The Hong Kong Building and Loan Agency Limited

香港建屋貸款有限公司

(Stock Code: 145)

2013 ANNUAL REPORT

CORPORATION INFORMATION

BOARD OF DIRECTORS

Executive Directors
Mr. So Yuen Chun
Mr. Yeung Kwok Leung

Non-executive Director
Mr. Lam Kwok Hing, Wilfred

Independent Non-executive Directors
Ms. Yuen Wai Man
Mr. Yeung Wai Hung, Peter
Mr. Lam Raymond Shiu Cheung

AUDIT COMMITTEE

Ms. Yuen Wai Man *(Chairman)*
Mr. Lam Kwok Hing, Wilfred
Mr. Yeung Wai Hung, Peter
Mr. Lam Raymond Shiu Cheung

NOMINATION COMMITTEE

Ms. Yuen Wai Man *(Chairman)*
Mr. Lam Kwok Hing, Wilfred
Mr. Yeung Wai Hung, Peter
Mr. Lam Raymond Shiu Cheung

REMUNERATION COMMITTEE

Ms. Yuen Wai Man *(Chairman)*
Mr. Lam Kwok Hing, Wilfred
Mr. Yeung Wai Hung, Peter
Mr. Lam Raymond Shiu Cheung

AUDITOR

ZHONGLEI (HK) CPA Company Limited

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Public Bank (Hong Kong) Limited

SOLICITOR

WT Law Offices

SHARE REGISTRAR

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

REGISTERED OFFICE

Unit F, 7/F
China Overseas Building
139 Hennessy Road
Wanchai
Hong Kong

STOCK CODE

145

WEBSITE

http://www.hkbla.com.hk

COMPANY SECRETARY

Mr. So Yuen Chun

CONTENT

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is principally engaged in investment holding, treasury investments and the provision of loan financing.

During the year under review, the Group recorded a revenue of approximately HK$47.0 million, representing an increase of approximately 11.4% as compared with HK$42.2 million for the last year. A loss for the year attributable to the owners of the Company of approximately HK$91.1 million (2012: profit of approximately HK$10.3 million) was recorded mainly attributable to the impairment loss recognised in respect of loan and loan interest receivables.

Of the total revenue, approximately HK$47.0 million (2012: approximately HK$42.2 million) was generated from the Group's loan financing business which contributed a segment loss of approximately HK$89.10 million (2012: profit of approximately HK$33.0 million). Such substantial loss was mainly attributable to the impairment loss recognised in respect of loan and loan interest receivables.

With respect to the treasury investments, a segment profit of approximately HK$16.9 million was recorded for the year under review, as compared with the segment profit of approximately HK$7.8 million last year. The substantial increase in the profit incurred from the treasury investments is mainly attributable to the increase in the share prices of the equity securities held for investments.

TOTAL ASSETS AND FOREIGN EXCHANGE EXPOSURE

As at 31 December 2013, the total assets decreased to approximately HK$397.9 million (2012: approximately HK$453.2 million). All assets were denominated in Hong Kong dollars save for some bank balances which were denominated in United States dollars; as such, the Group's exposure to foreign exchange currency rate risk was insignificant. Therefore, no instruments have been applied for foreign currency hedging purposes.

As at 31 December 2013, the Group held available-for-sale investments and financial assets at fair value through profit or loss amounting to approximately HK$0.26 million (2012: approximately HK$3.2 million) and HK$92.9 million (2012: approximately HK$14.0 million), respectively. The available-for-sale investments represent the carrying value of equity investment in an unlisted entity of Hong Kong at as 31 December 2013. The financial assets at fair value through profit or loss represent held-for-trading investments in equity securities listed in Hong Kong.

As at 31 December 2013, the Group held mortgage loans and loan receivables amounting to approximately HK$28.3 million (2012: approximately HK$33.1 million) and approximately HK$248.5 million (2012: approximately HK$321.5 million), respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained a liquid position throughout the year. As at 31 December 2013, the Group held bank balances amounting to approximately HK$4.0 million (2012: approximately HK$8.3 million). The Group had HK$5.0 million borrowings (2012: HK$5.0 million) and HK$50.0 million non-convertible bonds (2012: HK$ 30.0 million) as at 31 December 2013.

Gearing ratio of the Group as at 31 December 2013, which is calculated as net debts (as calculated by total borrowings less cash and cash equivalents) divided by total capital, was 0.15 (2012: 0.06).

CAPITAL STRUCTURE

As at 31 December 2013, the Company's issued ordinary share capital was HK$54,058,546.6 divided into 540,585,466 shares ("**Share(s)**") (31 December 2012: HK$43,514,886.6 divided into 435,148,866 Shares).

As at 31 December 2013, the Company had HK$1,566,000 CB I (as defined in note 26) and 86 options to subscribe for CB I outstanding. During the year ended 31 December 2013, 3,480,000 new Shares were issued at the exercise price of HK$0.18 upon the conversion of CB I. The optionholders of 86 options to subscribe for CB I were entitled to subscribe for, in aggregate, the CB I in the principal amount of up to HK$13,467,600 at the subscription price of HK$13,467,600 which may be converted into 134,676,000 Shares at the conversion price of HK$0.10 (as adjusted on 17 February 2014).

As at 31 December 2013, the Company had HK$4,050,000 CB II (as defined in note 28) outstanding. During the year ended 31 December 2013, 100,000,000 new Shares were issued at the exercise price of HK$0.135 upon the conversion of CB II. The outstanding CB II may be converted into 30,000,000 Shares at the conversion price of HK$0.135.

CHARGE ON GROUP ASSETS AND CONTINGENT LIABILITIES

The Group did not have any charges on its assets and there were no contingent liabilities as at 31 December 2013 (2012: Nil).

CAPITAL COMMITMENT

Details are set out in note 36 to the consolidated financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

MATERIAL ACQUISITION

The sale and purchase agreement dated 23 February 2011 (as amended) (the "**Previous Sale and Purchase Agreement**") was entered into by and between Wise Planner Limited, a wholly-owned subsidiary of the Company (the "**Previous Purchaser**"), Carbon Reserve Investments Limited, Cross Cone Holdings Limited, Newmargin Partners Ltd., Season Best Investments Limited, Smart Promise Limited, SV Technology Company Limited (as the vendors, collectively, the "**Previous Vendors**"), and the Company (as the Previous Purchaser's guarantor) with respect to the acquisition of the entire issued share capital of Weldtech Technology Co. Limited ("**Weldtech Technology**") at a total consideration of HK$2,800,000,000 (the "**Previous Consideration**", HK$10,000,000 of the Previous Consideration has been paid by the Company to SV Technology Company Limited (being one of the Vendors) as the refundable deposit and part payment of the Previous Consideration) (collectively, the "**Previous Acquisition**").

The Previous Sale and Purchase Agreement was conditional upon, amongst others, that a placing agreement for the Company's placing of new shares with net proceeds of not less than HK$900,000,000 having become unconditional. The Previous Acquisition was approved by the Shareholders at an extraordinary general meeting of the Company in June 2011. The Company, the Previous Purchaser and the Previous Vendors eventually decided to terminate the Previous Sale and Purchase Agreement in August 2012 for reasons set out in the announcement of the Company dated 24 August 2012.

Notwithstanding the termination of the Company's previous attempt to acquire Weldtech Technology, the Company remains interested in Weldtech Technology as it is optimistic about its growth potential. The Company managed to negotiate with the current shareholders of Weldtech Technology for acquiring Weldtech Technology. As part of the business continuity and as a re-launch of the Previous Acquisition, Total Global Holdings Limited, a wholly-owned subsidiary of the Company (the "**Purchaser**"), CITIC International Assets Management Limited, Ample Richness Investments Limited, Smart Promise Limited, Infinite Soar Limited, Cross Cone Holdings Limited, Newmargin Partners Ltd., Carbon Reserve Investments Limited and Season Best Investments Limited (as the vendors, collectively the "**Vendors**") and the Company entered into the sale and purchase agreement on 31 October 2013 (the "**Sale and Purchase Agreement**") with the Vendors, pursuant to which the Purchaser has conditionally agreed to acquire and the Vendors have conditionally agreed to sell the entire issued share capital of Weldtech Technology at a total consideration of HK$2,476,000,010 (the "**Consideration**", HK$10,000,000 of the Consideration has been paid by the Purchaser to CITIC International Assets Management Limited (being one of the Vendors) as refundable deposit and form part payment of the Consideration). The Company, as the Purchaser's guarantor, has unconditionally and irrevocably undertaken to procure the due and punctual performance by the Purchaser of all its obligations and commitments under the Sale and Purchase Agreement.

MANAGEMENT DISCUSSION AND ANALYSIS

MATERIAL ACQUISITION *(continued)*

Weldtech Technology holds the entire equity interest in Haoxin Technology (Shanghai) Company Limited（濠信節能科技（上海）有限公司）(“**Haoxin**”), formerly known as 日滔貿易（上海）有限公司, a wholly foreign-owned enterprise established in the People’s Republic of China, and is wholly-owned by Weldtech Technology. According to the business licence of Haoxin, the business scope of Haoxin includes, among others, development, consultation and proprietary technology transfer of energy and energy saving technologies; energy performance contracting; design and development of computer softwares, automatic control system, intelligent products on building energy consumption monitoring and proprietary products transfer and related supporting services; wholesale and import and export of mechanical and electrical products as well as “heating ventilation and air-conditioning” (“**HVAC**”) equipment. According to the Vendors, Haoxin is principally engaged in providing energy monitoring and energy saving solutions for commercial buildings, industrial buildings, shopping arcades, hospitals and urban facilities to reduce energy consumption, and to enhance overall energy efficiency of central air-conditioning system via its proprietary the ultra performance plant controller system (“**UPPC System**”) and other components. Haoxin is currently actively developing new technology based on the UPPC System so as to broaden the scope of building energy solution saving, such as the HVAC airside control optimisation, building automation system, real-time system fault detection and more advanced optimisation algorithm.

The Acquisition constituted a very substantial acquisition for the Company under the Listing Rules and therefore is subject to the reporting, announcement and shareholders’ approval requirement.

For further details, please refer to the Company’s announcements dated 6 December 2013, 30 December 2013, 29 January 2014, 21 February 2014 and 24 March 2014 and the Company’s circular dated 11 April 2014.

FUND RAISING ACTIVITIES

On 26 February 2013, 15 March 2013 and 22 August 2013 and 16 October 2013, the Company entered into the first placing agreement, supplemental placing agreement, second supplemental placing agreement, third supplemental placing agreement respectively (collectively, the “**Placing Agreements**”) with FT Securities Limited (the “**Placing Agent**”) pursuant to which the Placing Agent has conditionally agreed to procure the placees to subscribe for no more than 5 tranches (in which the principal amount of the convertible bonds placed in each tranche shall be HK$1,350,000 or any multiple thereof) of the convertible bonds of up to an aggregate principal amount of HK$60,750,000 on a best-effort basis. The conversion shares would be allotted and issued under the specific mandate to be sought from shareholders of the Company at an extraordinary general meeting to allot and issue up to a maximum of 450,000,000 conversion shares. The Placing was duly passed by the Shareholders in an extraordinary general meeting of the Company on 5 November 2013 and that all the conditions precedent for the issue of the convertible bonds under the Placing Agreements have been fulfilled and the overall completion of the placing of the convertible bonds took place on 17 February 2014.

MANAGEMENT DISCUSSION AND ANALYSIS

FUND RAISING ACTIVITIES *(continued)*

For further details, please refer to the Company's announcements dated 28 February 2013, 15 March 2013, 22 August 2013, 16 October 2013, 5 November 2013, 19 December 2013, 11 February 2014 and 18 February 2014 as well as circular dated 21 October 2013.

SIGNIFICANT INVESTMENTS HELD

Save as reported above, as at 31 December 2013, the Group held no other significant investments.

STAFF AND REMUNERATION

The Group had 14 (2012: 14) employees as at 31 December 2013 and total staff costs incurred during the year amounted to approximately HK$6.5 million (2012: approximately HK$5 million). The Group offers competitive remuneration packages to its employees. Other benefits include share options granted or to be granted under the share option scheme of the Company.

EVENTS AFTER THE REPORTING PERIOD

Details are set out in note 41 to the consolidated financial statements.

OUTLOOK AND PROSPECT

The loan financing business, which are mainly mortgage services, continues to generate interest income for the Group during the year ended 31 December 2013. In the view that the interest rate would continue increasing, the Group is optimistic that the loan financing business will generate higher income. While developing its strategy in treasury investment, which may consist of listed securities, treasury products and derivatives investment, the Group would continue exploring and broadening the existing businesses in order to strengthen its competitiveness and provide business growth potential. It has been the business strategy of the Group to proactively seek potential investment opportunities that could enhance the value to the shareholders of the Company. In this connection, the Company has identified the Group of Weldtech Technology as an appropriate acquisition target to the Group and is of the view that the Sale and Purchase Agreement allows the Group to diversify into a new line of business with significant growth potential.

BIOGRAPHICAL DETAILS OF DIRECTORS

EXECUTIVE DIRECTORS

Mr. So Yuen Chun ("**Mr. So**"), aged 42, was appointed as an independent non-executive Director on 15 January 2010 and re-designated as an executive Director on 1 December 2010. He was also appointed as the company secretary of the Company on 26 March 2011. Mr. So is also a director of certain subsidiaries of the Group. Mr. So is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants. He possesses more than 19 years of experience in the fields of auditing, accounting and finance. He is currently an executive director of Chinese Global Investors Group Limited (stock code: 5CJ.SI), a company listed on the Catalist board of the Singapore Exchange Securities Trading Limited.

Mr. Yeung Kwok Leung ("**Mr. Yeung**"), aged 40, was appointed as an executive Director on 1 March 2012. He is also a director of certain subsidiaries of the Group. Mr. Yeung holds a bachelor's degree in Accountancy and possesses more than 17 years' experience in auditing, financial controlling, accounting, corporate development as well as business strategy. He is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Yeung is currently an executive director of Ceneric (Holdings) Limited (stock code: 542), a company listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). Mr. Yeung was an executive director and the company secretary of China Fortune Financial Group Limited (stock code: 290) for the period from December 2005 to February 2012, a company listed on the Main Board of the Stock Exchange.

NON-EXECUTIVE DIRECTOR

Mr. Lam Kwok Hing, Wilfred, *J.P.* ("**Mr. Lam**"), aged 54, was appointed as an independent non-executive Director on 1 December 2010 and re-designated as a non-executive Director on 21 October 2011. He was also appointed as a member of the audit committee, the nomination committee and the remuneration committees of the Company, all with effect from 1 December 2010. He has been appointed Justice of the Peace of the Hong Kong Special Administrative Region since 1999 and awarded Queen's Badge of Honour in January 1997. Mr. Lam holds a bachelor's degree in Law with honours from The University of Hong Kong and is a practising solicitor in Hong Kong. He also holds the professional qualification of Estate Agent's (Individual) Licence in Hong Kong.

Being an active member in social and charity activities, Mr. Lam is a Support Force Commander of the Civil Aid Service, Ex Officio Member of New Territories Heung Yee Kuk, Chairman of the Friends of the Community Chest (Kwai Tsing District), Honorary Advisor and Former Vice President of Junior Police Call (Kwai Tsing District), member of and Former Chairman of the Fight Crime Committee (Kwai Tsing District) and Director and Former Chairman of the Community Development Fund (Kwai Tsing District) in Hong Kong. He is also an executive member of the liaison association of the Chinese People's Political Consultative Conference, Guangdong Province.

BIOGRAPHICAL DETAILS OF DIRECTORS

NON-EXECUTIVE DIRECTOR *(continued)*

Mr. Lam is currently an executive director and group vice president of Hong Kong Resources Holdings Company Limited (stock code: 2882), a company listed on Main Board of the Stock Exchange; a non-executive vice-chairman and non-executive director of National Arts Entertainment and Culture Group Limited (stock code: 8228), and a chairman and an executive director of Chinese Strategic Holdings Limited (stock code: 8089), both companies listed on the Growth Enterprise Market ("**GEM**") of the Stock Exchange; and an independent non-executive director of PME Group Limited (stock code: 379), a company listed on Main Board of the Stock Exchange. Mr. Lam was also an independent non-executive director of Value Convergence Holdings Limited (stock code: 821), a company listed on the Main Board of the Stock Exchange, from 4 January 2010 to 30 May 2013.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Yuen Wai Man ("**Ms. Yuen**"), aged 42, was appointed as an independent non-executive director of the Company on 1 November 2012. She was also appointed as the chairman of the audit, nomination and remuneration committees of the Company, with effect from 1 November 2012. She graduated from The University of Hong Kong with a degree in Business Administration in 1994. She is the fellow member of The Association of Chartered Certified Accountants, fellow member of The Hong Kong Institute of Certified Public Accountants and overseas member of The Chinese Institute of Certified Public Accountants. Prior to joining the Company, Ms. Yuen worked in accounting and auditing area for over 19 years. She is an independent non-executive director of Chinese Strategic Holdings Limited (stock code: 8089), a company listed on the GEM of the Stock Exchange, since 4 July 2008.

Mr. Yeung Wai Hung, Peter ("**Mr. Yeung**"), aged 56, was appointed as an independent non-executive Director on 1 February 2011. He was also appointed as a member of the audit committee, the nomination committee and the remuneration committees of the Company, all with effect from 1 February 2011. Mr. Yeung holds a bachelor of laws degree from the University of London and a postgraduate certificate in laws from The University of Hong Kong. He is a solicitor of High Court of Hong Kong. Mr. Yeung has been a practicing solicitor for over 24 years and a partner of Messrs. Hau, Lau, Li & Yeung, Solicitors & Notaries since 1992. He possesses extensive experience in the areas of mergers and acquisition and commercial contracts. Mr. Yeung is currently also an independent non-executive director of Chinese Food and Beverage Group Limited (stock code: 8272), a company listed on the GEM of the Stock Exchange. He was an independent non-executive director of Media Asia Group Holdings Limited (stock code: 8075) for the period from November 2009 to August 2011, a company listed on GEM of the Stock Exchange.

BIOGRAPHICAL DETAILS OF DIRECTORS

INDEPENDENT NON-EXECUTIVE DIRECTORS *(continued)*

Mr. Lam Raymond Shiu Cheung ("**Mr. Lam**"), aged 48, was appointed as an independent non-executive director of the Company on 17 February 2012. He was also appointed as members of the audit, nomination and remuneration committees of the Company, with effect from 17 February 2012. He graduated from the Victoria University of Melbourne, Australia, with a bachelor of business degree majoring in banking and finance. He also earned a master degree in Applied Finance from Macquarie University of Australia. Mr. Lam has 22 years of extensive experience in business development and corporate finance. He started his career in corporate banking, after which he joined one of the biggest oil companies in the USA specializing in the area of business development. Mr. Lam is currently an executive director of Chinese Food and Beverage Group Limited (stock code: 8272) and an independent non-executive director of Zebra Strategic Holdings Limited (stock code: 8260) and China Assurance Finance Group Limited (stock code: 8090), all of the companies are listed on the GEM of the Stock Exchange. He resigned as the deputy chief executive officer of China Eco-Farming Limited (stock code: 8166) on 17 April 2013, a company which is listed on GEM of the Stock Exchange.

DIRECTORS' REPORT

The directors of the Company (the "**Directors**") present this report together with the audited consolidated financial statements of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2013 (the "**Year**").

PRINCIPAL ACTIVITIES

The Group is principally engaged in investment holding, treasury investments and the provision of loan financing. The principal activities and other particulars of the Company's subsidiaries are set out in note 1 to the consolidated financial statements.

There were no significant changes in the nature of the Group's principal activities during the Year.

SEGMENT INFORMATION

An analysis of the Group's revenue and results by principal activity for the Year is set out in note 7 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the Year are set out in the Consolidated Statement of Profit or Loss and Other Comprehensive Income on page 40.

The Directors do not recommend the payment of a final dividend for the Year (2012: Nil). No interim dividend was declared for the Year.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and of the assets and liabilities of the Group for the last five financial years ended 31 December 2013, as extracted from the audited consolidated financial statements, is set out on page 128.

EQUIPMENT

Details of movements in equipment of the Group and the Company during the Year are set out in note 14 to the consolidated financial statements.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 25 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Group and of the Company during the Year are set out in the Consolidated Statement of Changes in Equity on page 44 and note 29 to the consolidated financial statements, respectively.

DIRECTORS' REPORT

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in note 32 to the consolidated financial statements.

DIRECTORS

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

Executive Directors:

Mr. So Yuen Chun
Mr. Yeung Kwok Leung

Non-executive Director:

Mr. Lam Kwok Hing, Wilfred

Independent Non-executive Directors:

Mr. Yeung Wai Hung, Peter
Mr. Lam Raymond Shiu Cheung
Ms. Yuen Wai Man

In accordance with Article 120 of the Company's articles of association (the "**Articles of Association**"), Messrs. Yeung Kwok Leung and Lam Raymond Shiu Cheung will retire by rotation and, each being eligible, offer himself for re-election.

None of the Directors proposed for re-election at the forthcoming annual general meeting has an unexpired service contract with the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REPORT

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ANY ASSOCIATES

As at 31 December 2013, the interests or short positions of the Directors and chief executives in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provision of the SFO) or which were required to be recorded in the register of interests required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as follows:

Long positions in ordinary shares of the Company

Name of Directors	**Capacity**	**Number of underlying shares held** (Note)	**Percentage of the issued number of shares as at 31 December 2013**
Mr. So Yuen Chun	Beneficial interest	4,351,200	0.80%
Mr. Yeung Kwok Leung	Beneficial interest	4,351,200	0.80%
Ms. Yuen Wai Man	Beneficial interest	434,400	0.08%

Note: All are options granted by the Company under the share option scheme adopted by the Company on 22 May 2008.

Save as disclosed above, none of the Directors or chief executives of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be recorded in the register of interests required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' REPORT

SHARE OPTION SCHEME

The Company operates a share option scheme adopted by the shareholders of the Company (the "**Shareholders**") on 22 May 2008 (the "**Share Option Scheme**"), pursuant to which the Board may, at its discretion, grant options to any eligible participants.

The purpose of the Share Option Scheme is to enable the Company to grant options to selected eligible participants as incentives or rewards for their contribution to the Group and/or to enable the Group to recruit and retain high calibre employees and attract human resources that are valuable to the Group and any invested entity. Eligible participants include any employee (whether full time or part time), any executive Director and any non-executive Director (including independent non-executive Directors), or any of its subsidiaries or invested entity in which any member of the Group holds any equity interest, any shareholder of any member of the Group or any invested entity or any holder of any securities issued or proposed to be issued by any member of the Group or any invested entity and any other person (such as consultant, adviser, business partner or service provider of any member of the Group) whom the Board considers, in its sole discretion, has contributed or will contribute to the Group.

Under the Share Option Scheme, where any further grant of options to an eligible participant, if exercised in full, would result in the total number of shares already issued or to be issued upon exercise of all options granted and to be granted to such eligible participant (including exercised, cancelled and outstanding options) in any 12-month period up to and including the date of such further grant exceeding 1% of the total number of shares in issue (the "**Individual Limit**"), such further grant must be separately approved by the Shareholders in general meeting. Save for the foregoing, no eligible participant shall be granted an option if exercised in full, would exceed the Individual Limit. In addition, where any grant of options to a substantial shareholder or an independent non-executive Director, or any of their respective associates, would result in the shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant: (a) representing in aggregate over 0.1% of the 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 further grant of options must be approved by the Shareholders.

DIRECTORS' REPORT

SHARE OPTION SCHEME *(continued)*

A consideration of HK$1 is payable on acceptance of the grant of an option. An option may be exercised in whole or in part by the grantee within the option period as determined and notified by the Board to the grantee. The Share Option Scheme does not specify a minimum period for which an option must be held before an option can be exercised. However, the provisions of the Share Option Scheme provide that the Board may impose, at its sole discretion, conditions on the grant of an option.

The subscription price for the shares under the Share Option Scheme will be a price determined by the Board in its absolute discretion but shall not be lower than the higher of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the 5 trading days immediately preceding the date of grant; and (iii) the nominal value of a share.

As at the date of this report, a total of 15,444,600 Options have been granted under the scheme mandate limit and the outstanding number of options available for issue under the scheme mandate limit is 28,070,286, representing approximately 4.92% of the issued number of shares of the Company.

DIRECTORS' REPORT

SHARE OPTION SCHEME *(continued)*

Details of the share options movements during the Year under the Share Option Scheme are as follows:

		Number of share options							
Name of category	Date of grant of share options	Outstanding as at 01.01.2013	Granted during the Year	Exercised during the Year	Lapsed during the Year	Cancelled during the Year	Outstanding as at 31.12.2013	Validity period of share options	Exercise price
Directors									
Mr. So Yuen Chun	28.12.2012	4,351,200	–	–	–	–	4,351,200	28.12.2012 to 27.12.2022	HK$0.273
Mr. Yeung Kwok Leung	28.12.2012	4,351,200	–	–	–	–	4,351,200	28.12.2012 to 27.12.2022	HK$0.273
Mr. Lam Kwok Hing, Wilfred	28.12.2012	1,087,800	–	1,087,800	–	–	–	28.12.2012 to 27.12.2022	HK$0.273
Mr. Yeung Wai Hung, Peter	28.12.2012	434,400	–	434,400	–	–	–	28.12.2012 to 27.12.2022	HK$0.273
Mr. Lam Raymond Shiu Cheung	28.12.2012	434,400	–	434,400	–	–	–	28.12.2012 to 27.12.2022	HK$0.273
Ms. Yuen Wai Man	28.12.2012	434,400	–	–	–	–	434,400	28.12.2012 to 27.12.2022	HK$0.273
Subtotal		11,093,400	–	1,956,600	–	–	9,136,800		
Consultant	28.12.2012	4,351,200	–	–	–	–	4,351,200	28.12.2012 to 27.12.2022	HK$0.273
Subtotal		4,351,200	–	–	–	–	4,351,200		
Total		15,444,600	–	1,956,600	–	–	13,488,000		

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed under the sections headed "SHARE OPTION SCHEME" and "DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ANY ASSOCIATES" above, at no time during the Year, there subsisted any arrangements to which the Company or the Company's subsidiary or holding company or a subsidiary of the Company's holding company is a party, being arrangements whose objects are, or one of whose objects is, to enable Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, or there have, at any time in that year, subsisted such arrangements as aforesaid to which the Company or the Company's subsidiary or holding company or a subsidiary of the Company's holding company was a party.

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2013, to the best knowledge of the Directors, interests or short positions of the persons, other than a Director or chief executive of the Company, in the shares and/or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Name	Capacity	Number of Shares	Number of Underlying Shares	Approximate percentage of number of Shares in issue (Note 1)
CITIC Group Corporation (Note2)	Interest of controlled corporation	73,462,878 (L)	681,962,375 (L)	139.74%
CITIC Limited (Note 2)	Interest of controlled corporation	73,462,878 (L)	681,962,375 (L)	139.74%
China CITIC Bank Corporation Limited (Note 2)	Interest of controlled corporation	73,462,878 (L)	681,962,375 (L)	139.74%
CITIC International Financial Holdings Limited (Note 2)	Interest of controlled corporation	73,462,878 (L)	681,962,375 (L)	139.74%
CITIC International Assets Management Limited ("**CIAM**") (Note 2)	Beneficial owner	73,462,878 (L)	681,962,375 (L)	139.74%
Cheng Lut Tim ("**Mr. Cheng**") (Note 3)	Interest of controlled corporation	64,686,773 (L)	600,493,050 (L)	123.04%
Ample Richness Investments Limited ("**Ample Richness**") (Note 3)	Beneficial owner	29,089,327 (L)	270,038,787 (L)	55.33%
Smart Promise Limited ("**Smart Promise**") (Note 3)	Beneficial owner	22,679,814 (L)	210,538,725 (L)	43.14%
Infinite Soar Limited ("**Infinite Soar**") (Note 3)	Beneficial owner	12,917,633 (L)	119,915,537 (L)	24.57%
Cross Cone Holdings Limited ("**Cross Cone**") (Note 4)	Beneficial owner	10,058,005 (L)	93,369,350 (L)	19.13%
Excel Arts Limited ("**Excel Arts**") (Note 4)	Interest of controlled corporation	10,058,005 (L)	93,369,350 (L)	19.13%
Lui Wing Patsie ("**Ms. Lui**") (Note 4)	Interest of controlled corporation	10,058,005 (L)	93,369,350 (L)	19.13%
Newmargin Partners Ltd. ("**Newmargin**") (Note 5)	Beneficial owner	9,860,789 (L)	91,538,575 (L)	18.75%
Wang Qin (Note 5)	Interest of controlled corporation	9,860,789 (L)	91,538,575 (L)	18.75%
China Energy Conservation and Environmental Protection Group ("**CECEP**") (Note 6)	Interest of controlled corporation	7,001,160 (L)	64,992,387 (L)	13.31%

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY *(continued)*

Name	Capacity	Number of Shares	Number of Underlying Shares	Approximate percentage of number of Shares in issue (Note 1)
China Energy Conservation and Environmental Protection (Hong Kong) Investment Co., Ltd. ("**CECEP HK**") (Note 6)	Interest of controlled corporation	7,001,160 (L)	64,992,387 (L)	13.31%
Carbon Reserve Investments Limited ("**Carbon Reserve**") (Note 6)	Beneficial owner	7,001,160 (L)	64,992,387 (L)	13.31%
Central Huijin Investment Ltd. (Note 7)	Interest of controlled corporation	4,930,394 (L)	45,769,275 (L)	9.37%
China Construction Bank Corporation (Note 7)	Interest of controlled corporation	4,930,394 (L)	45,769,275 (L)	9.37%
Season Best Investments Limited ("**Season Best**") (Note 7)	Beneficial owner	4,930,394 (L)	45,769,275 (L)	9.37%
Chinese Capital Management Limited (Note 8)	Beneficial owner	–	45,861,428 (L)	8.48%
Liang Gui Lian (Note 9)	Interest of controlled corporation	27,312,500 (L)	4,370,000 (L)	9.37%
Best Leader Asia Investment Limited (Note 9)	Interest of controlled corporation	27,312,500 (L)	4,370,000 (L)	5.86%
Express Advantage Limited (Note 9)	Beneficial owner	27,312,500 (L)	4,370,000 (L)	5.86%

(L) denotes the long position held in the shares

Notes:

(1) As at 31 December 2013, the Company's number of issued Share was 540,585,466.

(2) These Shares comprise (i) 73,462,878 consideration shares to be allotted and issued to CIAM and (ii) 681,962,375 conversion shares to be allotted and issued to CIAM upon the exercise of the conversion rights attaching to the Convertible Bonds to be issued to CIAM pursuant to the sale and purchase agreement dated 31 October 2013 (the "**Sale and Purchase Agreement**"). As at 31 December 2013, CIAM was not a shareholder of the Company as the transactions under the Sale and Purchase Agreement had not been completed. CIAM is owned as to 40% by CITIC International Financial Holdings Limited, which is owned as to 70.32% by China CITIC Bank Corporation Limited, which is owned as to 66.95% by CITIC Limited, which is wholly-owned by CITIC Group Corporation. By virtue of the SFO, each of CITIC International Financial Holdings Limited, China CITIC Bank Corporation Limited, CITIC Limited and CITIC Group Corporation is deemed to be interested in the consideration Shares and the conversion Shares held by CIAM.

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY *(continued)*

Notes: (continued)

(3) These Shares comprise (i)(a) 29,089,327 consideration shares to be allotted and issued to Ample Richness; (b) 22,679,814 consideration shares to be allotted and issued to Smart Promise; and (c) 12,917,633 consideration shares to be allotted and issued to Infinite Soar; and (ii)(a) 270,038,787 conversion shares to be allotted and issued to Ample Richness upon the exercise of the conversion rights attaching to the convertible bonds to be issued to Ample Richness; (b) 210,538,725 conversion shares to be allotted and issued to Smart Promise upon the exercise of the conversion rights attaching to the convertible bonds to be issued to Smart Promise; and (c) 119,915,537 conversion shares to be allotted and issued to Infinite Soar upon the exercise of the conversion rights attaching to the convertible bonds to be issued to Infinite Soar pursuant to the Sale and Purchase Agreement. As at 31 December 2013, each of the Ample Richness, Smart Promise and Infinite Soar was not a shareholder of the Company as the transactions under the Sale and Purchase Agreement had not been completed. As at 31 December 2013, (i) Ample Richness is wholly-owned by Mr. Cheng; (ii) Smart Promise is owned as to 60.88% by Mr. Cheng, 13.04% by Ms. Zhao Xiao Hua, 13.04% by Ms. Li Ying Li and 13.04% by Mr. Liu Zhi Qiang; and (iii) Infinite Soar is wholly-owned by Mr. Cheng. By virtue of the SFO, Mr. Cheng is deemed to be interested in the consideration Shares and the conversion Shares held by Ample Richness, Smart Promise and Infinite Soar.

(4) These Shares comprise (i) 10,058,005 consideration shares to be allotted and issued to Cross Cone and (ii) the 93,369,350 conversion shares to be allotted and issued to Cross Cone upon the exercise of the conversion rights attaching to the convertible bonds to be issued to Cross Cone pursuant to the Sale and Purchase Agreement. As at 31 December 2013, Cross Cone was not a Shareholder as the transactions under the Sale and Purchase Agreement had not been completed. Cross Cone is wholly-owned by Excel Arts which in turn is owned as to 99% by Ms. Lui. By virtue of the SFO, each of Excel Arts and Ms. Lui is deemed to be interested in the consideration Shares and the conversion Shares held by Cross Cone.

(5) These Shares comprise (i) 9,860,789 consideration Shares to be allotted and issued to Newmargin and (ii) the 91,538,575 conversion shares to be allotted and issued to Newmargin upon the exercise of the conversion rights attaching to the Convertible Bonds to be issued to Newmargin pursuant to the Sale and Purchase Agreement. As at 31 December 2013, Newmargin was not a shareholder of the Company as the transactions under the Sale and Purchase Agreement had not been completed. Newmargin is wholly-owned by Mr. Wang Qin. By virtue of the SFO, Mr. Wang Qin is taken to be interested in the consideration Shares and the conversion Shares held by Newmargin.

(6) These Shares comprise (i) 7,001,160 consideration shares to be allotted and issued to Carbon Reserve and (ii) 64,992,387 conversion shares to be allotted and issued to Carbon Reserve upon the exercise of the conversion rights attaching to the convertible bonds to be issued to Carbon Reserve pursuant to the Sale and Purchase Agreement. As at 31 December 2013, Carbon Reserve was not a Shareholder as the transactions under the Sale and Purchase Agreement had not been completed. Carbon Reserve is wholly-owned by CECEP HK, which is in turn wholly-owned by CECEP. By virtue of the SFO, each of CECEP HK and CECEP is deemed to be interested in the consideration Shares and the conversion Shares held by Carbon Reserve.

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY *(continued)*

Notes: (continued)

(7) These Shares comprise (i) 4,930,394 consideration shares to be allotted and issued to Season Best and (ii) 45,769,275 conversion shares to be allotted and issued to Season Best upon the exercise of the conversion rights attaching to the convertible bonds to be issued to Season Best pursuant to the Sale and Purchase Agreement. As at 31 December 2013, Season Best was not a shareholder of the Company as the transactions under the Sale and Purchase Agreement had not been completed. China Construction Bank Corporation is the Ultimate beneficial owner of Season Best which is owned as to 57.23% by Central Huijin Investment Limited. By virtue of the SFO, each of CCB International Asset Management Limited, CCB International Assets Management (Cayman) Limited, CCB International (Holdings) Limited, CCB Financial Holdings Limited, CCB International Group Holdings Limited, China Construction Bank Corporation and Central Huijin Investment Limited is deemed to be interested in the consideration Shares and the conversion Shares held by Season Best.

(8) These are options to subscribe for convertible bonds of the Company in the principal amount of HK$6,420,600 which can be converted to a maximum of 45,861,428 Shares at the adjusted conversion price of HK$0.14 per conversion share with effect from 19 December 2013.

(9) These Shares comprise (i) 27,312,500 Shares and (ii) unlisted physically settled derivatives that may be converted into a maximum of 4,370,000 underlying Shares. Express Advantage Limited is wholly-owned by Best Leader Asia Investment Limited, which is in turn wholly-owned by Liang Gui Lian. By virtue of the SFO, each of Best Leader Asia Investment Limited and Liang Gui Lian is deemed to be interested in the Shares and underlying Shares held by Express Advantage Limited.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the Year, none of the Directors was considered to have interests in any business apart from the Group's business, which competes or is likely to compete, either directly or indirectly, with the business of the Group pursuant to the Listing Rules.

DIRECTORS' INTERESTS IN CONTRACTS

There was no contract of significance with the Company or the Company's subsidiary or holding company or a subsidiary of the Company's holding company, in which a Director is or was materially interested, whether directly or indirectly subsisting during or at the end of the Year.

MANAGEMENT CONTRACTS

No contracts concerning the management and/or administration of the whole or any substantial part of the business of the Group was entered into or existed during the Year.

DIRECTORS' REPORT

EMOLUMENT POLICY

Details of the Directors' emoluments and emoluments of the five highest paid individuals in the Group are set out in notes 10 and 11 to the consolidated financial statements, respectively.

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

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

PURCHASE, SALE OR REDEMPTION OF SHARES

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

MAJOR CUSTOMERS AND SUPPLIERS

During the Year, the Group's revenue attributed to the five largest customers accounted for approximately 82% of the Group's total revenue while the Group's revenue attributed to the largest customer accounted for approximately 64% of the Group's total revenue. To the best knowledge of the Directors, none of the Directors, their respective associates; or any shareholder of the Company (which to the knowledge of the Directors own more than 5% of the Company's number of issued Shares) has interests in these customers.

The Group had no major suppliers due to the nature of principal activities of the Group.

RETIREMENT BENEFIT SCHEME

Details of the retirement benefit scheme of the Group and the employer's retirement benefit costs charged to the profit or loss for the Year are set out in note 38 to the consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed sufficient public float during the Year and up to the date of this report.

EVENTS AFTER THE REPORTING PERIOD

Details of significant events occurred after the reporting period are set out in note 41 to the consolidated financial statements.

DIRECTORS' REPORT

AUDITOR

The consolidated financial statements for the year ended 31 December 2010 was audited by Messrs. Deloitte Touche Tohmatsu and that for the years ended 31 December 2011 and 2012 were audited by Messrs. ZHONGLEI (HK) CPA Company Limited ("**ZHONGLEI**").

On 21 June 2013, ZHONGLEI was re-appointed as the auditor of the Company for a term ending upon conclusion of the forthcoming annual general meeting. A resolution to re-appoint ZHONGLEI as auditor of the Company will be proposed at the forthcoming annual general meeting.

For and on behalf of the Board

So Yuen Chun
Executive Director

Hong Kong, 14 April 2014

CORPORATE GOVERNANCE REPORT

The Company is committed to maintain a high standard of corporate governance within a sensible framework with an emphasis on the principles of transparency, accountability and independence. The Board believes that good corporate governance is essential to the success of the Company and to the enhancement of shareholders' value.

CODE ON CORPORATE GOVERNANCE PRACTICE

Throughout the year ended 31 December 2013, the Company applied the principles of and complied with the code provisions of the Code on Corporate Governance Practices (the "**CG Code**") contained in Appendix 14 to the Listing Rules on the Stock Exchange save for the following deviations:

Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive ("**CE**") should be separate and should not be performed by the same individual. The Company did not appoint any chairman or CE during the year. The functions of the chairman and CE are performed by Directors. The Board will review the current practice from time to time and make appropriate changes if considered necessary.

Under code provision A.2.7 of the CG Code, the chairman of the board should at least annually hold meetings with the non-executive directors (including independent non-executive directors) without the executive directors present. As the Company does not have a chairman, no such meeting was held in this regard for the year ended 31 December 2013.

Under code provision A.6.7 of the CG Code, independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Some directors of the Company were absent from the last annual general meeting of the Company held on 28 June 2013 and the extraordinary general meeting of the Company held on 5 November 2013, due to their other important engagement at the relevant time.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" (the "**Model Code**") as set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by the Directors. All Directors, following a specific enquiry by the Company, have confirmed that they have complied with the required standard as set out in the Model Code throughout the Year.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS

The Board currently comprises of six Directors, with two executive Directors, one non-executive Director and three independent non-executive Directors. The composition of the Board is as follows:

Executive Directors:	Mr. So Yuen Chun Mr. Yeung Kwok Leung
Non-executive Director:	Mr. Lam Kwok Hing, Wilfred
Independent Non-executive Directors:	Ms. Yuen Wai Man Mr. Yeung Wai Hung, Peter Mr. Lam Raymond Shiu Cheung

The brief biographical details of the Directors are set out in the "BIOGRAPHICAL DETAILS OF DIRECTORS" section from pages 8 to 10. Save as disclosed in this annual report, none of the Directors has any other financial, business, family or other material or relevant relationships among members of the Board.

The independent non-executive Directors, with sound professional expertise and experience, have actively participated in the Board and committee meetings and bring independent judgment on issues relating to the Group's strategy, performance and management process. They will take various roles in the Board committees.

As at the date of this report, the Company had three independent non-executive Directors representing more than one-third of the Board. One of the independent non-executive Directors has the appropriate professional qualifications or related financial management expertise under Rule 3.10(2) of the Listing Rules. The Board has received from each independent non-executive Director an annual confirmation of his independence and considers that all the independent non-executive Directors are independent under the guidelines set out in Rule 3.13 of the Listing Rules.

The independent non-executive Directors have been expressly identified as such in all corporate communications and the website of the Company that disclose the names of Directors. The independent non-executive Directors were appointed for a fixed term of three years, subject to retirement by rotation and re-election requirements under the Articles of Association.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(continued)*

The Board meets regularly to discuss the overall strategy as well as the operation and financial performance of the Group in addition to the meetings for reviewing and approving the Group's annual and interim results.

During the Year, 10 Board meetings, 1 annual general meeting and 1 extraordinary general meeting were held. Details of the attendance of the Directors are as follows:

	Attendance of		
	Board meetings	**Annual general meeting**	**Extraordinary general meeting**
Executive Directors:			
Mr. So Yuen Chun	10/10	1/1	1/1
Mr. Yeung Kwok Leung	10/10	1/1	1/1
Non-executive Director:			
Mr. Lam Kwok Hing, Wilfred	8/10	1/1	0/1
Independent Non-executive Directors:			
Mr. Yeung Wai Hung, Peter	9/10	1/1	1/1
Mr. Lam Raymond Shiu Cheung	9/10	0/1	0/1
Ms. Yuen Wai Man	9/10	0/1	1/1

The Board has reserved for its decision or consideration matters covering mainly the Group's overall strategy, annual operating budget, financial performance, recommendations on Directors' appointment or re-appointment, material contracts and transactions as well as other significant policy and financial matters. Currently, the Board has delegated the daily operations and administration to the Lending Committee and/or Investment Committee.

Each year, Board meetings, which are scheduled in advance to facilitate maximum attendance of Directors, are held as required by business needs. At least 14 days' notice of a Board meeting is given to all Directors for the regular meetings who are given an opportunity to include matters for discussion in the agenda. The company secretary of the Company (the "**Company Secretary**") assists the Directors in preparing the agenda for meetings and ensures that all applicable rules and regulations are complied with. Reasonable notices have been given to all Directors generally prior to meetings, except in cases of emergency. The agenda and the accompanying Board papers are normally sent to all Directors at least 3 days before the intended date of a regular Board meeting. Draft minutes of each Board meeting are circulated to all Directors for their comment before being approved by the Board. All minutes are kept by the Company Secretary and are open for inspection at any reasonable time on reasonable notice by any Director.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(continued)*

According to the current Board practice, any transaction which involves a conflict of interests for a substantial shareholder or a Director and which is considered by the Board to be material will be dealt with by the Board at a duly convened Board meeting. The Articles of Association also stipulate that a Director should abstain from voting and not be counted in the quorum at meetings for approving transactions in which such Director or any of his associates have a material interest therein. In addition, he has to declare his interests therein in accordance with the Articles of Association.

Every Director is entitled to have access to board papers and related materials and has access to the advice and services of the Company Secretary. The Board and each Director also have separate and independent access to the Company's senior management. Directors will be updated continuously on the major development of the Listing Rules and other applicable regulatory requirements to ensure compliance and upkeep of good corporate governance practices.

INDEPENDENT NON-EXECUTIVE DIRECTOR/NON-EXECUTIVE DIRECTOR

All independent non-executive Directors were appointed for a specific term of three years with effect from their respective appointment dates. All of them are subject to the relevant provisions in the Articles of Association or any other applicable laws whereby the Directors shall vacate or retire from their office.

According to the Articles of Association, at each annual general meeting of the Company, one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) should retire from office by rotation. Further, any Director appointed to fill a casual vacancy should hold office only until the next following general meeting of the Company whilst for those appointed as an addition to the Board should hold office until the next following annual general meeting and, in both cases, those Directors would then be eligible for re-election at the relevant meeting. Every Director shall be subject to retirement by rotation at least once every three years.

BOARD COMMITTEES

The Board has established three committees; namely, the nomination committee (the "**Nomination Committee**"), the remuneration committee (the "**Remuneration Committee**") and the audit committee of the Company (the "**Audit Committee**") . Each of them has its specific written terms of reference or guidelines. Copies of minutes of all meetings and resolutions of the committees, which are duly kept by the Company Secretary, are circulated to all committee members. The committees are required to report back to the Board on their decisions and recommendations where appropriate. The procedures and arrangements for a Board meeting, as mentioned on pages 24 to 26 in the section "BOARD OF DIRECTORS" above, have been adopted for the committee meetings as far as practicable.

Nomination Committee

The Nomination Committee has been established since June 2005. As at the date of this report, the Nomination Committee comprises four members; namely, Messrs. Yuen Wai Man, Lam Kwok Hing, Wilfred, Yeung Wai Hung, Peter and Lam Raymond Shiu Cheung.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES *(continued)*

Nomination Committee *(continued)*

The major roles and functions of the Nomination Committee are:

(a) to review the structure, size, composition and diversity (including but not limited to skills, knowledge, gender, age, cultural and educational background or professional experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

(b) to identify suitably qualified individuals to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships on merits and against objective criteria, with due regard on the benefits of diversity on the Board;

(c) to assess the independence of independent non-executive Directors;

(d) to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman of the Board and the chief executive of the Company, taking into account the Company's corporate strategy and the mix of skills, knowledge, experience and diversity needed in the future;

(e) to review the Board Diversity Policy, as appropriate, and review the measureable objectives that the Board has set for implementing the Board Diversity Policy, and the progress on achieving the objectives; and make disclosure of its review results in the Corporate Governance Report annually;

(f) to perform its duties with sufficient resources made available to it and seek independent professional advice, at the Company's expense, to perform its responsibilities when necessary;

(g) to do any such things to enable the Committee to perform its powers and functions conferred on it by the Board; and

(h) to conform to any requirement, direction, and regulation that may from time to time be prescribed by the Board or contained in the constitution of the Company or imposed by legislation.

The terms of reference of the Nomination Committee were adopted in June 2005 and revised in August 2013 and have been posted on the Stock Exchange's website and the Company's website.

During the Year, 2 Nomination Committee meetings were held to make recommendations to the Board on the re-appointment of executive Directors, the review of the existing structure, size, composition and diversity of the Board, the re-election of retiring Directors and independence of independent non-executive Directors.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES *(continued)*

Nomination Committee *(continued)*

The attendance of each Nomination Committee member is set out as follows:

Nomination Committee member	Number of Nomination Committee meetings attended/ eligible to attend
Ms. Yuen Wai Man *(Chairman)*	2/2
Mr. Lam Kwok Hing, Wilfred	2/2
Mr. Yeung Wai Hung, Peter	2/2
Mr. Lam Raymond Shiu Cheung	2/2

Remuneration Committee

The Remuneration Committee has been established since June 2005. As at the date of this report, the Remuneration Committee comprises four members; namely, Messrs. Yuen Wai Man, Lam Kwok Hing, Wilfred, Yeung Wai Hung, Peter and Lam Raymond Shiu Cheung. The Remuneration Committee is provided with sufficient resources to discharge its duties and has access to independent professional advice in accordance with the Company's policy if considered necessary.

The major roles and functions of the Remuneration Committee are:

(i) to make recommendations to the Board on the Company's policy and structure for all Directors and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;

(ii) to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management. This should include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;

(iii) to make recommendations to the Board on the remuneration of non-executive Directors;

(iv) to consider salaries paid by comparable companies, time commitment and responsibilities, and employment conditions elsewhere in the Group;

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES *(continued)*

Remuneration Committee *(continued)*

(v) to review and approve compensation payable to executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;

(vi) to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they consistent with contractual terms and are otherwise reasonable and appropriate;

(vii) to ensure that no Director or any of his associates is involved in deciding his own remuneration;

(viii) to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives; and

(ix) to ensure that the Company shall disclose details of any remuneration payable to the senior management in the annual reports.

The terms of reference of the Remuneration Committee were adopted in June 2005 and revised in March 2013 and have been posted on the Stock Exchange's website and the Company's website.

The Remuneration Committee shall meet at least once a year. During the Year, 1 Remuneration Committee meeting was held to review the remuneration packages of the Board.

The attendance of each Remuneration Committee member is set out as follows:

Remuneration Committee member	Number of Remuneration Committee meeting attended/eligible to attend
Ms. Yuen Wai Man *(Chairman)*	1/1
Mr. Lam Kwok Hing, Wilfred	1/1
Mr. Yeung Wai Hung, Peter	1/1
Mr. Lam Raymond Shiu Cheung	1/1

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES *(continued)*

Remuneration Committee *(continued)*

The remuneration payable to Directors will depend on their respective contractual terms under their service contracts as approved by the Board on the recommendation of the Remuneration Committee. Details of the Directors' remuneration are set out in note 10 to the consolidated financial statements.

Audit Committee

As at the date of this report, the Audit Committee comprises four members, of which the majority are independent non-executive Directors; namely, Messrs. Yuen Wai Man, Lam Kwok Hing, Wilfred, Yeung Wai Hung, Peter and Lam Raymond Shiu Cheung. The Audit Committee is provided with sufficient resources to discharge its duties and has access to independent professional advice according to the Company's policy if considered necessary.

The Audit Committee has reviewed the Group's consolidated financial statements for the year ended 31 March 2012 and the interim financial report for the six months ended 30 September 2013, including the accounting principles and practice adopted by the Group.

The major roles and functions of the Audit Committee are:

(i) to be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal;

(ii) to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Audit Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;

(iii) to develop and implement policy on engaging an external auditor to supply non-audit services. For this purpose, "external auditor" includes any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally. The Audit Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;

(iv) to monitor integrity of financial statements of the Company and its annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained in them;

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES *(continued)*

Audit Committee *(continued)*

(v) to review the Company's financial controls, internal control and risk management systems;

(vi) to discuss the internal control system with management to ensure that management has performed its duty to have an effective internal control system. This discussion should include the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function;

(vii) to consider of major investigation findings on internal control matters as delegated by the Board or on its own initiative and management's response to these findings;

(viii) where an internal audit function exists, to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor its effectiveness;

(ix) to review the group's financial and accounting policies and practices;

(x) to review the external auditor's management letter, any material queries raised by the auditors to management about accounting records, financial accounts or systems of control and management's response;

(xi) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;

(xii) to report to the Board on the matters set out in the CG Code; and

(xiii) to consider other topics, as defined by the Board.

The terms of reference of Audit Committee were adopted in January 2009 and revised in March 2012 and have been posted on the Stock Exchange's website and the Company's website.

The Audit Committee shall meet at least twice a year. During the Year, 3 Audit Committee meetings were held.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES *(continued)*

Audit Committee *(continued)*

During the meetings held in 2013, the Audit Committee had performed the work as summarised below:

(i) recommended to the Board for the re-appointment of the Group's auditors for the Year;

(ii) reviewed the letter of representation and the financial statements for the year ended 31 December 2012 and recommended the same to the Board for approval;

(iii) reviewed the financial statements for the six months ended 30 June 2013 and recommended the same to the Board for approval; and

(iv) met with the auditors of the Company regarding the pre-audit matters for preparation of the audited financial statements for the Year.

The attendance of each Audit Committee member is set out as follows:

Audit Committee member	**Number of Audit Committee meetings attended/eligible to attend**
Ms. Yuen Wai Man *(Chairman)*	2/3
Mr. Lam Kwok Hing, Wilfred	3/3
Mr. Yeung Wai Hung, Peter	3/3
Mr. Lam Raymond Shiu Cheung	3/3

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Directors acknowledge their responsibility for preparing, with support from the accounting department, the consolidated financial statements of the Group. In preparing the consolidated financial statements for the Year, the accounting principles generally accepted in Hong Kong have been adopted and the requirements of the Hong Kong Financial Reporting Standards (which also include Hong Kong Accounting Standards and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements of the Listing Rules and the Companies Ordinance were complied with. The financial statements were prepared on a going concern basis.

The reporting responsibilities of the Company's external auditors, ZHONGLEI, are set out in the Independent Auditor's Report on pages 38 and 39.

CORPORATE GOVERNANCE REPORT

ACCOUNTABILITY AND AUDIT *(continued)*

Internal Controls

The Group's internal control system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and manage rather than eliminate risks of failure in operational systems. In 2013, the Board, through the Audit Committee, has reviewed the effectiveness of the internal control systems of the Group.

The Board will review the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget annually.

External Auditors' Remuneration

During the Year, the remuneration paid/payable to the Company's external auditors is set out as follows:

Services rendered for the Group

	Fee paid/ payable *HK$'000*
Audit services	400,000
Non-audit services (agreed-upon procedure) regarding the adjustment on the conversion price of CBI (as defined in note 26))	25,000
Total	425,000

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE FUNCTION

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

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

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

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

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

(e) to review the Company's compliance with the corporate governance code and disclosure in the Corporate Governance Report.

TRAINING FOR DIRECTORS

Every newly appointed Director will receive an information package from the Company Secretary on the first occasion of his/her appointment. This information package is a comprehensive, formal and tailored induction on the responsibilities and on-going obligations to be observed by a Director pursuant to the Companies Ordinance, the Listing Rules and the SFO. In addition, this information package includes material to briefly describe the operations and business of the Company. Directors will be continuously updated on major development of the Listing Rules and other applicable regulatory requirements to ensure compliance and upkeep of good corporate governance practices.

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

The Directors are committed to complying with code provision A.6.5 of the CG Code and all Directors have participated in continuous professional development to develop and refresh their knowledge and skills and provided a record of training they received for the Year to the Company.

CORPORATE GOVERNANCE REPORT

TRAINING FOR DIRECTORS *(continued)*

The individual training record of each Director received for the Year is summarised as follows:

Directors	Type of continuous professional development programmes
Mr. So Yuen Chun	A
Mr. Yeung Kwok Leung	A
Mr. Lam Kwok Hing, Wilfred	A, B
Mr. Yeung Wai Hung, Peter	A
Mr. Lam Raymond Shiu Cheung	B
Ms. Yuen Wai Man	A, B

Notes:

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

B: reading regulatory updates

COMPANY SECRETARY

Mr. So Yuen Chun has been appointed as the company secretary of the Company since 26 March 2011 and he has taken no less than 15 hours of relevant professional training for the Year.

SHAREHOLDERS' RIGHTS

Right to convene extraordinary general meeting

The Directors, on the requisition of shareholder(s) of the Company holding at the date of the deposit of the requisition not less than one-twentieth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the rights, by written requisition to the Board or the company secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition.

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

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

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS *(continued)*

Right to put enquiries to the Board

Shareholders have the right to put enquiries to the Board. All enquiries shall be in writing and sent by post to the registered office of the Company, or by e-mail to admin@bla.com.hk for the attention of the company secretary of the Company.

Right to put forward proposals at general meetings

Shareholders are requested to follow Sections 566 to 568 of the Companies Ordinance (Chapter 622 of the laws of Hong Kong) for including a resolution at a general meeting of the Company. The requirements and procedures are set out below:

(i) Any number of shareholders representing not less than one-fortieth of the total voting rights of all shareholders having at the date of the requisition a right to vote at general meeting to which the requisition relates, or not less than 50 shareholders holding shares in the Company on which there has been paid up an average sum, per shareholder, of not less than HK$2,000, may submit a requisition in writing to put forward a resolution which may properly be moved and is intended to be moved at a general meeting.

(ii) The Company shall not be bound by the Companies Ordinance to give notice of the proposed resolution or to circulate a statement of not more than 1,000 words with respect to the matter referred to in the proposed resolution to shareholders of the Company entitled to receive notice of a general meeting unless (a) a copy of the requisition signed by the shareholders concerned (or 2 or more copies which between them contain the signatures of all the shareholders concerned) is deposited at the registered office of the Company at Unit F, 7/F., China Overseas Building, 139 Hennessy Road, Wanchai, Hong Kong for the attention of the Company Secretary not less than 6 weeks before a general meeting in the case of a requisition requiring notice of a resolution and not less than 1 week before a general meeting in the case of any other requisition; and (b) the concerned shareholders have deposited with the requisition a sum reasonably sufficient to meet the Company's expenses in giving effect thereto.

(iii) However if, after a copy of a requisition requiring notice of a resolution has been deposited at the registered office of the Company, a general meeting is called for a date 6 weeks or less after the copy has been deposited, the copy though not deposited within the time required as referred to in the above shall be deemed to have been properly deposited.

CORPORATE GOVERNANCE REPORT

COMMUNICATION WITH SHAREHOLDERS

The Board recognises the importance of good communication with Shareholders. Information in relation to the Group is disseminated to Shareholders in a timely manner through a number of formal channels, which include interim and annual reports, announcements and circulars. Such published documents together with the latest corporate information as well as the recent development of the Group are also made available on the Stock Exchange's website and the Company's website.

The Company's annual general meeting (the "**AGM**") is a valuable forum for the Board to communicate directly with the Shareholders. The Directors participated in the 2013 AGM and answered questions from the Shareholders. The AGM circular was distributed to all Shareholders at least 20 clear business days prior to the 2013 AGM, setting out the details of each proposed resolution and other relevant information.

There was no significant change in the Company's constitutional documents for the Year.

CORPORATE GOVERNANCE ENHANCEMENT

Enhancing corporate governance is not simply a matter of applying and complying with the CG Code of the Listing Rules but about promoting and developing an ethical and healthy corporate culture. We will continue to review and, where appropriate, improve our current practices on the basis of our experience, regulatory changes and developments. Any views and suggestions from our Shareholders to promote and improve our transparency are also welcome.

On behalf of the Board

So Yuen Chun
Executive Director

Hong Kong, 14 April 2014

INDEPENDENT AUDITOR'S REPORT

中磊（香港）會計師事務所有限公司
ZHONGLEI (HK) CPA Company Limited

TO THE MEMBERS OF THE HONG KONG BUILDING AND LOAN AGENCY LIMITED
香港建屋貸款有限公司
(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of The Hong Kong Building and Loan Agency Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 40 to 127, which comprise the consolidated and the Company's statements of financial position as at 31 December 2013, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the 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 the 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 and to report our opinion 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

AUDITOR'S RESPONSIBILITY *(continued)*

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 the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

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 loss 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.

ZHONGLEI (HK) CPA Company Limited
Certified Public Accountants (Practising)
Chan Mei Mei
Practising Certificate Number: P05256

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

28 March 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
Revenue	5a	**47,046**	42,224
Interest income		**47,046**	42,224
Interest expense	6	**(4,548)**	(270)
Net interest income		**42,498**	41,954
Other income	5b	**72**	3,581
Fair value changes on financial assets at fair value through profit or loss		**14,147**	(537)
(Loss) gain on disposal of financial assets at fair value through profit or loss		**(426)**	8,346
Impairment loss recognised in respect of loan receivables		**(33,712)**	(1,000)
Impairment loss recognised in respect of loan interest receivables		**(88,729)**	(70)
Loss on issuance of options to subscribe convertible bonds		**–**	(13,164)
Gain on disposal of available-for-sale investments	18	**3,240**	–
Share-based payments expenses	39	**–**	(1,881)
Operating expenses		**(25,235)**	(23,871)
Finance costs	6	**(718)**	(218)
(Loss) profit before tax		**(88,863)**	13,140
Income tax expense	8	**(2,242)**	(2,816)
(Loss) profit for the year	9	**(91,105)**	10,324
Other comprehensive (expense) income			
Items that may be reclassified subsequently to profit or loss:			
Fair value gain on available-for-sale investments		**–**	2,109
Reclassification adjustment for the cumulative gain included in profit or loss upon disposal of available-for-sale investments, net of tax effect		**(1,761)**	–
Deferred tax relating to fair value change on available-for-sale investments		**–**	(348)
Other comprehensive (expense) income for the year, net of income tax		**(1,761)**	1,761
Total comprehensive (expense) income for the year		**(92,866)**	12,085
(Loss) profit for the year attributable to the owners of the Company		**(91,105)**	10,324
Total comprehensive (expense) income attributable to the owners of the Company		**(92,866)**	12,085
		HK cents	*HK cents*
(Loss) earnings per share	13		
– Basic		**(20.88)**	2.37
– Diluted		**(20.88)**	2.34

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**1,141**	51
Mortgage loans	15	**7,000**	7,419
Loan receivables	16	**60,487**	40,500
Deposit paid for acquisition of a subsidiary	17	**10,000**	–
Available-for-sale investments	18	**259**	3,157
		78,887	51,127
CURRENT ASSETS			
Mortgage loans	15	**21,346**	25,662
Financial assets at fair value through profit or loss	19	**92,920**	13,981
Loan receivables	16	**188,016**	280,992
Prepayments, deposits and other receivables	20	**10,483**	72,148
Tax recoverable		**2,302**	903
Bank balances and cash	21	**3,979**	8,347
		319,046	402,033
CURRENT LIABILITIES			
Other payables and accruals	22	**15,052**	17,722
Borrowings	23	**5,000**	5,000
		20,052	22,722
NET CURRENT ASSETS		**298,994**	379,311
TOTAL ASSETS LESS CURRENT LIABILITIES		**377,881**	430,438
NON-CURRENT LIABILITIES			
Non-convertible bonds	24	**50,000**	30,000
Convertible bonds	28	**4,563**	–
		54,563	30,000
NET ASSETS		**323,318**	400,438

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2013

	Notes	**2013** ***HK$'000***	2012 *HK$'000*
CAPITAL AND RESERVES			
Share capital	25	**54,059**	43,515
Reserves		**269,259**	356,923
TOTAL EQUITY		**323,318**	400,438

The consolidated financial statements on pages 40 to 127 were approved and authorised for issue by the board of directors on 28 March 2014 and are signed on its behalf by:

So Yuen Chun
Director

Yeung Kwok Leung
Director

STATEMENT OF FINANCIAL POSITION

At 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**16**	50
Deposit paid for acquisition of a subsidiary	17	**10,000**	–
Investments in subsidiaries	32	**392**	392
		10,408	442
CURRENT ASSETS			
Prepayments, deposits and other receivables	20	**293**	193
Amounts due from subsidiaries	33	**365,651**	442,912
Tax recoverable		**1,867**	469
Bank balances and cash	21	**2,495**	987
		370,306	444,561
CURRENT LIABILITIES			
Other payables and accruals	22	**6,172**	3,598
Borrowings	23	**5,000**	5,000
Amount due to a subsidiary	34	**360**	378
		11,532	8,976
NET CURRENT ASSETS		**358,774**	435,585
TOTAL ASSETS LESS CURRENT LIABILITIES		**369,182**	436,027
NON-CURRENT LIABILITIES			
Non-convertible bonds	24	**50,000**	30,000
Convertible bonds	28	**4,563**	–
		54,563	30,000
NET ASSETS		**314,619**	406,027
CAPITAL AND RESERVES			
Share capital	25	**54,059**	43,515
Reserves	29	**260,560**	362,512
TOTAL EQUITY		**314,619**	406,027

The financial statements on pages 40 to 127 were approved and authorised for issue by the board of directors on 28 March 2014 and are signed on its behalf by:

So Yuen Chun
Director

Yeung Kwok Leung
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

	Share capital *HK$'000*	Share premium *HK$'000*	Share capital reserve *HK$'000*	Share option reserve *HK$'000*	Convertible bonds reserve *HK$'000*	Convertible bond options reserve *HK$'000*	Warrants *HK$'000*	Investments revaluation reserve *HK$'000*	Retained profits (accumulated losses) *HK$'000*	Total *HK$'000*
At 1 January 2012	435,149	54,119	–	–	169	–	5,520	–	(122,354)	372,603
Profit for the year	–	–	–	–	–	–	–	–	10,324	10,324
Other comprehensive income (expensive) for the year										
Items that may be subsequently reclassified to profit or loss:										
Fair value gain on available-for-sale investments	–	–	–	–	–	–	–	2,109	–	2,109
Deferred tax relating to fair value change on available-for-sale investments	–	–	–	–	–	–	–	(348)	–	(348)
Total comprehensive income for the year	–	–	–	–	–	–	–	1,761	10,324	12,085
Issuance of convertible bond options (Note 26)	–	–	–	–	–	13,947	–	–	–	13,947
Capital reorganisation (Note 25)	(391,634)	–	270,186	–	–	–	–	–	121,448	–
Settlement of convertible bonds upon expired	–	–	–	–	(169)	–	–	–	91	(78)
Recognition of equity-settled share-based payments (Note 39)	–	–	–	1,881	–	–	–	–	–	1,881
Cancellation of warrants upon expired (Note 27)	–	–	–	–	–	–	(5,520)	–	5,520	–
At 31 December 2012	43,515	54,119	270,186	1,881	–	13,947	–	1,761	15,029	400,438
Loss for the year	–	–	–	–	–	–	–	–	(91,105)	(91,105)
Other comprehensive expense for the year										
Items that may be subsequently reclassified to profit or loss:										
Reclassification adjustment for the cumulative gain included in profit or loss upon disposal of available-for-sale investments, net of tax effect	–	–	–	–	–	–	–	(1,761)	–	(1,761)
Total comprehensive expense for the year	–	–	–	–	–	–	–	(1,761)	(91,105)	(92,866)
Issuance of shares upon exercise of share options (Note 39)	196	577	–	(239)	–	–	–	–	–	534
Issuance of convertible bonds upon the exercise of convertible bond options (Note 28(a))	–	–	–	–	1,971	(1,953)	–	–	–	18
Issuance of convertible bonds upon placing (Note 28(b))	–	–	–	–	4,539	–	–	–	–	4,539
Issuance of shares upon conversion of convertible bonds (Note 28)	10,348	4,362	–	–	(4,055)	–	–	–	–	10,655
At 31 December 2013	**54,059**	**59,058**	**270,186**	**1,642**	**2,455**	**11,994**	**–**	**–**	**(76,076)**	**323,318**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	2013 HK$'000	2012 HK$'000
OPERATING ACTIVITIES		
(Loss) profit before tax	**(88,863)**	13,140
Adjustments for:		
Finance costs	**5,266**	488
Depreciation	**100**	86
Impairment loss recognised in respect of loan receivables	**33,712**	1,000
Impairment loss recognised in respect of loan interest receivables	**88,729**	70
Reversal of impairment loss in respect of loan receivables	**–**	(1,000)
Reversal of impairment loss in respect of loan interest receivables	**(70)**	(2,248)
Gain on disposal of available-for-sale investments	**(3,240)**	–
Loss (gain) on disposal of financial assets at fair value through profit or loss	**426**	(8,346)
Fair value changes on financial assets at fair value through profit or loss	**(14,147)**	537
Loss on disposal of property, plant and equipment	**–**	87
Loss on issuance of options to subscribe convertible bonds	**–**	13,164
Share-based payments expenses	**–**	1,881
Operating cash flows before movements in working capital	**21,913**	18,859
Decrease (increase) in mortgage loans	**4,735**	(21,192)
(Increase) decrease in financial assets at fair value through profit or loss	**(65,218)**	14,454
Decrease (increase) in loan receivables	**39,277**	(40,780)
Increase in prepayments, deposits and other receivables	**(26,994)**	(36,587)
(Decrease) increase in other payables and accruals	**(3,236)**	8,142
Cash used in operations	**(29,523)**	(57,104)
Interest paid	**(4,667)**	(10)
Income tax paid	**(3,293)**	(4,032)
NET CASH USED IN OPERATING ACTIVITIES	**(37,483)**	(61,146)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	2013 HK$'000	2012 HK$'000
INVESTING ACTIVITIES		
Deposit (paid) refunded of deposit paid for acquisition of a subsidiary	**(10,000)**	10,000
Proceeds from disposal of available-for-sale investments	**4,029**	5,571
Purchase of property, plant and equipment	**(1,190)**	(5)
Proceeds of disposal of property, plant and equipment	**–**	150
NET CASH (USED IN) FROM INVESTING ACTIVITIES	**(7,161)**	15,716
FINANCING ACTIVITIES		
Proceeds from issuance of non-convertible bonds	**20,000**	30,000
Proceeds from issuance of convertible bonds	**19,742**	–
New loan raised	**2,700**	5,000
Repayment of borrowings	**(2,700)**	–
Proceeds from issuance of shares upon exercise of share options	**534**	–
Proceeds from issuance of options to subscribe convertible bonds	**–**	783
NET CASH FROM FINANCING ACTIVITIES	**40,276**	35,783
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(4,368)**	(9,647)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**8,347**	17,994
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, represented by bank balances and cash	**3,979**	8,347

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

1. GENERAL

The Hong Kong Building and Loan Agency Limited (the "Company") is a public limited company incorporated in Hong Kong and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The addresses of the registered office and the principal place of business of the Company are Unit F, 7/F, China Overseas Building, 139 Hennessy Road, Wanchai, Hong Kong.

The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is also the functional currency of the Company and its subsidiaries (collectively referred as the "Group").

The principal activities of the Group are investment holding, treasury investments and the provision of loan financing.

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

The Group has applied the following new and revised HKFRSs and HKASs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") in the current year:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009 – 2011 Cycle
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
HKAS 19 (as revised in 2011)	Employee Benefits
HKAS 27 (as revised in 2011)	Separate Financial Statements
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income
HK (IFRIC*)-Interpretation ("Int") 20	Stripping Costs in the Production Phase of a Surface Mine

* *IFRIC represents the International Financial Reporting Interpretation Committee*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

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

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

HKFRS 13 Fair Value Measurement

The Group and the Company has applied HKFRS 13 for the first time in the current year. HKFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements. The scope of HKFRS 13 is broad: the fair value measurement requirements of HKFRS 13 apply to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of HKFRS *2 Share-based Payment*, leasing transactions that are within the scope of HKAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

HKFRS 13 defines the fair value of an asset as the price that would be received to sell an asset (or paid to transfer a liability, in the case of determining the fair value of a liability) in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under HKFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, HKFRS 13 includes extensive disclosure requirements.

HKFRS 13 requires prospective application. Other than the additional disclosures, the application of HKFRS 13 has not had any material impact on the amounts recognised in the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

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

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The Group and the Company has applied the amendments to HKAS 1 *Presentation of Items of Other Comprehensive Income*. Upon the adoption of the amendments to HKAS 1, "statement of comprehensive income" is renamed as the "statement of profit or loss and other comprehensive income". Furthermore, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to HKAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

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

New and revised HKFRSs and HKASs issued but not yet effective

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

Amendments to HKFRSs	Annual Improvements to HKFRSs 2010-2012 Cycle[2]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011-2013 Cycle[2]
HKFRS 9	Financial Instruments[3]
HKFRS 14	Regulatory Deferral Accounts[4]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[1]
Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions[2]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[1]
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets[1]
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting[1]
HK(IFRIC) – Int 21	Levies[1]

[1] *Effective for annual periods beginning on or after 1 January 2014, with earlier application permitted.*

[2] *Effective for annual periods beginning on or after 1 July 2014, with earlier application permitted.*

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

[4] *Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

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

Annual Improvements to HKFRSs 2010-2012 Cycle

The Annual Improvements to HKFRSs 2010-2012 Cycle include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 2 (i) change the definitions of "vesting condition" and "market condition"; and (ii) add definitions for "performance condition" and "service condition" which were previously included within the definition of "vesting condition". The amendments to HKFRS 2 are effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

The amendments to HKFRS 3 clarify that contingent consideration that is classified as an asset or a liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial instrument within the scope of HKFRS 9 or HKAS 39 or a non-financial asset or liability. Changes in fair value (other than measurement period adjustments) should be recognised in profit or loss. The amendments to HKFRS 3 are effective for business combinations for which the acquisition date is on or after 1 July 2014.

The amendments to HKFRS 8 (i) require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have "similar economic characteristics"; and (ii) clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segment assets are regularly provided to the chief operating decision-maker.

The amendments to the basis for conclusions of HKFRS 13 clarify that the issue of HKFRS 13 and consequential amendments to HKAS 39 and HKFRS 9 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

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

Annual Improvements to HKFRSs 2010-2012 Cycle *(continued)*

The amendments to HKAS 16 and HKAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

The amendments to HKAS 24 clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

The directors of the Company (the "Directors") do not anticipate that the application of the amendments included in the *Annual Improvements to HKFRSs 2010-2012 Cycle* will have a material effect on the Group's consolidated financial statements and the Company's financial statements.

Annual Improvements to HKFRSs 2011-2013 Cycle

The *Annual Improvements to HKFRSs 2011-2013 Cycle* include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

The amendments to HKFRS 13 clarify that the scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, HKAS 39 or HKFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within HKAS 32.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

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

Annual Improvements to HKFRSs 2011-2013 Cycle *(continued)*

The amendments to HKAS 40 clarify that HKAS 40 and HKFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether:

(a) the property meets the definition of investment property in terms of HKAS 40; and

(b) the transaction meets the definition of a business combination under HKFRS 3.

The Directors do not anticipate that the application of the amendments included in the *Annual Improvements to HKFRSs 2011-2013 Cycle* will have a material effect on the Group's consolidated financial statements and the Company's financial statements.

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include the requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for hedge accounting.

Key requirements of HKFRS 9 are described as follows:

- All recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

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

HKFRS 9 Financial Instruments *(continued)*

Key requirements of HKFRS 9 are described as follows: (continued)

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

The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an "economic relationship". Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The Directors anticipate that the adoption of HKFRS 9 in the future may have a significant impact on the amounts reported in respect of the Group's and the Company's financial assets. Regarding the Group's and the Company's financial assets, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

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

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 Investment Entities

The amendments to HKFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its financial statements.

To qualify as an investment entity, a reporting entity is required to:

- obtain funds from one or more investors for the purpose of providing them with professional investment management services;
- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments have been made to HKFRS 12 and HKAS 27 to introduce new disclosure requirements for investment entities.

The Directors do not anticipate that the investment entities amendments will have any effect on the Group's consolidated financial statements as the Company is not an investment entity.

Amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities

The amendments to HKAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realisation and settlement".

The Directors do not anticipate that the application of these amendments to HKAS 32 will have a significant impact on the Group's consolidated financial statements and the Company's financial statements as the Group and the Company do not have any financial assets and financial liabilities that qualify for offset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

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

Amendments to HKAS 36 Recoverable Amount Disclosures for Non-Financial Assets

The amendments to HKAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit ("CGU") to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements regarding the fair value hierarchy, key assumptions and valuation techniques used when the recoverable amount of an asset or CGU was determined based on its fair value less costs of disposal.

The Directors do not anticipate that the application of these amendments to HKAS 36 will have a significant impact on the Group's consolidated financial statements and the Company's financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements and the Company's financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA and the Hong Kong Companies Ordinance. In addition, the consolidated financial statements and the Company's financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of consolidation *(continued)*

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

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

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

Interests in subsidiaries

Interests in subsidiaries are included in the Company's statement of financial position at cost less any identified accumulated impairment loss. Results of subsidiaries are accounted for by the Company on the basis of dividends received or receivable during the year.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivables.

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

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

(ii) dealings in financial assets at fair value through profit or loss are recognised on a trade date basis when the relevant contract notes are exchanged; and

(iii) dividend income from investments is recognised when the shareholder's rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment

Property, plant and equipment are stated in the Group's and the Company's statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

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

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

Leasing

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

The Group as lessee

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies

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

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

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

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

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

Borrowing costs

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

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

Current and deferred tax is recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Impairment of on tangible assets

At the end of each reporting period, the Group and the Company review the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Provisions

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

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

Financial instruments

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

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

Financial assets

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets (continued)

Effective interest method

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

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

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is 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 a part of a portfolio of identified financial instruments that the Group and the Company manages together and has a recent actual pattern of short-term profit-making; or
- it is a derivative that is not designated and effective as a hedging instrument.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets (continued)

Financial assets at FVTPL *(continued)*

A financial asset other than a financial asset held for trading 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 and Company'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.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurment recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets and is included in the "fair value changes on financial assets at fair value through profit or loss" in the consolidated statement of profit or loss and other comprehensive income. Fair value is determined in the manner described in Note 31(c) to the consolidated financial statements.

Loans and receivables

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets (continued)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) financial assets at FVTPL; (b) loans and receivables; or (c) held-to-maturity investments. The Group designated listed and unlisted equity securities as available-for-sale financial assets on initial recognisation of those items.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets (continued)

Impairment of financial assets

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets (continued)

Impairment of financial assets *(continued)*

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity instruments

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

Equity instruments

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

Other financial liabilities

Other financial liabilities (including other payables and accruals, amount due to a subsidiary, borrowings and non-convertible bonds) are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

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

Convertible bonds contains liability and equity components

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity instruments (continued)

Convertible bonds contains liability and equity component *(continued)*

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

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

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

Options to subscribe for convertible bonds

Options to subscribe for convertible bonds are classified as equity instruments based on the contractual terms of the options. On initial recognition, the fair value of the options to subscribe for convertible bonds is determined using option pricing model and recognised in "convertible bond options" included in equity. When the options are exercised, the carrying amount of options to subscribe for convertible bonds in "convertible bond options" will be transferred to "convertible bonds" together with the consideration received. Where the options to subscribe for convertible bonds remained unexercised at the expiry date, the balance stated in "convertible bond options" will be released to the retained profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the options to subscribe for convertible bonds.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Derecognition

The Group and the Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expired, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group and the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group and the Company continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group and the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group and the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Equity-settled share-based payment transactions

Share options granted to employees

The fair value of services received is determined by reference to the fair value of share options granted at the date of grant and is recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (share options reserve).

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

Share options granted to consultants

Share options issued in exchange for services are measured at the fair values of the services received, unless that fair value cannot be reliably measured, in which case the services received are measured by reference to the fair value of the share options granted. The fair values of the services received are recognised as expenses, with a corresponding increase in equity (share options reserve), when the counterparties render services, unless the services qualify for recognition as assets.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

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

Critical judgements in applying accounting policies

The Directors have not come across any significant areas where critical judgements are involved in applying the Group's and the Company's accounting policies.

Key sources of estimation uncertainty

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

Income taxes

The Group and the Company is subject to income taxes in Hong Kong. Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. In cases where the taxes charged by the Hong Kong Inland Revenue Department are different from the estimated amounts, a material tax charge may arise. In addition, no deferred tax asset has been recognised on the tax losses of the Group of HK$174,947,000 (2012: HK$75,692,000) as it is uncertain that there will be sufficient future profits available to utilise the balances. The Company has no tax loss as at 31 December 2013 and 2012.

Impairment allowances on mortgage loans and loan receivables

The Group has established impairment allowances in respect of estimated incurred loss in mortgage loans and loan receivables. The allowances on mortgage loans and loan receivables are set out in Notes 15 and 16 to the consolidated financial statements, respectively.

In determining individual impairment allowances, management considers objective evidence of impairment. When a loan is impaired, an individual impairment allowance is assessed by a discounted cash flow method, measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. The quantum of the allowance is also impacted by the collateral value and this, in turn, may be discounted in certain circumstances to take into account the impact of forced sale or quick liquidation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

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

Key sources of estimation uncertainty *(continued)*

Impairment allowances on mortgage loans and loan receivables (continued)

During the year ended 31 December 2013, impairment loss in respect of loan receivables of approximately HK$33,712,000 (2012: HK$1,000,000) had been recognised in the consolidated statement of profit in loss and other comprehensive income. No impairment loss was recognised in respect of mortgage loans in both years.

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

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

Impairment loss recognised in respect of amounts due from subsidiaries

The Company makes impairment on amounts due from subsidiaries based on the assessment of the recoverability of these accounts. Impairment loss is applied to amounts due from subsidiaries where events or changes in circumstances indicate that the balances may not be collectible or when the net present value of the amounts is less than their respective carrying amounts. The identification of impairment loss requires the use of judgement and estimates. Where the expectation on the recoverability of the amounts due from subsidiaries are different from the original estimates, such differences will impact the carrying amounts due from subsidiaries and the impairment in the period in which such estimate has been changed,

At 31 December 2013, the carrying amount of amount due from subsidiaries were approximately HK$365,651,000 (2012: HK$442,912,000). Impairment loss of approximately HK$112,213,000 (2012: HK$149,000) has been recognised in profit or loss during the year ended 31 December 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

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

Impairment loss on available-for-sale investment

The Group follows the guidance of HKAS 39 to determine whether an available-for-sale investment is impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance and operational and financing cash flow. No impairment loss on available-for-sale investment has been recognised during the year ended 31 December 2013 (31 December 2012: Nil).

5a. REVENUE

Revenue represents interest income from loan financing and treasury investments.

An analysis of the revenue of the Group by principal activities is as follows:

	2013	2012
	HK$'000	*HK$'000*
Loan financing:		
Interest on mortgage loans	**2,909**	1,724
Interest on loan receivables	**44,137**	40,493
	47,046	42,217
Treasury investments:		
Interest on bank deposits	**–**	1
Interest on securities trading accounts	**–**	6
	–	7
	47,046	42,224

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

5b. OTHER INCOME

	2013 HK$'000	2012 HK$'000
Reversal of impairment loss in respect of loan receivables	–	1,000
Reversal of impairment loss in respect of loan interest receivables	70	2,248
Other	2	333
	72	3,581

6. FINANCE COSTS

	2013 HK$'000	2012 HK$'000
Interest expense on non-convertible bonds	4,548	270
Interest expense on borrowings	599	208
Interest expense on securities trading accounts	68	10
Effective interest charged on convertible bonds	51	–
	718	218
	5,266	488

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

7. SEGMENT INFORMATION

Information reported to the Directors, being the chief operating decision maker ("CODM") for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. This is also the basis upon which the Group is organised and specifically focuses on the Group's operating divisions. No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group.

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

- loan financing
- treasury investments

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

	Loan financing		Treasury investments		Total	
	2013 **HK$'000**	2012 HK$'000	**2013** **HK$'000**	2012 HK$'000	**2013** **HK$'000**	2012 HK$'000
Revenue	**47,046**	42,217	**–**	7	**47,046**	42,224
Segment (loss) profit	**(89,063)**	32,983	**16,897**	7,802	**(72,166)**	40,785
Centralised administration costs					**(15,981)**	(27,760)
Unallocated other income					**2**	333
Finance costs					**(718)**	(218)
(Loss) profit before tax					**(88,863)**	13,140
Income tax expense					**(2,242)**	(2,816)
(Loss) profit for the year					**(91,105)**	10,324
Segment assets	**284,236**	429,974	**95,914**	18,255	**380,150**	448,229
Unallocated assets					**17,783**	4,931
Total assets					**397,933**	453,160
Segment liabilities	**50,818**	30,269	**–**	–	**50,818**	30,269
Unallocated liabilities					**23,797**	22,453
Total liabilities					**74,615**	52,722

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

7. SEGMENT INFORMATION *(continued)*

During the current and prior years, there were no inter-segment transactions.

The accounting policies of the operating segments are the same as the Group's accounting policies.

Segment (loss) profit represent the pre-tax (loss from) profit earned by each segment without allocation of centralised administration costs such as certain other income, share-based payments expenses, loss on issuance of options to subscribe convertible bonds, directors' emoluments, staff salaries, operating lease payments and certain legal and professional fees. This is the measure reported to the CODM of the Company for the purposes of resource allocation and performance assessment.

Segment assets represent the assets allocated to reportable and operating segments other than certain property, plant and equipment, deposit paid for acquisition of a subsidiary, prepayments, tax recoverable and certain other receivables.

Segment liabilities represent the liabilities allocated to reportable and operating segments other than borrowings and its interest payables, convertible bonds and certain other payables and accruals.

7. SEGMENT INFORMATION *(continued)*

Amounts included in the measure of segment profit or loss or segment assets:

	Loan financing		Treasury investments		Unallocated		Total	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Interest income	**47,046**	42,217	**–**	7	**–**	–	**47,046**	42,224
Interest expense	**(4,548)**	(270)	**–**	–	**(718)**	(218)	**(5,266)**	(488)
Reversal of impairment loss in respect of loan receivables	**–**	1,000	**–**	–	**–**	–	**–**	1,000
Reversal of impairment loss in respect of loan interest receivables	**70**	2,248	**–**	–	**–**	–	**70**	2,248
Impairment loss recognised in respect of loan receivables	**(33,712)**	(1,000)	**–**	–	**–**	–	**(33,712)**	(1,000)
Impairment loss recognised in respect of loan interest receivables	**(88,729)**	(70)	**–**	–	**–**	–	**(88,729)**	(70)
Net foreign exchange loss	**–**	–	**–**	(12)	**–**	–	**–**	(12)
(Loss) gain on disposal of financial assets at fair value through profit or loss	**–**	–	**(426)**	8,346	**–**	–	**(426)**	8,346
Loss on disposal of property, plant and equipment	**–**	–	**–**	–	**–**	(87)	**–**	(87)
Share-based payments expenses	**–**	–	**–**	–	**–**	(1,881)	**–**	(1,881)
Loss on issuance of options to subscribe convertible bonds	**–**	–	**–**	–	**–**	(13,164)	**–**	(13,164)
Gain on disposal of available-for-sale investments	**–**	–	**3,240**	–	**–**	–	**3,240**	–
Fair value changes on financial assets at fair value through profit or loss	**–**	–	**14,147**	(537)	**–**	–	**14,147**	(537)

Amounts regularly provided to the CODM but not included in the measure of segment profit or loss or segment assets is immaterial.

The Group's operations are based in Hong Kong and the Group's revenue is derived from customers and counterparties located in Hong Kong. All the Group's non-current assets are based in Hong Kong.

Information about major customers

Interest income from customers in loan financing business segment of the corresponding years contributing over 10% of the total revenue of the Group are as follows:

	2013	2012
	HK$'000	*HK$'000*
Customer A	**30,107**	30,189
Customer B	**N/A***	5,415

* *The corresponding revenue did not contribute over 10% of the total revenue of the Group in the respective year.*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

8. INCOME TAX EXPENSE

	2013 *HK$'000*	2012 *HK$'000*
Hong Kong Profits Tax		
– Provision for the year	**1,914**	2,721
– (Over) under-provision in prior year	**(20)**	443
Deferred taxation (Note 35)	**348**	(348)
Income tax expense	**2,242**	2,816

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

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

	2013 *HK$'000*	2012 *HK$'000*
(Loss) profit before tax	**(88,863)**	13,140
Tax at the Hong Kong Profits Tax rate of 16.5% (2012: 16.5%)	**(14,662)**	2,168
Tax effect of income not taxable for tax purpose	**(726)**	(536)
Tax effect of expenses not deductible for tax purpose	**925**	371
Utilisation of tax losses previously not recognised	**(2,260)**	(1,071)
Tax effect of temporary differences	**348**	(348)
Tax effect of tax losses not recognised	**18,637**	1,789
(Over) under-provision in prior year	**(20)**	443
Income tax expense	**2,242**	2,816

Details of deferred taxation are set out in Note 35 to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

9. (LOSS) PROFIT FOR THE YEAR

(Loss) profit for the year has been arrived at after charging:

	2013	2012
	HK$'000	*HK$'000*
Employee benefits expense (including directors' and chief executives' emoluments) (Note 10):		
Directors' fees	**630**	388
Salaries, bonus and other benefits	**5,698**	4,469
Share-based payments expenses (Note 39)	**–**	1,351
Contributions to retirement benefits scheme (Note 38)	**147**	125
	6,475	6,333
Depreciation	**100**	86
Auditor's remuneration		
– Audit service	**400**	370
– Non-audit service	**25**	125
Operating lease payments	**1,700**	1,539
Share-based payments expenses – consultant (Note 39)	**–**	530
Net foreign exchange loss	**–**	12
Loss on disposal of property, plant and equipment	**–**	87
Legal and professional fees	**9,776**	10,766

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

10. DIRECTORS' AND CHIEF EXECUTIVES' EMOLUMENTS

The emoluments paid or payable to each of 6 (2012: 7) Directors were as follows:

2013

	Fees *HK$'000*	Salaries, bonus and other benefits *HK$'000*	Share-based payments *HK$'000*	Contributions to retirement benefits scheme *HK$'000*	Total *HK$'000*
Executive directors					
Mr. So Yuen Chun	–	1,800	–	30	1,830
Mr. Yeung Kwok Leung (note ii)	–	1,800	–	30	1,830
	–	3,600	–	60	3,660
Non-executive director					
Mr. Lam Kwok Hing, Wilfred	270	–	–	–	270
Independent non-executive directors					
Mr. Yeung Wai Hung, Peter	120	–	–	–	120
Ms. Yuen Wai Man (note iv)	120	–	–	–	120
Mr. Lam Shiu Cheung, Raymond (note i)	120	–	–	–	120
	360	–	–	–	360
Total	630	3,600	–	60	4,290

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

10. DIRECTORS' AND CHIEF EXECUTIVES' EMOLUMENTS *(continued)*

2012

	Fees	Salaries, bonus and other benefits	Share-based payments	Contributions to retirement benefits scheme	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors					
Mr. So Yuen Chun	–	1,260	530	27	1,817
Mr. Yeung Kwok Leung (note ii)	–	1,107	530	22	1,659
	–	2,367	1,060	49	3,476
Non-executive director					
Mr. Lam Kwok Hing, Wilfred	100	–	132	–	232
Independent non-executive directors					
Mr. Yeung Wai Hung, Peter	100	–	53	–	153
Mr. Ng Cheuk Fan, Keith (note iii)	84	–	–	–	84
Ms. Yuen Wai Man (note iv)	17	–	53	–	70
Mr. Lam Shiu Cheung, Raymond (note i)	87	–	53	–	140
	288	–	159	–	447
Total	388	2,367	1,351	49	4,155

There were no arrangements under which a director waived or agreed to waive any emoluments during the years ended 31 December 2013 and 2012. Apart from Directors, the Group has not classified any other person as chief executives during the years ended 31 December 2013 and 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

10. DIRECTORS' AND CHIEF EXECUTIVES' EMOLUMENTS *(continued)*

Notes:

i) Mr. Lam Shiu Cheung, Raymond was appointed on 17 February 2012.

ii) Mr. Yeung Kwok Leung was appointed on 1 March 2012.

iii) Mr. Ng Cheuk Fan, Keith was resigned on 3 August 2012.

iv) Ms. Yuen Wai Man was appointed on 1 November 2012.

11. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2012: three) were Directors whose emoluments are included in Note 10 to the consolidated financial statements for both years. The emoluments of the remaining three (2012: two) individuals were as follows:

	2013 ***HK$'000***	2012 *HK$'000*
Salaries, bonus and other benefits	**1,061**	592
Contributions to retirement benefits scheme	**43**	24
	1,104	616

Their emoluments were within the following band:

	2013 ***Number of employees***	2012 *Number of employees*
Nil – HK$1,000,000	**3**	2

12. DIVIDENDS

No dividend was paid or proposed during the year ended 31 December 2013, nor has any dividend been proposed since the end of the reporting period (2012: HK$Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

13. (LOSS) EARNINGS PER SHARE

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

	2013	2012
	HK$'000	*HK$'000*
(Loss) profit for the year attributable to owners of the Company for the purposes of basic and diluted (loss) earnings per share	**(91,105)**	10,324

	Number of shares	
	2013	2012
	'000	*'000*
Weighted average number of ordinary shares for the purposes of basic (loss) earnings per share	**436,231**	435,149
Effect of dilutive potential ordinary shares: Options to subscribe convertible bonds (Note)	**–**	6,701
Weighted average number of ordinary shares for the purposes of diluted (loss) earnings per share	**436,231**	441,850

The denominators used are the same as those detailed above for basic and diluted (loss) earnings per share.

Note: The computation of diluted loss per share for the year ended 31 December 2013 does not include the options to subscribe convertible bonds, convertible bonds and share options as the assumed exercise of these options to subscribe convertible bonds, convertible bonds and share options has an anti-dilutive effect.

The computation of diluted earnings per share does not assume the exercise of outstanding share options, warrants and convertible bonds as their exercise prices are higher than the average market prices of the shares for the year ended 31 December 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

14. PROPERTY, PLANT AND EQUIPMENT

	The Group					
	Leasehold improvement	Office equipment	Furniture and fixtures	Computer	Motor vehicle	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST						
At 1 January 2012	–	19	47	282	323	671
Additions	–	–	–	5	–	5
Disposal	–	–	–	–	(323)	(323)
At 31 December 2012	–	19	47	287	–	353
Additions	1,100	90	–	–	–	1,190
At 31 December 2013	**1,100**	**109**	**47**	**287**	**–**	**1,543**
ACCUMULATED DEPRECATION						
At 1 January 2012	–	11	18	235	38	302
Provided for the year	–	4	9	25	48	86
Eliminated on disposal	–	–	–	–	(86)	(86)
At 31 December 2012	–	15	27	260	–	302
Provided for the year	61	9	9	21	–	100
At 31 December 2013	**61**	**24**	**36**	**281**	**–**	**402**
CARRYING VALUES						
At 31 December 2013	**1,039**	**85**	**11**	**6**	**–**	**1,141**
At 31 December 2012	–	4	20	27	–	51

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

14. PROPERTY, PLANT AND EQUIPMENT *(continued)*

	The Company			
	Office equipment *HK$'000*	**Furniture and fixtures** *HK$'000*	**Computer** *HK$'000*	**Total** *HK$'000*
COST				
At 1 January 2012	14	47	272	333
Additions	–	–	5	5
At 31 December 2012 and **31 December 2013**	**14**	**47**	**277**	**338**
ACCUMULATED DEPRECATION				
At 1 January 2012	6	18	227	251
Provided for the year	4	9	24	37
At 31 December 2012	10	27	251	288
Provided for the year	4	9	21	34
At 31 December 2013	**14**	**36**	**272**	**322**
CARRYING VALUES				
At 31 December 2013	**–**	**11**	**5**	**16**
At 31 December 2012	4	20	26	50

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

Leasehold improvement	Over the shorter the term of the lease or 20%
Office equipment	25%
Furniture and fixtures	20%
Computer	25%
Motor vehicle	20%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

15. MORTGAGE LOANS

	The Group	
	2013	2012
	HK$'000	*HK$'000*
Fixed-rate loan receivables	**28,346**	32,679
Variable-rate loan receivables	**–**	402
	28,346	33,081
Carrying amount analysed for reporting purposes:		
Current assets (receivables within 12 months from the end of the reporting period)	**21,346**	25,662
Non-current assets (receivables after 12 months from the end of the reporting period)	**7,000**	7,419
	28,346	33,081

The mortgage loans of approximately HK$28,346,000 (2012: HK$33,081,000) are secured by mortgage properties. No impairment on these mortgage loans has been recognised during the year ended 31 December 2013 (2012: HK$Nil).

The mortgage loans outstanding at 31 December 2013 and 2012 are denominated in Hong Kong dollars.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

15. MORTGAGE LOANS *(continued)*

The maturity profile of these mortgage loans, at the end of reporting period, is analysed by the remaining periods to their contractual maturity dates as follows:

	2013	2012
	HK$'000	*HK$'000*
Repayable:		
Within 3 months	**537**	645
Over 3 months but less than 1 year	**20,809**	25,017
Over 1 year but less than 5 years	**7,000**	7,419
	28,346	33,081

Before accepting any new customer, the Group uses internal assessment system to assess the potential credit quality and determines credit limits by customer. The mortgage loans of approximately HK$28,346,000 (2012: HK$33,081,000) that are neither past due nor impaired have timely repayment of principal and interest.

The Directors are of the view that no individual impairment allowance is necessary since the outstanding loans are fully secured by the respective mortgage properties and the fair value of the secured mortgage properties exceeded the carrying amount of the respective mortgage loans.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

16. LOAN RECEIVABLES

	The Group	
	2013	2012
	HK$'000	*HK$'000*
Fixed-rate loan receivables	**82,503**	121,780
Variable-rate loan receivables (note ii)	**200,712**	200,712
	283,215	322,492
Less: accumulated impairment allowance	**(34,712)**	(1,000)
	248,503	321,492
Carrying amount analysed for reporting purposes:		
Current assets (receivables within 12 months from the end of the reporting period)	**188,016**	280,992
Non-current assets (receivables after 12 months from the end of the reporting period)	**60,487**	40,500
	248,503	321,492

Notes:

i) The loan receivables outstanding as at 31 December 2013 and 2012 are denominated in Hong Kong dollars.

ii) As at 31 December 2013, a loan receivable in the principal amount of approximately HK$200,712,000 (2012: HK$200,712,000) is due to The Building and Loan Agency (Asia) Limited ("The BLA (Asia)"), a wholly-owned subsidiary of the Company, by the borrower and the guarantor. As previously reported, the loan, which bore variable interest based on the best lending rate offered by the Hong Kong and Shanghai Banking Corporation Limited, was once secured by a floating charge over the entire assets of the guarantor, including a residential property in Hong Kong (the "Property"). Due to the failure on the part of the borrower and the guarantor to repay the loan and interest accrued thereon on demand, the floating charge was crystallised, and thus became a fixed charge, on 24 February 2012 (the "Charge").

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

16. LOAN RECEIVABLES *(continued)*

Notes: *(continued)*

ii) *(continued)*

Also as previously reported, on 22 February 2013, Fameway Finance Limited ("Fameway") and another two unsecured creditors entered into a debt recovery agreement with The BLA (Asia) in which it is agreed, *inter alia*, that The BLA (Asia) would enforce the Charge, and that The BLA (Asia) would be entitled to 74% of any sum recovered against the guarantor while Fameway and the other two unsecured creditors be entitled to the remaining 26%.

On 1 March 2013, The BLA (Asia) assigned its rights under the relevant loan agreement and the Charge to Revelry Gains Limited ("Revelry Gains"), another wholly-owned subsidiary of the Company. On the same date, The BLA (Asia), Revelry Gains, Fameway and the other two unsecured creditors executed a supplemental debt recovery agreement to revise and supplement the original debt recovery agreement, and in accordance therewith, all duties and rights of The BLA (Asia) in and under the original debt recovery agreement has been transferred to Revelry Gains.

Relying on legal advice, Revelry Gains commenced legal proceedings in the Court of First Instance of the High Court (the "Court") against the guarantor for, *inter alia*, recovery of possession of the Property (the "Action"). However, before the Action was heard by the Court, a winding-up order was made against the guarantor, and the Action was stayed. Revelry Gains is in the course of applying for leave to proceed with the Action. As such, the Action is still ongoing, and progress of the same will be disclosed as and where appropriate. It is opined that the Action is highly likely to succeed as it is the most direct way to obtain possession for a sale of the Property.

According to the valuation report dated 20 March 2014 prepared by Malcolm & Associates Appraisal Limited, an independent valuer, the fair value of the Property as at 31 December 2013 is HK$290,000,000 while the forced sale value of the Property will be discounted to HK$232,000,000.

Taking into account the debt recovery agreement as revised and supplemented by the supplemental debt recovery agreement, the Directors are of the opinion that the fair value of the Property is lower than the carrying values of the principal amount of the loan and the interest accrued thereon. Accordingly, impairment loss of loan receivables and loan interest receivables of approximately HK$29,032,000 and HK$88,258,000, respectively, is recognised for the year ended 31 December 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

16. LOAN RECEIVABLES *(continued)*

Notes: *(continued)*

iii) As at 31 December 2012, amongst the loan receivables was a principal amount of HK$60,000,000 due to The BLA (Asia) by a borrower, carried fixed interest rate at 9% per annum and the repayment of such a loan receivable was secured by a charge over certain convertible bonds issued by a listed entity in Hong Kong.

On the borrower's default in repayment, The BLA (Asia) enforced the security, and the convertible bonds were converted into shares in the listed entity. The said loan receivables and interest accrued thereon has thus been repaid during the year ended 31 December 2013 and all such shares have been dealt with in accordance with legal advice.

iv) As at 31 December 2013, included in the fixed rate loan receivables, approximately HK$4,680,000, HK$20,000,000, HK$56,200,000 and HK$Nil (2012: HK$4,680,000, HK$10,000,000, HK$40,000,000 and HK$500,000) are secured by ordinary shares of a unlisted company, properties, corporate guarantees and a private car respectively. These loans carry fixed interest rates at a range from 6% to 20.5% (2012: 6% to 20.5%) per annum.

v) The loan receivables amounting to approximately HK$1,623,000 (2012: HK$6,600,000) are unsecured and carry fixed interest rates at a range from 9% to 20% (2012: 9% to 20%) per annum.

Included in the carrying amount of the fixed-rate loan receivables of approximately HK$5,600,000 as at 31 December 2012 is unsecured loan borrowed by a listed entity in Hong Kong. During the year ended 31 December 2013, it has been fully settled by the listed entity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

16. LOAN RECEIVABLES *(continued)*

Notes: *(continued)*

vi) The maturity profile of these loan receivables at the end of reporting period, analysed by the remaining periods to their contracted maturity, is as follow:

	The Group	
	2013	2012
	HK$'000	*HK$'000*
Repayable:		
Within 3 months	**171,713**	262,712
Over 3 months but less than 1 year	**16,303**	18,280
Over 1 year but less than 5 years	**487**	500
More than 5 years	**60,000**	40,000
	248,503	321,492

Movement in the accumulated impairment allowance on loan receivables:

	The Group
	HK$'000
At 1 January 2012	1,000
Charge during the year	1,000
Reverse during the year	(1,000)
At 31 December 2012	1,000
Charge during the year	33,712
At 31 December 2013	**34,712**

Included in the above accumulated impairment allowance recognised at 31 December 2013 was impaired loan receivables with carrying amount of approximately HK$206,392,000 (2012: HK$1,000,000) before impairment which have been in financial difficulties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

17. DEPOSIT PAID FOR ACQUISITION OF A SUBSIDIARY

	The Group and the Company	
	2013	2012
	HK$'000	*HK$'000*
Deposit paid for acquisition of Weldtech Technology (as defined below)	**10,000**	–

Pursuant to the announcement of the Company dated 6 December 2013, Total Global Holdings Limited ("Total Global"), a wholly-owned subsidiary of the Company, has entered into a conditional sale and purchase agreement (the "Sale and Purchase Agreement") with (i) CITIC International Assets Management Limited; (ii) Ample Richness Investments Limited; (iii) Smart Promise Limited; (iv) Infinitee Soar Limited; (v) Cross Cone Holdings Limited; (vi) Newmargin Partners Limited; (vii) Carbon Reserve Investments Limited; and (viii) Season Best Investments Limited (collectively referred as the "Vendors") on 31 October 2013, pursuant to which Total Global agreed to acquire the entire share capital of Weldtech Technology Co. Limited ("Weldtech Technology"), a company incorporated in Hong Kong, from the Vendors at a consideration of HK$2,476,000,010 (the "Acquisition"). Weldtech Technology is engaged in the provision of energy monitoring and energy saving solutions and urban facilities to reduce energy consumption and to enhance overall energy efficiency.

The consideration shall be satisfied by (i) HK$43,100,000 by way of cashier orders which included deposit of HK$10,000,000; (ii) HK$1,262,500,010 by way of issuance of the convertible bonds by the Company; (iii) HK$1,034,400,000 by way of issuance of the promissory notes by the Company; (iv) HK$136,000,000 by way of allotment and issuance of the 170,000,000 consideration shares at the issue price of HK$0.8 per consideration share by the Company. At 31 December 2013, the balance represented a refundable deposit for the above proposed Acquisition. The detailed information of the Acquisition was disclosed in the Company's announcement dated 6 December 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

18. AVAILABLE-FOR-SALE INVESTMENTS

	The Group	
	2013	2012
	HK$'000	*HK$'000*
Listed investments:		
Equity securities listed in Hong Kong (note (a))	**–**	2,898
Unlisted investments:		
Equity securities in Hong Kong, at cost (note (b))	**500**	500
Less: accumulated impairment allowance	**(241)**	(241)
Equity securities in Hong Kong, net	**259**	259
Total	**259**	3,157

During the year ended 31 December 2013, the Group disposed all of its listed equity securities and a gain on disposal of approximately HK$3,240,000 has been recognised in profit or loss (2012: HK$Nil).

Notes:

(a) As the trading of the shares of the listed equity securities has been suspended from 1 November 2012 to 8 January 2013, the fair value as at 31 December 2012 amounting to approximately HK$2,898,000, was determined with reference to the closing bid price as at 31 October 2012.

(b) The unlisted investments represent investments in unlisted equity securities in 5% (2012: 5%) of the total outstanding issued shares of a company incorporated in Hong Kong with limited liabilities at the end of the reporting period. They are measured at cost less accumulated impairment loss, if any, at the end of the reporting period because the range of reasonable fair value estimates is so significant that the Directors are of the opinion that their fair values cannot be measured reliably.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	The Group	
	2013	2012
	HK$'000	*HK$'000*
Held-for-trading investments:		
Equity securities listed in Hong Kong	**92,920**	13,981

At 31 December 2013, the fair value of the listed equity securities, amounting to approximately HK$92,920,000 (2012: HK$12,411,000), was determined based on the quoted market bid prices available on the Stock Exchange.

As the trading of the shares of one of the listed equity securities has been suspended from 5 December 2012 to 30 January 2013, the fair value as at 31 December 2012 amounting to approximately HK$1,570,000, was determined with reference to the closing bid price on 4 December 2012.

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	The Group	
	2013	2012
	HK$'000	*HK$'000*
Interest receivables	**94,774**	68,240
Prepayments	**490**	640
Receivables from securities brokers	**2,364**	29
Receivable from disposal of a subsidiary	**9,200**	9,200
Others	**1,584**	3,309
	108,412	81,418
Less: accumulated impairment allowance	**(97,929)**	(9,270)
	10,483	72,148

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(continued)*

The movement in the accumulated impairment allowance on interest receivables and other receivables is as follows:

	Accumulated impairment allowance on interest receivables	**Accumulated impairment allowance on other receivables**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2012	2,248	9,200	11,448
Charge during the year	70	–	70
Reverse during the year	(2,248)	–	(2,248)
At 31 December 2012	70	9,200	9,270
Charge during the year	88,729	–	88,729
Reverse during the year	(70)	–	(70)
At 31 December 2013	**88,729**	**9,200**	**97,929**

	The Company	
	2013	2012
	HK$'000	*HK$'000*
Prepayments	**290**	190
Receivable from disposal of a subsidiary	**9,200**	9,200
Others	**3**	3
	9,493	9,393
Less: accumulated impairment allowance	**(9,200)**	(9,200)
	293	193

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(continued)*

The movement in the accumulated impairment allowance on receivable from disposal of a subsidiary is as follows:

	The Company
	HK$'000
At 1 January 2012, 31 December 2012 and **31 December 2013**	**9,200**

21. BANK BALANCES AND CASH

The amounts comprise bank balances held by the Group and the Company and short-term bank deposits bearing market interest rates ranging from Nil to 0.2% (2012: Nil to 0.2%) per annum. The fair value of these assets approximates the corresponding carrying amount.

The Group and the Company have United States Dollar ("US$") denominated bank balances, which expose the Group and the Company to foreign currency risk. The carrying amounts of the Group's and the Company's US$ denominated monetary assets at the end of the reporting period are as follows:

	2013	2012
	HK$'000	*HK$'000*
US$	**338**	407

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

22. OTHER PAYABLES AND ACCRUALS

	The Group	
	2013	2012
	HK$'000	*HK$'000*
Accrued service fees for acquisition of Weldtech Technology	**5,870**	5,870
Accrued expenses	**6,958**	4,656
Receipt in advance	**–**	3,615
Interest payables	**1,044**	478
Other payables	**1,180**	3,103
	15,052	17,722

	The Company	
	2013	2012
	HK$'000	*HK$'000*
Accrued expenses	**4,910**	2,822
Interest payables	**1,044**	478
Other payables	**218**	298
	6,172	3,598

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

23. BORROWINGS

	The Group and the Company	
	2013	2012
	HK$'000	*HK$'000*
Borrowings due within one year	**5,000**	5,000

The loan is an interest-bearing loan at 10% (2012: 10%) per annum and unsecured. The loan has been renewed during the year ended 31 December 2013 and the due date has been extended from 1 August 2013 to 1 August 2014.

24. NON-CONVERTIBLE BONDS

	The Group and the Company	
	2013	2012
	HK$'000	*HK$'000*
Bond payables	**50,000**	30,000

During the year ended 31 December 2013, the Company additionally issued two non-convertible bonds with aggregate principal amount of HK$20,000,000 to two new bond holders (2012: HK$30,000,000 to three bond holders). The principal terms of the non-convertible bonds are as follows:

Principal amount of each bond:	HK$10,000,000
Interest rate:	8% per annum, payable annually in arrears
Maturity:	90 months, the five non-convertible bonds will be matured in 2020
Redemption:	The Company may redeem all or some of the non-convertible bonds from issue date to maturity date, at 100% of their principal amount

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

25. SHARE CAPITAL

	The Group and the Company		
	Par value per share *HK$*	Number of shares	*Amount* *HK$'000*
Authorised:			
Ordinary shares			
At 1 January 2012	0.1	30,000,000,000	3,000,000
Capital reduction (note)	(0.09)	–	(2,700,000)
Share consolidation (note)	N/A	(27,000,000,000)	–
At 31 December 2012 and 31 December 2013	**0.1**	**3,000,000,000**	**300,000**
Issued and fully paid:			
Ordinary shares			
At 1 January 2012	0.1	4,351,488,667	435,149
Capital reduction (note)	(0.09)	–	(391,634)
Share consolidation (note)	N/A	(3,916,339,801)	–
At 31 December 2012	0.1	435,148,866	43,515
Exercise of share options (Note 39)	0.1	1,956,600	196
Issuance of share upon conversion of convertible bonds (Note 28)	0.1	103,480,000	10,348
At 31 December 2013	**0.1**	**540,585,466**	**54,059**

Note:

Pursuant to an extraordinary general meeting of the Company held on 21 June 2012, the shareholders of the Company approved the cancellation of HK$0.09 of the paid up capital on each issued share of HK$0.10, the reduction of the par value of all the issued and unissued shares from HK$0.10 to HK$0.01 each (the "Reduced Shares") (the "Capital Reduction") and the consolidation of every 10 Reduced Shares into 1 ordinary share of HK$0.10 each (the "Capital Reorganisation"). On 17 December 2012, the Court of First Instance of the High Court of Hong Kong granted an order to confirm the Capital Reorganisation with effect on 19 December 2012. The credit arising from the Capital Reduction have been utilised to set-off the accumulated losses of the Company and any excessive balance have been credited to the share capital reserve. Details of the Capital Reduction are set out in a circular of the Company dated 29 May 2012, announcements dated 21 June 2012 and 18 December 2012, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

26. OPTIONS TO SUBSCRIBE FOR CONVERTIBLE BONDS

On 8 October 2012, the Company issued 100 options at the premium of HK$7,830 each to the subscribers conferring the rights to the holders of the options thereof to subscribe for convertible bonds of the Company in the principal amount of HK$156,600 each at any time during the period from 8 October 2012 to 31 July 2014.

The fair value of options to subscribe convertible bonds issued on 8 October 2012 is approximately HK$13,947,000. The fair value of the convertible bond options is determined by Roma Appraisals Limited ("Roma"), an independent professional valuer not connected to the Group.

The fair value of the convertible bond options on date of issuance are determined by using the Binomial Model with the following key attributes:

Volatility:	88.12%
Share price of the Company:	HK$0.21 (Note)
Expected life:	1.81 year
Dividend yield:	0%
Risk free rate:	0.25%

Note: The share price of the Company was adjusted for the impact of the Capital Reorganisation.

The principal terms of the convertible bonds are disclosed in Note 28(a) to the consolidated financial statement.

During the period and up to the maturity date, the convertible bond holders shall be able to convert in their entirety or any part of the outstanding principal amount of the convertible bonds. The Company may, on the maturity date, at its absolute discretion, redeem all convertible bonds which have not been redeemed or converted by maturity date at 100% of their principal amount or convert into the shares. The convertible bonds are denominated in Hong Kong dollars and will mature on 31 December 2015. The Directors consider the options to subscribe for convertible bonds as equity instruments of the Company based on the substance of the contractual terms and the definition of a financial liability and an equity instrument.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

26. OPTIONS TO SUBSCRIBE FOR CONVERTIBLE BONDS *(continued)*

During the year ended 31 December 2013, 14 options (2012: Nil) were exercised by the convertible bond option holders and convertible bonds in the principal amount of HK$2,192,400 (2012: HK$Nil) were issued by the Company ("CB I"). Details of the CB I are disclosed in Note 28(a) to the consolidated financial statements.

27. WARRANTS

On 10 May 2010, the Company and Fortune (HK) Securities Limited entered into a placing agreement in respect of the placement of 562,000,000 warrants of the Company to independent investors at a price of HK$0.01 per warrant. Each warrant confers the right to subscribe for one ordinary share of the Company of HK$0.10 each at a subscription price of HK$0.18. Subsequently, the placing agent and the Company agreed to vary the warrant placement by terminating the warrant placing agreement dated 10 May 2010 and entering into a supplemental warrant placing agreement on 7 June 2010. Pursuant to the supplemental warrant placing agreement dated 7 June 2010, the exercise price was amended from HK$0.18 to HK$0.147 per warrant. The placement was completed on 22 June 2010 with the warrants expiring on 21 June 2012. Details of the above are set out in the Company's announcements dated 11 May 2010, 7 June 2010 and 22 June 2010, respectively.

During the year ended 31 December 2012, no warrants were exercised at HK$0.147 and no shares were issued. At 21 June 2012, 552,000,000 outstanding warrants were expired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

28. CONVERTIBLE BONDS

(a) During the year ended 31 December 2013, as mentioned in Note 26 to the consolidated financial statements, the Company issued CB I with principal amount of HK$1,566,000 (the "CB Ia") and HK$626,400 (the "CB Ib"), on 25 November 2013 and 13 December 2013, upon the exercise of 10 and 4 convertible bond options by the option holders, respectively.

The principal terms of the CB I are as follows:

Principal amount of each bond:	HK$156,600
Coupon rate:	10% per annum, payable annually in arrears
Conversion price:	The initial conversion price was the higher of HK$0.018 or the par value of the shares of the Company. As the Capital Reorganisation become effective on 19 December 2012, the conversion price has been adjusted to HK$0.18 per conversion share. As a result of the completion of the placement of the first tranche of the CB II (as defined in Note 28(b)), the conversion price of the CB I has been adjusted from HK$0.18 to HK$0.14 per conversion share and such adjustment become effective on 19 December 2013. Details of the CB II are disclosed in Note 28(b) to the consolidated financial statements.

The CB I entitled the holders to convert them into ordinary shares of the Company at any time between the period commencing from the date of issuance of CB I and its maturity date on 31 December 2015 at the conversion price stated above. If the CB I have not been converted by the maturity date, they will be, at the absolute discretion of the Company, either redeemed by the Company on the maturity date at a redemption amount equal to 100% of the principal amount of such bond, or be converted into ordinary shares of the Company.

The CB I with principal amount of HK$626,400 has been converted into 3,480,000 ordinary shares of the Company at HK$0.18 on 16 December 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

28. CONVERTIBLE BONDS *(continued)*

(a) *(continued)*

The CB I contains two components, liability and equity elements. The equity element is presented in equity component of “convertible bond reserve”. The effective interest rate of the liability component of CB Ia and CB Ib are 10.466% and 10.482% respectively.

The fair value of the liability component of the CB I was valued by the Directors with reference to a valuation report issued by Roma. The fair value of liability component of the CB I has been calculated by discounting the future cash flows at the market rate. The inputs used in the model in determining the fair value were as follow:

	CB Ia	**CB Ib**
Share price	HK$0.90	HK$0.75
Conversion price	HK$0.18	HK$0.18
Contractual life	2.10 years	2.05 years
Risk-free rate	0.252%	0.285%
Expected dividend yield	0%	0%
Volatility	78.41%	79.40%

The movements of the liability and equity components of the CB I for the year ended 31 December 2013 are set out below:

		CB I	
	Liability component *HK$'000*	**Equity component** *HK$'000*	**Total** *HK$'000*
At 1 January 2013	–	–	–
Issued during the year	2,174	18	2,192
Transfer from convertible bond options reserve	–	1,953	1,953
Conversion to shares during the year	(620)	(563)	(1,183)
Interest charged	16	–	16
Interest paid	(18)	–	(18)
At 31 December 2013	**1,552**	**1,408**	**2,960**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

28. CONVERTIBLE BONDS *(continued)*

(b) On 26 February 2013, the Company as the issuer, entered into the placing agreement with FT Securities Limited as the placing agent (the "Placing Agreement"), pursuant to which the placing agent has conditionally to procure the placees to subscribe for no more than 120 tranches of the convertible bond ("the CB II") of up to an aggregate principal amount of HK$162,000,000 with maturity on 31 December 2016. The CB II can be converted into maximum of 1,200,000,000 conversion shares of the Company at the conversion price of HK$0.135 per conversion share, from issue date of CB II to the fifth business day before maturity.

On 15 March 2013, 22 August 2013 and 16 October 2013, the Company has entered into three supplemental placing agreements (the "Supplemental Placing Agreements") respectively, with FT Securities Limited as the placing agent, pursuant to which (i) the total tranche number was changed from 120 to 5 with the principal amount of the CB II placed in each tranche shall not be less than HK$1,350,000; (ii) the placing period was changed from the period of one year commencing from the execution of Placing Agreement to the period of three months commencing from the business day immediately after the extraordinary general meeting; (iii) the aggregate principal amount of the CB II was revised from HK$162,000,000 to HK$60,750,000; and (iv) the maximum number of conversion shares was revised from 1,200,000,000 to 450,000,000.

The extraordinary general meeting was held on 5 November 2013, and therefore the placing period was commenced on 6 November 2013 for three months.

On 19 December 2013, all the conditions precedent for the issuance of the CB II under placing agreements have been fulfilled and the completion of the placing of the first tranche (totally in five) of the CB II in the aggregate principal amount of HK$17,550,000 to several independent parties took place on the same date.

The CB II is denominated in Hong Kong dollars and does not bear any interest. The CB II entitled the holders to convert them into ordinary shares of the Company at any time between the period commencing from the date of issue of CB II and its maturity date on 31 December 2016 at a conversion price of HK$0.135. If the CB II has not been converted by the maturity date, they will be, at the absolute discretion of the Company, either redeemed by the Company on the maturity date at a redemption amount equal to 100% of the principal amount of such bond, or be converted into ordinary shares of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

28. CONVERTIBLE BONDS *(continued)*

(b) *(continued)*

The CB II with principal amount HK$13,500,000 has been converted into 100,000,000 ordinary shares of the Company at HK$0.135 on 30 December 2013.

The CB II contains two components, liability and equity elements. The equity element is presented in equity component of “convertible bond reserve”. The effective rate of the liability component of CB II is 10.36%.

The fair value of the liability component of the CB II was valued by the Directors with reference to a valuation report issued by Roma. The fair value of liability component of the CB II has been calculated by discounting the future cash flows at the market rate. The inputs used in the model in determining the fair value were as follow:

	CB II
Share price	HK$0.71
Conversion price	HK$0.135
Contractual life	3.04 years
Risk-free rate	0.510%
Expected dividend yield	0%
Volatility	71.17%

The movements of the liability and equity components of the CB II for the year ended 31 December 2013 are set out below:

	CB II		
	Liability component *HK$'000*	**Equity component** *HK$'000*	**Total** *HK$'000*
At 1 January 2013	–	–	–
Issued during the year	13,011	4,539	17,550
Conversion to shares during the year	(10,035)	(3,492)	(13,527)
Interest charged	35	–	35
At 31 December 2013	**3,011**	**1,047**	**4,058**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

29. RESERVES OF THE COMPANY

	Share premium	Share capital reserve	Share option reserve	Convertible bonds reserve	Convertible bond options reserve	Warrants	Retained profits (accumulated losses)	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2012	54,119	–	–	169	–	5,520	(121,448)	(61,640)
Profit for the year, representing total comprehensive income for the year	–	–	–	–	–	–	16,768	16,768
Issuance of convertible bond options (Note 26)	–	–	–	–	13,947	–	–	13,947
Capital reorganisation (Note 25)	–	270,186	–	–	–	–	121,448	391,634
Settlement of convertible bonds upon expired	–	–	–	(169)	–	–	91	(78)
Recognition of equity-settled share-based payments (Note 39)	–	–	1,881	–	–	–	–	1,881
Cancellation of warrants upon expired (Note 27)	–	–	–	–	–	(5,520)	5,520	–
At 31 December 2012	54,119	270,186	1,881	–	13,947	–	22,379	362,512
Loss for the year, representing total comprehensive expense for the year	–	–	–	–	–	–	(107,154)	(107,154)
Issuance of shares upon exercise of share options (Note 39)	577	–	(239)	–	–	–	–	338
Issuance of convertible bonds upon the exercise of convertible bond options (Note 28(a))	–	–	–	1,971	(1,953)	–	–	18
Issuance of convertible bonds upon placing (Note 28(b))	–	–	–	4,539	–	–	–	4,539
Issuance of shares upon conversion of convertible bonds (Note 28)	4,362	–	–	(4,055)	–	–	–	307
At 31 December 2013	**59,058**	**270,186**	**1,642**	**2,455**	**11,994**	**–**	**(84,775)**	**260,560**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

30. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of debt, which includes borrowings, non-convertible bonds and convertible bonds, net of cash and cash equivalents and total equity comprising issued share capital and reserves. Details of which are disclosed in respective notes.

The Directors review the capital structure on a regular basis. As part of this review, the Directors consider the cost of capital and the risks associate with each class of capital, and take appropriate actions to adjust the Group's capital structure.

The Group monitors capital using a gearing ratio, calculated as net debt divided by total capital. Net debt is calculated as borrowings, non-convertible bonds and convertible bonds, net of cash and cash equivalents. Total capital is calculated as "total equity" as shown in the consolidated statement of financial position plus net debt. The Group aims to maintain the gearing ratio at a reasonable level. The gearing ratios at the end of the reporting periods were as follows:

	2013	2012
	HK$'000	*HK$'000*
Borrowings (Note 23)	**5,000**	5,000
Non-convertible bonds (Note 24)	**50,000**	30,000
Convertible bonds (Note 28)	**4,563**	–
Less: Bank balances and cash	**(3,979)**	(8,347)
Net debt	**55,584**	26,653
Total equity	**323,318**	400,438
Total capital	**378,902**	427,091
Gearing ratio (net debt to total capital)	**15%**	6%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

31. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	The Group	
	2013	2012
	HK$'000	*HK$'000*
Financial assets		
Financial assets at FVTPL	**92,920**	13,981
Loans and receivables (including cash and cash equivalents)	**290,821**	434,428
Available-for-sale investments	**259**	3,157
	384,000	451,566
Financial liabilities		
Other financial liabilities at amortised cost	**70,052**	49,107
Convertible bonds	**4,563**	–
	74,615	49,107

	The Company	
	2013	2012
	HK$'000	*HK$'000*
Financial assets		
Loans and receivables (including cash and cash equivalents)	**368,149**	443,902
Financial liabilities		
Other financial liabilities at amortised cost	**61,532**	38,976
Convertible bonds	**4,563**	–
	66,095	38,976

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

31. FINANCIAL INSTRUMENTS *(continued)*

(b) Financial risk management objectives and policies

The Group's major financial instruments include financial assets at FVTPL, loan receivables, mortgage loans receivables, available-for-sale investments, deposits and other receivables, bank balances and cash, other payables and accruals, borrowings, non-convertible bonds and convertible bonds. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risks (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

The Group's and the Company's activities expose them primarily to the financial risks of changes in foreign currency exchange rates, interest rates and prices of held-for-trading equity investments and available-for-sale investments.

Currency risk

The Group and the Company have United States Dollar ("US$") denominated bank balances, which expose the Group and the Company to foreign currency risk.

No sensitivity analysis is presented for foreign currency risk as the Directors considered that the effect is insignificant under the linked exchange rate system between HK$ and US$.

Interest rate risk

The Group's exposure to cash flow interest rate risk is mainly caused by variable-rate mortgage loans, loan receivables and bank balances. The Group's exposure to fair values interest rate risk is mainly caused by mortgage loans and loan receivables, borrowings, non-convertible bonds and convertible bonds.

If interest rates had been 100 (2012: 100) basis points higher/lower and all other variables were held constant, the Group's loss after tax for the year ended 31 December 2013 would decrease/increase by approximately HK$1,709,000 (2012: profit after tax increase/decrease by approximately HK$1,751,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

31. FINANCIAL INSTRUMENTS *(continued)*

(b) Financial risk management objectives and policies *(continued)*

Market risk (continued)

Interest rate risk *(continued)*

The sensitivity analysis has been determined based on the exposure to interest rates for financial instruments at the end of the reporting period. The analysis is prepared assuming the amount of structured loan and variable-rate mortgage loans at the reporting date were outstanding for the whole year. A 100 basis point increase or decrease in the Hong Kong lending rate 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 Group currently has no hedging approach to the cash flow interest rate risk and fair values interest rate risk.

Other price risks

The Group is exposed to price risk through its investments in listed equity securities during the reporting period. The management manages this exposure by maintaining a portfolio of investment with different risks.

Sensitivity analysis

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

If market prices of held-for-trading equity investments have been 20% (2012: 20%) higher/lower, loss after tax for the year ended 31 December 2013 would decrease/increase by approximately HK$15,518,000 (2012: profit after tax increase/decrease by approximately HK$2,335,000).

If market prices of available-for-sale equity securities have been 20% higher/lower, investments revaluation reserve as at 31 December 2013 would increase/decrease by HK$Nil (2012: HK$580,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

31. FINANCIAL INSTRUMENTS *(continued)*

(b) Financial risk management objectives and policies *(continued)*

Credit risk

The Group's and the Company's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations at 31 December 2013 and 31 December 2012 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position and the Company's statement of financial position. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue loans. In addition, the Group and the Company review the recoverable amount of each individual mortgage loan and loan receivable at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. The credit risk on liquid funds is limited because the counterparties are banks located in Hong Kong subject to the supervision by the Hong Kong Monetary Authority.

In respect of mortgage loan and loan receivables arising from the Group's money lending business, 99% and 71% (2012: 97% and 81%) of the total gross mortgage loans and loan receivables respectively was due from two and one customers (2012: two and two customers) of the Group's money lending business. The Directors closely monitor the risk exposure of the customers and collateral and would take appropriate action to ensure the risk exposure is acceptable. The Directors are of the view that the expected cash flow of the mortgage loans and loan receivables are sufficient to cover the carrying amount of the mortgage loans and loan receivables as at 31 December 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

31. FINANCIAL INSTRUMENTS *(continued)*

(b) Financial risk management objectives and policies *(continued)*

Liquidity risk

In the management of the liquidity risk, the Group and the Company monitor and maintain a level of cash and cash equivalents deemed adequate by the management to finance the Group's and the Company's operations and mitigate the effects of fluctuations in cash flows.

The following table details the Group's and the Company's remaining contractual maturity for its financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period. The table includes both interest and principal cash flows.

Liquidity tables

The Group

	Weighted average interest rate	Repayable on demand or within 1 year	1 – 2 years	2 – 5 years	More than 5 years	Total undiscounted cash flows	Carrying amounts
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2013							
Other payables and accruals	–	15,052	–	–	–	15,052	15,052
Borrowings	10.00	5,292	–	–	–	5,292	5,000
Non-convertible bonds	8.00	4,000	4,000	12,000	56,000	76,000	50,000
Convertible bonds	5.59	157	1,723	4,065	–	5,945	4,563
		24,501	**5,723**	**16,065**	**56,000**	**102,289**	**74,615**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

31. FINANCIAL INSTRUMENTS *(continued)*

(b) Financial risk management objectives and policies *(continued)*

Liquidity tables (continued)

The Group

	Weighted average interest rate	Repayable on demand or within 1 year	1 – 2 years	2 – 5 years	More than 5 years	Total undiscounted cash flows	Carrying amounts
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2012							
Other payables and accruals	–	14,107	–	–	–	14,107	14,107
Borrowings	10.00	5,292	–	–	–	5,292	5,000
Non-convertible bonds	8.00	2,400	2,400	7,200	36,000	48,000	30,000
		21,799	2,400	7,200	36,000	67,399	49,107

The Company

	Weighted average interest rate	Repayable on demand or within 1 year	1 – 2 years	2 – 5 years	More than 5 years	Total undiscounted cash flows	Carrying amounts
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2013							
Other payables and accruals	–	6,172	–	–	–	6,172	6,172
Amount due to a subsidiary	–	360	–	–	–	360	360
Borrowings	10.00	5,292	–	–	–	5,292	5,000
Non-convertible bonds	8.00	4,000	4,000	12,000	56,000	76,000	50,000
Convertible bonds	5.59	157	1,723	4,065	–	5,945	4,563
		15,981	**5,723**	**16,065**	**56,000**	**93,769**	**66,095**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

31. FINANCIAL INSTRUMENTS *(continued)*

(b) Financial risk management objectives and policies *(continued)*

Liquidity tables (continued)

The Company

	Weighted average interest rate %	Repayable on demand or within 1 year HK$'000	1 – 2 years HK$'000	2 – 5 years HK$'000	More than 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amounts HK$'000
2012							
Other payables and accruals	–	3,598	–	–	–	3,598	3,598
Amount due to a subsidiary	–	378	–	–	–	378	378
Borrowings	10.00	5,292	–	–	–	5,292	5,000
Non-convertible bonds	8.00	2,400	2,400	7,200	36,000	48,000	30,000
		11,668	2,400	7,200	36,000	57,268	38,976

(c) Fair value

This note provides information about how the Group determines fair values of various financial assets.

Fair value of the Group's financial assets are measured at fair value on a recurring basis.

Financial assets	Fair value as at **31 December 2013**	Fair value as at 31 December 2012	Fair value hierarchy	Valuation technique(s) and key input(s)
Listed equity securities classified as available-for-sale financial assets in the consolidated statement of financial position	**Assets – approximately HK$Nil**	Assets – approximately HK$2,898,000	Level 1	Quoted bid prices in an active market
Listed equity securities classified as investment held for trading in the consolidated statement of financial position	**Assets – approximately HK$92,920,000**	Assets – approximately HK$13,981,000	Level 1	Quoted bid prices in an active market

There were no transfers between Levels 1, 2 and 3 in the current and prior years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

31. FINANCIAL INSTRUMENTS *(continued)*

(c) Fair value *(continued)*

Fair value hierarchy as at 31 December 2013

	The Group			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Financial assets				
Financial assets at FVTPL				
Equity securities listed in Hong Kong	**92,920**	**–**	**–**	**92,920**

Fair value hierarchy as at 31 December 2012

	The Group			
	Level 1	Level 2	Level 3	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets				
Available-for-sale investments				
Equity securities listed in Hong Kong	2,898	–	–	2,898
Financial assets at FVTPL				
Equity securities listed in Hong Kong	13,981	–	–	13,981
Total	16,879	–	–	16,879

The Company does not hold any financial instruments measured at fair value on a recurring basis as at 31 December 2013 and 2012.

Except as disclosed above, the Directors consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

32. INVESTMENTS IN SUBSIDIARIES

	The Company 2013 HK$'000	The Company 2012 HK$'000
Unlisted shares, at cost	**542**	542
Less: accumulated impairment allowance	**(150)**	(150)
	392	392

Movement in the accumulated allowance for impairment loss

	The Company HK$'000
At 1 January 2012	152
Reverse during the year	(2)
At 31 December 2012 and **31 December 2013**	**150**

Particulars of major subsidiaries at 31 December 2013 and 2012 are as follows:

Name of companies	Place of incorporation and operation	Issued and fully paid ordinary share capital	Percentage of equity attributable to the Company 2013	Percentage of equity attributable to the Company 2012	Principal activities
The BLA (Asia)	Hong Kong	HK$2	**100%**	100%	Money lending
Alpha Gain Limited	Hong Kong	HK$2	**100%**	100%	Inactive
Palmy Right Limited	British Virgin Islands ("BVI")	US$1	**100%**	100%	Securities investment
United Warrior Limited	BVI	US$1	**100%**	100%	Inactive
Wise Planner Limited[1]	BVI	US$1	**100%**	100%	Inactive
Total Global	BVI	US$50,000	**100%**	100%	Inactive
Diamond Team Limited	BVI	US$1	**100%**	100%	Inactive
Revelry Gains Limited[1, 2]	BVI	US$1	**100%**	N/A	Inactive

1 *Indirectly held by the Company.*

2 *Newly incorporated during the year ended 31 December 2013.*

The above table lists the subsidiaries of the Group which, in the opinion of the Directors, principally affected the results or assets of the Group. To give details of other subsidiaries would in the opinion of the Directors, result in excessive length.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

32. INVESTMENTS IN SUBSIDIARIES *(continued)*

None of the subsidiaries had any debt securities at the end of the year or at any time during the year.

33. AMOUNTS DUE FROM SUBSIDIARIES

	The Company	
	2013	2012
	HK$'000	*HK$'000*
Amounts due from subsidiaries	**569,562**	534,610
Less: accumulated impairment allowance	**(203,911)**	(91,698)
	365,651	442,912

The amounts due from subsidiaries totalling HK$354,562,000 (2012: HK$259,610,000) are unsecured, interest-free and have no fixed repayment terms and the amounts due from a subsidiary totalling HK$215,000,000 (2012: HK$275,000,000) is unsecured, bear interest at rates ranging from 7.25% to 12.25% per annum (2012: 7.25% to 12.25% per annum) and have no fixed repayment terms.

Movement in the accumulated allowance for impairment loss

	The Company
	HK$'000
At 1 January 2012	115,035
Reverse during the year	(15,591)
Write-off during the year	(7,895)
Charge during the year	149
At 31 December 2012	91,698
Charge during the year	112,213
At 31 December 2013	**203,911**

34. AMOUNT DUE TO A SUBSIDIARY

The amount due to a subsidiary is unsecured, interest-free and repayable on demand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

35. DEFERRED TAXATION

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

	Available-for-sale investments *HK$'000*	Investment revaluation *HK$'000*	Total *HK$'000*
At 1 January 2012	–	–	–
Credit to profit or loss	348	–	348
Charge to other comprehensive income	–	(348)	(348)
At 31 December 2012	348	(348)	–
Charge to profit or loss	(348)	–	(348)
Charge to other comprehensive income	–	348	348
At 31 December 2013	**–**	**–**	**–**

At the end of the reporting period, the Group has estimated tax losses of approximately HK$174,947,000 (2012: HK$75,692,000) available for offset against future profits. No deferred tax assets has been recognised as it is uncertain that there will be sufficient future profits available to utilise the balances. The unrecognised tax losses may be carried forward indefinitely.

The Company has no tax losses as at 31 December 2013 and 2012.

36. CAPITAL COMMITMENT

As mentioned in Note 17 to the consolidated financial statements, Total Global entered into the Sale and Purchase Agreement with the Vendors regarding the Acquisition at a consideration of HK$2,476,000,010. At 31 December 2013, HK$10,000,000 cash has been paid as deposit. Details of the Acquisition are set out in Note 17 to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

36. CAPITAL COMMITMENT *(continued)*

Capital commitments in respect of the Acquisition outstanding at each of the end of the reporting date contracted but not provided for in the consolidated financial statements were as follows:

	2013	2012
	HK$'000	*HK$'000*
Acquisition of Weldtech Technology	**2,466,000**	–

37. OPERATING LEASES

At the end of the reporting period, the Group and the Company had commitments for future minimum lease payments under non-cancellable operating leases for certain of its office premises as follows:

	The Group	
	2013	2012
	HK$'000	*HK$'000*
Within one year	**3,985**	861
In the second to fifth years inclusive	**6,348**	–
	10,333	861

Leases are negotiated and rentals are fixed for terms of 1 to 3 years (2012: 1 to 2 years).

	The Company	
	2013	2012
	HK$'000	*HK$'000*
Within one year	**75**	61
In the second to fifth years inclusive	**19**	–
	94	61

Leases are negotiated and rentals are fixed for terms of 1 to 2 years (2012: 1 to 2 years).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

38. RETIREMENT BENEFIT SCHEME

The Group and the Company participate in a defined contribution scheme which is registered under a Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Schemes Ordinance in December 2000. The assets of the scheme are held separately from those of the Group and the Company, in funds under the control of trustee.

For members of the MPF Scheme, the Group and the Company contribute 5% or HK$1,250 in maximum of relevant payroll costs to the scheme, which contribution is matched by employees.

The total cost charged to the profit or loss of approximately HK$147,000 (2012: HK$125,000) represents contributions paid and payable to the MPF Scheme by the Group in respect of the current year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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39. SHARE OPTION SCHEME

On 22 May 2008, the Company adopted a share option scheme (the "Share Option Scheme"), pursuant to which the board of directors of the Company (the "Board") may, at its discretion, grant options to the eligible participants (as defined in the Share Option Scheme) including employees, directors, shareholders and other person whom the Board considers, in its sole discretion, has contributed or will contribute to the Group. The subscription price for the shares under the Share Option Scheme will be a price determined by the Board in its absolute discretion but shall not be lower than the higher of (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the date of grant, which must be a business day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the 5 trading days immediately preceding the date of grant; and (iii) the nominal value of a share. The maximum number of shares which may be issued upon exercise of all outstanding options granted under the Share Option Scheme and any other share option scheme(s) of the Company must not exceed 30% of the total number of shares in issue from time to time. The number of shares in respect of which options may be granted to any individual in any 12-month period is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to a director, chief executive or substantial shareholder or any of their respective associates in excess of 0.1% of the Company's share capital and with a value in excess of HK$5,000,000 must be approved by the Company's shareholders. Options granted under the Share Option Scheme will entitle the holder to subscribe for shares from the date of grant up to the 10th anniversary of the date of grant. A nominal consideration of HK$1 is payable on acceptance of the grant of an option.

On 28 December 2012, a total of 15,444,600 options were granted to Directors and consultant of the Group pursuant to the Share Option Scheme. The estimated fair value of share options granted on 28 December 2012 is approximately HK$1,881,000, which has been recognised in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2012. The fair value of the share options is determined by Roma.

The inputs into the model as grant date were as follows:

Grant date:	28 December 2012
Valuation date:	28 December 2012
Share price:	HK$0.265
Exercise price:	HK$0.273
Expected volatility:	71.463%
Risk-free rate:	0.62%
Expected dividend yield:	0%
Option period:	10 years
Fair value per option:	HK$0.121778776

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

39. SHARE OPTION SCHEME *(continued)*

Expected volatility was determined by using the historical volatility of the Company's share price over the expected option period. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioral considerations.

As the fair value of the services received could not be estimated reliably by the Company, the fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on Hull White Binomial Option Pricing Model. The contractual life of the share option is used as an input into this mode. Expectations of early exercise multiple are incorporated into the Hull White Binomial Option Pricing Model.

The options granted under the Share Option Scheme are vested immediately.

In respect of the share options exercised during the year, the weighted average share price at dates of exercise is HK$0.65 (2012: HK$Nil).

Details of the terms and movements of the share options granted pursuant to the Share Option Scheme are as follows:

2013

				Number of options		
Category of grantee	**Date of grant**	**Exercise price per share**	**Expiry date**	**Balance as at 1.1.2013**	**Exercise during the year**	**Balance as at 31.12.2013**
Directors						
Mr. So Yuen Chun	28.12.2012	HK$0.273	27.12.2022	4,351,200	–	**4,351,200**
Mr. Yeung Kwok Leung	28.12.2012	HK$0.273	27.12.2022	4,351,200	–	**4,351,200**
Mr. Lam Kwok Hing, Wilfred	28.12.2012	HK$0.273	27.12.2022	1,087,800	(1,087,800)	**–**
Mr. Yeung Wai Hung, Peter	28.12.2012	HK$0.273	27.12.2022	434,400	(434,400)	**–**
Ms. Yuen Wai Man	28.12.2012	HK$0.273	27.12.2022	434,400	–	**434,400**
Mr. Lam Shiu Cheung, Raymond	28.12.2012	HK$0.273	27.12.2022	434,400	(434,400)	**–**
Consultant	28.12.2012	HK$0.273	27.12.2022	4,351,200	–	**4,351,200**
				15,444,600	(1,956,600)	**13,488,000**
Exercisable at the end of the year						**13,488,000**
Weighted average exercise price				0.273	0.273	**0.273**
Weighted average remaining contractual life						**8.99 years**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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39. SHARE OPTION SCHEME *(continued)*

2012

				Number of options		
Category of grantee	**Date of grant**	**Exercise price per share**	**Expiry date**	**Balance as at 1.1.2012**	**Granted during the year**	**Balance as at 31.12.2012**
Directors						
Mr. So Yuen Chun	28.12.2012	HK$0.273	27.12.2022	–	4,351,200	4,351,200
Mr. Yeung Kwok Leung	28.12.2012	HK$0.273	27.12.2022	–	4,351,200	4,351,200
Mr. Lam Kwok Hing, Wilfred	28.12.2012	HK$0.273	27.12.2022	–	1,087,800	1,087,800
Mr. Yeung Wai Hung, Peter	28.12.2012	HK$0.273	27.12.2022	–	434,400	434,400
Ms. Yuen Wai Man	28.12.2012	HK$0.273	27.12.2022	–	434,400	434,400
Mr. Lam Shiu Cheung, Raymond	28.12.2012	HK$0.273	27.12.2022	–	434,400	434,400
Consultant	28.12.2012	HK$0.273	27.12.2022	–	4,351,200	4,351,200
				–	15,444,600	15,444,600
Exercisable at the end of the year						15,444,600
Weighted average exercise price				–	0.273	0.273
Weighted average remaining contractual life						9.99 years

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

40. RELATED PARTY TRANSACTIONS

During the year, the Group and the Company entered into the following transactions with related parties:

(a) Income or expense items:

	The Group	
	2013	2012
	HK$'000	*HK$'000*
Loan interest income from a company with common director	**64**	–
Interest expense to a company with common director	**500**	208
Services fee to a company with common director	**–**	1,350
Commission to a company with common director	**639**	123

The Directors are of the opinion that the transactions were entered into on normal commercial terms and in the ordinary course of the Group's business.

(b) Balances

(i) Included in loan receivables and other receivables were amounts due from a borrower with common director of the Company, of approximately HK$7,500,000 and HK$220,000 (2012: HK$Nil and HK$Nil) respectively.

(ii) The borrowings and interest payable of approximately HK$5,000,000 and HK$208,000 (2012: HK$5,000,000 and HK$208,000) respectively were due to a lender with common director of the Company.

(c) Compensation of key management personnel

The key management of the Group comprises all Directors, details of their remuneration are disclosed in Note 10 to the consolidated financial statements. The remuneration of Directors is determined by the Remuneration Committee having regard to the performance of individuals and market trends.

41. EVENTS AFTER THE REPORTING PERIOD

a) Pursuant to the announcement of the Company dated 18 February 2014, the completion of the placing of the second, third, fourth and fifth tranches of the CB II in the aggregate principal amount of HK$43,200,000 to a subsidiary of Chinese Strategic Holdings Limited (a company listed on the Growth Enterprise Market of the Stock Exchange with stock code 8089) took place on 17 February 2014.

   All the tranches of the CB II in the aggregate principal amount of HK$60,750,000 had been placed to six independent placees and the overall completion of the placing has been taken place.

b) Pursuant to the announcement of the Company dated 25 February 2014, as a result of the completion of the placement of the second, third, fourth and fifth tranches of the CB II, the conversion price of the CB I has been adjusted from HK$0.14 to HK$0.10 per conversion share and such adjustment become effective from 17 February 2014.

SUMMARY OF FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities of the Group for the five financial years ended 31 December 2013, as extracted from the audited consolidated financial statements, is as set out below.

RESULTS

	Year ended 31 December				
	2013	2012	2011	2010	2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	**47,046**	42,224	37,995	18,850	3,845
(Loss) profit for the year attributable to owners of the Company	**(91,105)**	10,324	(49,305)	(33,727)	3,384
	HK cents	*HK cents*	*HK cents*	*HK cents*	*HK cents*
(Loss) earnings per share					
– Basic	**(20.88)**	2.37	(11.71)	(11.84)	1.50
– Diluted	**(20.88)**	2.34	(11.71)	(11.84)	N/A

ASSETS AND LIABILITIES

	At 31 December				
	2013	2012	2011	2010	2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Total assets	**397,933**	453,160	381,627	397,128	232,436
Total liabilities	**(74,615)**	(52,722)	(9,024)	(2,771)	(1,347)
Net assets	**323,318**	400,438	372,603	394,357	231,089