax (and retained profits) by approximately HK$159,000 (2012: HK$Nil). Other components of consolidated equity would not change in response to the general increase/decrease in interest rates.

The sensitivity analysis above indicates the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held at the end of the reporting period. The analysis is prepared assuming these financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 100 basis points (2012: 100 basis points) increase or decrease in interest rates 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. The analysis is performed on the same basis for 2012.

d) *Currency risk*

The business transactions of the entity within the Group are mainly conducted in its functional currency, and so the Group and the Company have no significant exposure to currency risk.

e) *Equity price risk*

The Group is exposed to equity price changes arising from equity investments classified as available-for-sale investments (see note 17).

43. Financial Risk Management and Fair Values of Financial Instruments *(Continued)*

e) *Equity price risk* *(Continued)*

The Group's listed investments are listed on the recognised stock exchanges. Listed investments held in the available-for-sale portfolio have been chosen based on their longer term growth potential and are monitored regularly for performance against expectations. The portfolio is diversified in terms of industry distribution, in accordance with the limits set by the Group.

The Group is also exposed to equity price risk arising from changes in the Company's own share price to the extent that the Company's own equity instruments underlie the fair values of the Convertible Note. As at the end of the reporting period, the Group is exposed to this risk through the Convertible Note issued by the Company as disclosed in note 33.

At 31 December 2013 it is estimated that an increase/(decrease) of 10% (2012: 10%) in the relevant stock market index (for listed investments) or the Company's own share price (for the Convertible Note) as applicable, with all other variables held constant, would have increased/decreased the Group's profit after tax (and retained profits) and other components of consolidated equity as follows:

Group

	2013	**Effect on profit after tax and retained profits HK$'000**	**Effect on other components of equity HK$'000**	2012	Effect on profit after tax and retained profits HK$'000	Effect on other components of equity HK$'000
Change in the relevant equity price risk variable:						
Increase	**10%**	**(5,019)**	**4,200**	10%	–	5,183
Decrease	**(10)%**	**4,050**	**(4,200)**	(10)%	–	(5,183)

The sensitivity analysis indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise assuming that the changes in the stock market index or other relevant risk variables had occurred at the end of reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to equity price risk at the end of the reporting period. It is also assumed that the fair values of the Group's equity investments would change in accordance with the historical correlation with the relevant stock market index or the relevant risk variables, that none of the Group's available-for-sale investments would be considered impaired as a result of the decrease in the relevant stock market index or other relevant risk variables, and that all other variables remain constant. The analysis is performed on the same basis for 2012.

43. Financial Risk Management and Fair Values of Financial Instruments *(Continued)*

f) *Fair value measurement*

i) *Financial assets and liabilities measured at fair value*

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy defined as in HKFRS 13 "Fair Value Measurement". The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

- Level 3 Valuations: Fair value measured using significant unobservable input

The Group engages two independent professional valuers performing valuations for the financial instruments, including the Convertible Note and financial derivatives which are categorised into Level 3 of the fair value hierarchy. The valuations report directly to the financial controller of the Group and the directors of the Company. Valuation reports with analysis of changes in fair value measurement are prepared by independent valuers at each interim and annual reporting date, and are reviewed by the financial controller and approved by the directors of the Company. Discussion of the valuation process and results with the financial controller of the Group and the directors of the Company is held twice a year to coincide with the reporting date.

	Fair value at 31 December 2013	**Fair value measurements as at 31 December 2013 categorised into**			Fair value at 31 December 2012	Fair value measurements as at 31 December 2012 categorised into		
		Level 1	**Level 2**	**Level 3**		Level 1	Level 2	Level 3
	$'000	**$'000**	**$'000**	**$'000**	$'000	$'000	$'000	$'000
Group								
Recurring fair value measurements								
Assets:								
Available-for-sale equity securities								
– Listed	**42,002**	**42,002**	**–**	**–**	51,825	51,825	–	–
Liabilities:								
Convertible Note	**57,802**	**–**	**–**	**57,802**	–	–	–	–
Financial derivatives	**1,000**	**–**	**–**	**1,000**	–	–	–	–

43. Financial Risk Management and Fair Values of Financial Instruments *(Continued)*

f) Fair values *(Continued)*

i) Financial instruments carried at fair value *(Continued)*

	Fair value at 31 December 2013 $'000	Fair value measurements as at 31 December 2013 categorised into Level 1 $'000	Level 2 $'000	Level 3 $'000	Fair value at 31 December 2012 $'000	Fair value measurements as at 31 December 2012 categorised into Level 1 $'000	Level 2 $'000	Level 3 $'000
Company								
Recurring fair value measurements								
Liabilities:								
Convertible Note	57,802	–	–	57,802	–	–	–	–

During the years ended 31 December 2012 and 2013, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Information about Level 3 fair value measurements

	Valuation techniques	Significant unobservable inputs
Convertible Note	Monte Carlo Simulations	Expected volatility of 37.88%
Financial derivatives	Monte Carlo Simulations	Expected volatility of 28.82%

The fair values of Convertible Note and financial derivatives are determined using Monte Carlo Simulations model and the significant unobservable inputs used in the fair value measurement is expected volatility.

The fair value measurement of convertible note is positively correlated to the expected volatility. As at 31 December 2013, it is estimated that with all other variables held constant, an increase/decrease in the expected volatility by 10% would have decreased/increased the Group's profit by HK$285,000/HK$257,000 (2012: not applicable) respectively.

No sensitive analysis is performed on the financial derivatives as the impact is not significant to the Group's profit.

43. Financial Risk Management and Fair Values of Financial Instruments *(Continued)*

f) *Fair values* *(Continued)*

i) *Financial instruments carried at fair value* *(Continued)*

The movements during the period in the balance of these Level 3 fair value measurements are as follows:

	Group	
	2013	2012
Convertible Note:	**HK$'000**	HK$'000
At 1 January	**–**	–
Issue of Convertible Note	**93,600**	–
Interest payment	**(4,071)**	–
Changes in fair value recognised in profit or loss	**35,637**	–
Conversion	**(66,848)**	–
Exchange adjustment	**(516)**	–
At 31 December	**57,802**	–
Total losses for the period included in profit or loss for liability held at the end of the reporting period	**35,637**	–

	2013	2012
Financial derivatives:	**HK$'000**	HK$'000
At 1 January	**–**	–
Changes in fair value recognised in profit or loss	**1,000**	–
At 31 December	**1,000**	–
Total losses for the period included in profit or loss for liability held at the end of the reporting period	**1,000**	–

The losses arising from the remeasurement of the Convertible Note and financial derivatives are presented in "Other net (loss)/income" in the consolidated statement of profit or loss.

43. Financial Risk Management and Fair Values of Financial Instruments *(Continued)*

f) *Fair values (Continued)*

ii) *Fair value of financial instruments carried at other then fair value*

The carrying amounts of the Group's and the Company's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2012 and 2013.

g) *Capital management*

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The management reviews the capital structure by considering the cost of capital and the risks associated with each class of capital. In view of this, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt as it sees fit and appropriate.

The Group monitors capital on the basis of the gearing ratio, which was unchanged from 2012. This ratio is calculated as net debt divided by capital. Net debt is calculated as total borrowings (including current and non-current borrowings and security deposits received) less cash and cash equivalents and security deposits paid. Capital comprises all components of equity.

The gearing ratio at 31 December 2013 and 2012 were as follows:

	Group		Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Current Liabilities:				
Bank loans	**22,894**	3,700	**–**	–
Short-term borrowings	**416,040**	308,103	**–**	–
Security deposits received	**109,833**	–	**–**	–
	548,767	311,803	**–**	–
Non-current liabilities:				
Convertible Note	**57,802**	–	**57,802**	–
Bank loans	**17,806**	20,966	–	–
Total borrowings	**624,375**	332,769	**57,802**	–
Less: Cash and cash equivalents	**(103,288)**	(313,460)	**(8,673)**	(81,233)
Security deposits paid	**(103,610)**	(10,923)	**–**	–
Net debt	**417,477**	8,386	**49,129**	N/A
Total equity	**2,131,211**	1,809,891	**1,396,751**	1,387,039
Gearing ratio	**19.58%**	0.46%	**3.52%**	N/A

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

44. Ultimate Controlling Party

The directors regard Mr. Cheung Siu Lam through his direct shareholding in the Company as being the ultimate controlling party. The Company does not have any parent company.

45. Possible Impact of Amendments, New Standards and Interpretations Issued But Not Yet Effective for the Year Ended 31 December 2013

Up to the date of issue of these financial statements, the HKICPA has issued a few amendments and a new standard which are not yet effective for the year ended 31 December 2013 and which have not been adopted in these financial statements. These include the following which have may be relevant to the Group.

Amendments to HKAS 32	Offsetting financial assets and financial liabilities[1]
Amendments to HKAS 36	Recoverable amount disclosures for non-financial assets[1]
HKFRS 9	Financial Instruments[2]

1 Effective for annual periods beginning on or after 1 January 2014.

2 Available for application – the mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalised.

The Group is in the process of making an assessment of what the impact of these new and revised HKFRSs is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

46. Event After the Reporting Period

On March 2, 2014, the Company signed a cooperation agreement with Beijing Urban Development Investment Fund Management Limited (北京城鎮發展投資基金管理有限公司), to officially confirm the establishment of a Sino-foreign joint venture small loan company in Beijing with a registered capital of RMB400 million in which the Company owns 80% of the joint venture company. The operating areas of the newly established joint venture small loan company are not restricted by its place of incorporation and is allowed to engage in provision of small loans to agricultural, forestry, fishing & farming industries, small and medium-sized enterprises and individuals in Beijing.

Beijing Urban Development Investment Fund Management Limited is a professional urban development investment fund management company jointly funded and established by China Development Bank Capital Corporation Limited (國開金融有限責任公司) and Beijing Municipal Commission of Development and Reform (北京市發展和改革委員會), with capital size of RMB10 billion.

FINANCIAL SUMMARY

For the year ended 31 December 2013

SUMMARY FINANCIAL INFORMATION

A summary of the published results and of the assets and liabilities of the Group for the last five financial years, as extracted from the published audited financial statements and reclassified or restated as appropriate, is set out below.

	Year ended 31 December				
	2013	2012	2011	2010	2009
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Results					
Turnover	**440,724**	300,601	382,127	217,022	2,073,083
Profit for the year	**240,135**	255,649	59,375	32,146	42,614
Attributable to:					
Equity shareholders of the Company	**237,478**	254,039	57,302	25,355	26,303
Non-controlling interest	**2,657**	1,610	2,073	6,791	16,311
	240,135	255,649	59,375	32,146	42,614

	As at 31 December				
	2013	2012	2011	2010	2009
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets and liabilities					
Total assets	**2,860,529**	2,388,564	1,866,949	885,740	2,087,814
Total liabilities	**(729,318)**	(578,673)	(299,671)	(111,598)	(1,246,765)
Non-controlling interest	**(40,746)**	(29,368)	(30,930)	(8,313)	(104,216)
Balance of total equity attributable to equity shareholders of the Company	**2,090,465**	1,780,523	1,536,348	765,829	736,833