# The Hong Kong Building and Loan Agency Limited

# 香港建屋貸款有限公司

(Stock Code: 145)

ANNUAL REPORT 2014

# CORPORATION INFORMATION

## BOARD OF DIRECTORS

### Executive Directors
Mr. So Yuen Chun
Ms. Diana Liu He
Dr. Li Ai Guo
Mr. Cai Wen Wei

### Non-executive Directors
Mr. Lam Kwok Hing, Wilfred
Mr. Huang Lizhi

### Independent Non-executive Directors
Ms. Yuen Wai Man
Mr. Yeung Wai Hung, Peter
Mrs. Chu Ho Miu Hing

## AUDIT COMMITTEE

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

## NOMINATION COMMITTEE

Ms. Yuen Wai Man *(Chairman)*
Mr. Lam Kwok Hing, Wilfred
Mr. Yeung Wai Hung, Peter
Mrs. Chu Ho Miu Hing

## REMUNERATION COMMITTEE

Ms. Yuen Wai Man *(Chairman)*
Mr. Lam Kwok Hing, Wilfred
Mr. Yeung Wai Hung, Peter
Mrs. Chu Ho Miu Hing

## AUDITOR

HLB Hodgson Impey Cheng Limited

## PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Public Bank (Hong Kong) Limited
China CITIC Bank International Limited
Industrial and Commercial Bank of China
Shanghai Pudong Development Bank

## LEGAL ADVISOR

Troutman Sanders
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 Hong Kong Building and Loan Agency Limited (the "**Company**") together with its subsidiaries (the "**Group**"), is principally engaged in investment holding, treasury investments, provision of loan financing and design and provision of energy saving solutions.

During the year ended 31 December 2014, the Group recorded a revenue of approximately HK$16,423,000, representing a decrease of approximately 65.1% as compared with HK$47,046,000 for the last year. A loss for the year attributable to the owners of the Company of approximately HK$243,371,000 (2013: loss of approximately HK$91,105,000) was recorded which is mainly attributable to the substantial decrease of approximately HK$36,644,000 in interest income from loan receivables due to maturity and repayment of loans during the year ended 31 December 2014, an one-off loss of approximately HK$58,983,000 on disposal of subsidiaries, unrealised losses of approximately HK$20,864,000 recorded on financial assets at fair value through profit or loss in 2014 while an unrealised gain of HK$14,147,000 was recorded in the previous year, administrative and operating expenses of approximately HK$96,024,000 due to transactional expenses and professional fees incurred for the acquisition of Weldtech Technology Co. Limited ("**Weldtech Technology**") and its subsidiary, Haoxin Technology (Shanghai) Company Limited（濠信節能科技（上海）有限公司）("**Haoxin**"), (the "**Weldtech Group**") (the "**Acquisition**") during the year ended 31 December 2014 and finance costs of approximately HK$56,208,000 due to interest amortisation of the convertible bonds and promissory notes issued for the Acquisition.

Of the total revenue, approximately HK$10,402,000 (2013: approximately HK$47,046,000) was generated from the Group's loan financing business which contributed a segment profit of approximately HK$11,257,000 (2013: loss of approximately HK$89,063,000). The profit was mainly attributable to the decrease in impairment loss recognised in respect of loan and loan interest receivables in the year ended 31 December 2014.

With respect to the segment of treasury investments, a segment loss of approximately HK$21,560,000 was recorded for the year ended 31 December 2014, as compared to the segment profit of approximately HK$16,897,000 in last year. The loss recorded for the treasury investments is mainly attributable to the decrease in the share prices of the equity securities held for investments.

With respect to the segment of design and provision of energy saving solutions, a segment loss of approximately HK$17,841,000 was recorded for the year ended 31 December 2014. On 13 June 2014, the Group completed the acquisition of the entire issued capital of Weldtech Technology which is primarily engaged in the design and provision of energy saving solutions and energy monitoring. The Weldtech Group incurred a net loss of HK$34,164,000 during the year ended 31 December 2014 and contributed a loss of HK$21,177,000 to the Group for the period from the acquisition date to 31 December 2014. The Weldtech Group failed to meet the 2014 profit guarantee which is primarily due to the unexpected market conditions in 2014 and the longer-than-expected project cycle.

# MANAGEMENT DISCUSSION AND ANALYSIS

## TOTAL ASSETS AND FOREIGN EXCHANGE EXPOSURE

As at 31 December 2014, the total assets increased to approximately HK$2,431,539,000 (2013: approximately HK$397,933,000). The increase was mainly attributable to intangible assets of HK$860,389,000 and goodwill of HK$1,275,620,000 arising from the Acquisition. All assets were denominated in Hong Kong Dollars and Renminbi save for some bank balances which were denominated in United States Dollars. As the Hong Kong Dollar is pegged to the U.S. Dollar, the Group does not foresee any material exchange risk in this respect. However, the Group is subject to certain foreign exchange impacts caused by the appreciation of Renminbi. The Group has not entered into any significant foreign exchange contract. The management closely monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

As at 31 December 2014, the Group held financial assets at fair value through profit or loss amounting to approximately HK$24,354,000 (2013: approximately HK$92,920,000). The decrease was mainly attributable to a substantial amount of held-for-trading investments in equity securities disposed during the year ended 31 December 2014. 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 2014, the Group held intangible assets amounting to approximately HK$860,389,000 (2013: nil). The intangible assets represent 7 patents related to the "Ultra Performance Plant Control System" ("**UPPC System**") used by the energy saving solutions business.

As at 31 December 2014, the Group held finance lease receivables and loan receivables amounting to approximately HK$27,740,000 (2013: nil) and approximately HK$202,080,000 (2013: approximately HK$248,503,000), respectively.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2014, the Group's cash and bank balances amounted to approximately HK$17,512,000 (2013: approximately HK$3,979,000) and had approximately HK$40,000,000 borrowings (2013: approximately HK$5,000,000), approximately HK$40,000,000 non-convertible bonds (2013: approximately HK$50,000,000), approximately HK$470,506,000 convertible bonds (2013: HK$4,563,000) and approximately HK$192,891,000 promissory notes (2013: nil). The net assets and the net current assets of the Group amounted to approximately HK$1,259,125,000 (2013: approximately HK$323,318,000) and HK$120,736,000 (2013: approximately HK$298,994,000), respectively.

Gearing ratio of the Group as at 31 December 2014, which is calculated as net debts (as calculated by total borrowings less cash and cash equivalents) divided by total capital, was 0.38 (2013: 0.15).

# MANAGEMENT DISCUSSION AND ANALYSIS

## CAPITAL STRUCTURE

As at 31 December 2014, the Company's number of issued ordinary shares was 1,025,749,466 ("**Share(s)**") (31 December 2013: HK$54,058,546.6 divided into 540,585,466 Shares). Pursuant to the Hong Kong Companies Ordinance (Cap. 622), companies incorporated in Hong Kong no longer have an authorized share capital and there is no concept of par value in respect of issued shares with effect from 3 March 2014.

As at 31 December 2014, the Company had HK$1,566,000 convertible bonds in the principal amount of HK$156,600 each with the conversion price of HK$0.10 per share (as adjusted on 17 February 2014) ("**CB I**") outstanding. During the year ended 31 December 2014, 134,676,000 new Shares were issued upon the conversion of CB I. The outstanding CB I may be converted into 15,660,000 Shares.

As at 31 December 2014, the Company had HK$41,850,000 convertible bonds in the principal amount of HK$1,350,000 each with the conversion price of HK$0.135 per share ("**CB II**")outstanding. During the year ended 31 December 2014, 40,000,000 new Shares were issued upon the conversion of CB II. The outstanding CB II could be converted into 310,000,000 Shares.

As at 31 December 2014, the Company had HK$434,980,010 convertible bond A (the "**CB A**") outstanding. During the year ended 31 December 2014, no new Shares were issued. The outstanding CB A could be converted into 543,725,012 Shares at the conversion price of HK$0.80 per share as at 31 December 2014.

As at 31 December 2014, the Company had HK$827,520,000 convertible bond B (the "**CB B**") outstanding. During the year ended 31 December 2014, no new Shares were issued. The outstanding CB B could be converted into 1,034,400,000 Shares at the conversion price of HK$0.80 per share as at 31 December 2014.

## CHARGE ON GROUP ASSETS AND CONTINGENT LIABILITIES

As at 31 December 2014, the Group pledged the bank deposits of approximately HK$254,000 (2013: nil) as the security deposit for the warranty fund of sale of goods.

As at 31 December 2014, the Group did not have material contingent liabilities (2013: nil).

## CAPITAL COMMITMENT

As at 31 December 2014, the Group had capital commitments, which were contracted but not provided for, in respect of construction contract of approximately HK$4,338,000 (2013: nil).

# MANAGEMENT DISCUSSION AND ANALYSIS

## MATERIAL ACQUISITION AND INVESTMENTS

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, (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 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 of the Company (the "**Shareholder(s)**") 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 the Weldtech Group, the Company remained interested in the Weldtech Group as it is optimistic about its growth potential. The Company negotiated with the current shareholders of the Weldtech Group to acquire 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 conditionally agreed to acquire and the Vendors 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 AND INVESTMENTS *(continued)*

Weldtech Technology holds the entire equity interest in 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. 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 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 saving solutions, such as the HVAC airside control optimisation, building automation system, real-time system fault detection and more advanced optimisation algorithms.

The Acquisition constituted a very substantial acquisition for the Company under the Listing Rules and therefore was subject to the reporting, announcement and Shareholders' approval requirement.

An extraordinary general meeting was held on 30 April 2014 in which the Acquisition and transactions contemplated thereunder were approved by Shareholders.

As all the conditions precedent under the Sale and Purchase Agreement have been fulfilled, the Acquisition was completed on 13 June 2014. Upon completion of the Acquisition, convertible bonds including CB A and CB B, promissory notes (including promissory notes A, B and C and consideration shares were issued by the Company to the Vendors at the Consideration (other than the Cash Consideration (as defined below)).

Following the completion of the Acquisition on 13 June 2014, Weldtech Technology became an indirect wholly-owned subsidiary of the Company and the results of the Weldtech Group has been consolidated into the financial statements of the Group.

On 13 June 2014, the Company, the Purchaser and the Vendors entered into a supplemental agreement to amend certain terms of the Sale and Purchase Agreement in relation to the Acquisition (the "**First Supplemental Agreement**").

# MANAGEMENT DISCUSSION AND ANALYSIS

## MATERIAL ACQUISITION AND INVESTMENTS *(continued)*

Pursuant to the Sale and Purchase Agreement, the cash portion of the Consideration (the "**Cash Consideration**"), in the aggregate amount of HK$33,100,000 shall be satisfied by way of cashier orders to the Vendors upon completion of the Acquisition. Upon arm's length negotiations between the parties to the First Supplemental Agreement, it has been agreed that the payment terms of the Cash Consideration shall be revised and the Cash Consideration shall be satisfied by way of cashier orders issued by a licensed bank in Hong Kong from the Purchaser to the Vendors (a) within 3 months upon completion of the Acquisition; or (b) within 30 days upon completion (including Transfer (as defined in the announcement of the Company dated 27 May 2014)), termination or cancellation of the FT Placing (as defined in the sub-section headed "Fund Raising Activities") in accordance with the Placing Agreement (as defined in the sub-section headed "Fund Raising Activities").

On 22 September 2014 (after trading hours), the Company, the Purchaser and the Vendors entered into a second supplemental agreement to the Sale and Purchase Agreement pursuant to which it was agreed that the payment terms of the Cash Consideration of the Sale and Purchase Agreement in relation to the Acquisition shall be further revised and the Cash Consideration shall be satisfied by way of cashier orders issued by a licensed bank in Hong Kong from the Purchaser to the Vendors or their designated person within 9 months upon completion of the Acquisition. On 13 March 2015, the due date for settlement of the Cash Consideration has been further extended to on or before 13 September 2015.

Save for the amendment of the terms in relation to the payment of the Cash Consideration, all terms and conditions of the Sale and Purchase Agreement remain unchanged and continue to be in full force and effect.

On 11 September 2014, the Company, as the assignor, The Building and Loan Agency (Asia) Limited, a wholly-owned subsidiary of the Company, as the assignee (the "**Assignee**") and the relevant holder of the PN A (the "**PN A**", the promissory notes in the aggregate principal amount of HK$474,000,000 for part of the Consideration and shall be due on 31 December 2018) (the "**Note Holder**") entered into a deed of assignment (the "**Deed A**"). The Note Holder was the sole legal and beneficial owner of PN A numbered 004 (the "**Relevant PN A 004**") in the principal amount of HK$197,000,000 issued by the Company. Under and in accordance with the Relevant PN A 004, the Company has unconditionally and irrevocably promised to pay to the Note Holder the sum of HK$197,000,000 on final maturity thereof, being 31 December 2018.

# MANAGEMENT DISCUSSION AND ANALYSIS

## MATERIAL ACQUISITION AND INVESTMENTS *(continued)*

Pursuant to the Deed A, the Company was desirous of transferring, assigning and/or novating all the Company's duties and obligations in and under the Relevant PN A 004, including (but not limited to) the repayment obligation thereof, to the Assignee (collectively, the "**Assignment**"). Pursuant to the Deed A, amongst others, the Company shall procure (i) the Note Holder to surrender to the Assignee the Relevant PN A 004 at completion of the Assignment ("**Completion**"), and (ii) the Assignee to issue new promissory note(s) to the Note Holder (or to any nominee of the Note Holder) in the principal amount of HK$197,000,000 to replace the Relevant PN A 004 as soon as practicable after Completion in accordance with the Deed A.

On 19 November 2014, the Company, as the assignor, the Assignee and the Note Holder entered into a deed of assignment (the "**Deed B**"). The Note Holder was the sole legal and beneficial owner of PN A numbered 002 (the "**Relevant PN A 002**") in the principal amount of HK$177,000,000 issued by the Company. Under and in accordance with the Relevant PN A 002, the Company has unconditionally and irrevocably promised to pay to the Note Holder the sum of HK$177,000,000 on final maturity thereof, being 31 December 2018.

Pursuant to the Deed B, the Company was desirous of transferring, assigning and/or novating all the Company's duties and obligations with respect to the principal amount of HK$150,000,000 in and under the Relevant PN A 002, including (but not limited to) the repayment obligation of that said sum of HK$150,000,000, to the Assignee (collectively, the "**Second Assignment**"). Pursuant to the Deed B, the Assignee is desirous of accepting the Second Assignment in accordance with the terms and conditions of the Deed B, and the Note Holder has no objection to the Second Assignment. Following the Second Assignment, the Assignee shall repay HK$150,000,000 in principal amount of the Relevant PN A 002 to the Note Holder in accordance with the terms of the Relevant PN A 002, while the Company shall remain liable to repay HK$27,000,000, being the remaining principal amount under the Relevant PN A 002, to the Note Holder.

For further details, please refer to the Company's announcements dated 6 December 2013, 30 December 2013, 29 January 2014, 21 February 2014, 24 March 2014, 30 April 2014, 16 June 2014, 11 September 2014, 22 September 2014 and 19 November 2014 and the Company's circular dated 11 April 2014.

# MANAGEMENT DISCUSSION AND ANALYSIS

## FUND RAISING ACTIVITIES

### Placing 2013

On 26 February 2013, 15 March 2013, 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 ("**FTS**") pursuant to which FTS 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 "**Placing 2013**"). The conversion shares would be allotted and issued under the specific mandate to be sought from Shareholders at an extraordinary general meeting to allot and issue up to a maximum of 450,000,000 conversion shares. The Placing 2013 was duly approved by the Shareholders in an extraordinary general meeting of the Company on 5 November 2013. 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 2013 took place on 17 February 2014.

The gross proceeds from the Placing 2013 were approximately HK$60,750,000 and the net proceeds after deducting placing commission and other related expenses were approximately HK$58,400,000. The net proceeds were used (i) as to approximately HK$12,400,000 for overhead expenses of the Company (of which approximately HK$4,200,000 were utilized for staff costs and approximately HK$8,200,000 were to be utilized for administrative expenses and legal & professional fees); (ii) as to approximately HK$5,300,000 for repayment of outstanding indebtedness; (iii) as to approximately HK$6,000,000 to fund the loan financing business of the Company; (iv) as to approximately HK$10,000,000 for investment in the energy saving sector; and (v) the remaining amount of approximately HK$24,700,000 (which had not been fully utilized in the above areas) as treasury investments of the Company by investing in securities.

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, 18 February 2014 and 30 July 2014 as well as the Company's circular dated 21 October 2013.

### Placing 2014

On 27 May 2014, the Company and (i) China Securities (International) Corporate Finance Company Limited; (ii) Pacific Foundation Securities Limited ("**PFS**"); (iii) FTS; (iv) RHB OSK Securities Hong Kong Limited; and (v) Ping An of China Securities (Hong Kong) Company Limited (collectively, the "**Joint Placing Agents**") entered into a placing agreement pursuant to which, the Company conditionally agreed to place, through the Joint Placing Agents on a best effort basis, up to 397,000,000 placing shares in tranches at the placing price of HK$0.8 per placing share, to not less than six placees who and whose beneficial owners are independent third parties to the Company (the "**Placing 2014**").

# MANAGEMENT DISCUSSION AND ANALYSIS

## FUND RAISING ACTIVITIES *(continued)*

### Placing 2014 *(continued)*

The gross proceeds from the Placing 2014 were approximately HK$69,600,000 and the net proceeds after deducting placing commission and other related expenses were approximately HK$65,600,000. The net proceeds were used as to (i) HK$35,600,000 for professional fees and expenses in relation to the Acquisition; and (ii) HK$30,000,000 for general working capital of Weldtech Technology, including applying for the roll out of energy management contract projects and its daily operating expenses.

### Subscription of New Shares under General Mandate

Pursuant to the stock lending and subscription agreement, which was entered into between the Company, a group of shareholders procured by PFS (the "**Other Vendors**"), and PFS, the Other Vendors conditionally agreed to lend or otherwise make available up to 87,000,000 Shares (the "**PF Placing Shares**") to PFS for the purpose of the placing by PFS, and PFS was authorised to deal with the PF Placing Shares in such manner in the placing by PFS under the Placing 2014 as it deems fit and appropriate. The Other Vendors also undertook to subscribe for up to 87,000,000 Shares as is equivalent to the exact number of PF Placing Shares placed, and the subscription was governed and regulated by the provisions under the stock lending and subscription agreement. The Shares subscribed were issued under the general mandate granted to the directors of the Company by the Shareholders at the annual general meeting of the Company held on 21 June 2013.

For further details, please refer to the Company's announcements dated 27 May 2014, 28 May 2014, 6 June 2014 and 16 June 2014.

### Subscription of New Convertible Bond under Specific Mandate

On 27 May 2014, the Company, Sina Winner Investment Limited (a company incorporated in the British Virgin Islands with limited liability and an indirect wholly-owned subsidiary of Chinese Strategic Holdings Limited, a company incorporated in Bermuda with limited liability and whose shares are listed on the Growth Enterprise Market of the Stock Exchange (Stock Code: 8089)) (the "**First Vendor**"), and FTS entered into a convertible bonds lending and subscription agreement pursuant to which, the First Vendor has conditionally agreed to lend or otherwise make the existing convertible bonds in the principal amount of HK$41,850,000 which upon full conversion can be converted into 310,000,000 new shares to be allotted and issued by the Company at the conversion price of HK$0.135 per share available to FTS at the principal amount of the CB II, and FTS may convert the principal amount of the CB II or any part thereof into such number of Shares (the "**CB Lending and Subscription Agreement**") for the purpose of the placing by FTS ("**FT Placing**").

# MANAGEMENT DISCUSSION AND ANALYSIS

## FUND RAISING ACTIVITIES *(continued)*

### Subscription of New Convertible Bond under Specific Mandate *(continued)*

Based on the initial conversion price of HK$0.135 per share of the new convertible bonds, a maximum number of 310,000,000 new conversion shares will be allotted and issued upon exercise of the conversion rights attaching to the new convertible bonds in full.

This placing has been completed on 4 July 2014, in accordance with the terms and conditions of the placing agreement (as revised and supplemented by the supplemental placing agreement dated 16 June 2014) and the CB Lending and Subscription Agreement. An aggregate of 40,000,000 Shares have been successfully placed by the Joint Placing Agents to LA COMPAGNIE FINANCIERE EDMOND DE ROTHSCHILD BANQUE SA and Leighton Deck Limited at the placing price of HK$0.8 per share.

The gross proceeds from the placing of 40,000,000 Shares were approximately HK$32,000,000. The net proceeds, after deducting the placing commission, the bookrunner and FTS praecipium and other related expenses, were approximately HK$26,600,000. The net proceeds were used as to professional fees and expenses in relation to the Acquisition and general working capital of the Group.

Pursuant to the CB Lending and Subscription Agreement, FTS shall subscribe for the new convertible bonds in such principal amount as is equivalent to the aggregate principal amount of the CB II being converted Shares for the purpose of this placing and the Company shall use its best endeavours to ensure the issuance of such new convertible bonds. In the course of placing, FTS has converted the CB II in the principal amount of HK$5,400,000. Pursuant to the CB Lending and Subscription Agreement, FTS shall subscribe for new convertible bonds in the principal amount of HK$5,400,000 which is to be issued by the Company.

Ordinary resolution has been passed at an extraordinary general meeting on 17 September 2014 to approve the specific mandate for allotment and issuance of new conversion shares upon conversion of the new convertible bonds.

Completion of the subscription of CB II took place on 19 September 2014. Based on the initial conversion price of HK$0.135 per share, a maximum number of 40,000,000 Shares will be allotted and issued upon exercise of the conversion rights attaching to the CB II in full, which represent approximately 3.90% of the existing issued share capital of the Company and approximately 3.75% of the issued share capital of the Company as enlarged by the issue of the Shares.

The gross proceeds from the subscription of CB II were HK$26,595,000. The net proceeds from the subscription of CB II (after deducting all related expenses) were approximately HK$26,560,000, and was used as general working capital for Weldtech Technology.

# MANAGEMENT DISCUSSION AND ANALYSIS

## FUND RAISING ACTIVITIES *(continued)*

### Subscription of New Convertible Bond under Specific Mandate *(continued)*

For further details, please refer to the Company's announcements dated 27 May 2014, 28 May 2014, 6 June 2014, 16 June 2014, 4 July 2014, 28 July 2014, 17 September 2014 and 19 September 2014 and circular of the Company dated 1 September 2014.

## STAFF AND REMUNERATION

The Group had 77 (2013: 14) employees as at 31 December 2014 and total staff costs incurred during the year ended 31 December 2014 amounted to approximately HK$19,153,000 (2013: approximately HK$6,475,000). 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

(i) On 22 January 2015, the Company has granted 8,000,000 share options to Ms. Diana Liu He, an executive director of the Company, under the Company's share option scheme adopted on 22 May 2008.

(ii) On 13 March 2015, the due date for settlement of the Cash Consideration in relation to the Sale and Purchase Agreement has been further extended to on or before 13 September 2015.

## OUTLOOK AND PROSPECT

Our loan financing business, which mainly consists of mortgage services, continues to generate interest income for the Group during the year ended 31 December 2014. With the view that the interest rate would continue to increase, 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 will 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. Accordingly, the Company acquired the Weldtech Group. The Management believes that the Acquisition allows the Group to diversify into a new line of business with significant growth potential.

# MANAGEMENT DISCUSSION AND ANALYSIS

## OUTLOOK AND PROSPECT *(continued)*

With respect to our design and provision of energy saving solutions segment, following the completion of the Acquisition in June 2014, the Group will continue to upgrade the UPPC System, which is a software-based energy saving solution and achieves energy saving targets by analyzing real time operation data of each component in the air-conditioning system to calculate the optimal level of each component in the system. Despite the fact that the Weldtech Group missed the 2014 profit guarantee under the Sale and Purchase Agreement, the management is of the view that the Weldtech Group's loss is primarily a result of unexpected market condition in 2014 and the longer-than-expected project cycle. The energy saving industry is identified as one of the key industries and is backed by the PRC government. The PRC government will continue to commit to reduce per unit of GDP in carbon dioxide emissions and target to cut energy intensity by 3.1% according to its 2015 government work report. With the continuous support of the PRC government in the area of energy saving and environment protection and taking full advantage of the government's favorable policies, the management is optimistic about the industry in which the Weldtech Group operates and the future of the UPPC System. Besides, the management of the Group still holds the view that the existing market share is relatively fragmented and the market share for the Weldtech Group has significant growth potential due to a lack of dominant players in the fragmented market. It is expected that the increasing awareness of the energy saving and social responsibility will continue to provide ample opportunities for the UPPC System retrofit in the years to come. The Group is confident about prospectus of the new business line and its significant growth potential and will continue to invest in the energy saving segment in 2015 accordingly. The Company will explore the various opportunity of fund raising including equity or debt financing alternatives. The management expects that the performance of the Weldtech Group will improve in 2015 due to 1) the strengthened management team; 2) the upgraded UPPC technology; 3) the various improvement in internal processes and 4) improvement in market condition with more favourable policies.

# BIOGRAPHICAL DETAILS OF DIRECTORS

## EXECUTIVE DIRECTORS

**Mr. So Yuen Chun** ("**Mr. So**"), aged 43, was appointed as an independent non-executive director of the Company on 15 January 2010 and re-designated as an executive director of the Company 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 20 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.

**Ms. Diana Liu He** ("**Ms. He**"), aged 49, was appointed as an executive director of the Company on 29 July 2014. She has more than 17 years of wealth management and financial service industry experience. Ms. He was the Managing Director of The ASEAN Development Fund, a US Dollar offshore equity fund that targets investment opportunities in infrastructure, energy and natural resources in the ASEAN countries. Previously Ms. He worked for a number of major international investment banks assuming senior executive roles, with responsibilities including developing business strategies, expanding wealth management client base, and overseeing venture capital projects in the Greater China region. Ms. He graduated from Siping Normal University, Siping, China with Bachelor's Degrees in Chemistry and Journalism in 1988, and from Brigham Young University, Laie, Hawaii with a Master's Degree in Business Administration in 1993.

**Dr. Li Ai Guo** ("**Dr. Li**"), aged 37, was appointed as an executive director of the Company on 10 September 2014. He is a director and chief technology officer of Haoxin Technology (Shanghai) Company Limited, a wholly owned subsidiary of the Company. Dr. Li was admitted to the Harbin Institute of Technology in 1996, and completed his bachelor's degree, master's degree and Ph.D. in heating, gas supply, ventilating and air conditioning engineering, and applied computer science, in 2000, 2003 and 2007 respectively.

**Mr. Cai Wen Wei** ("**Mr. Cai**"), aged 40, was appointed as an executive director of the Company on 23 September 2014. He is a financial controller of Haoxin Technology (Shanghai) Company Limited, a wholly owned subsidiary of the Company. Mr. Cai graduated from the Shanghai University International Business School with a bachelor's degree in international finance. Mr. Cai is a member of Chinese Institute of Certified Public Accountant and a member of Hong Kong Institute of Certified Public Accountants. Mr. Cai had worked at the audit department of Ernst & Young, and as a senior audit manager at KPMG. Mr. Cai has accumulated approximately 16 years of relevant experience in the field.

# BIOGRAPHICAL DETAILS OF DIRECTORS

## NON-EXECUTIVE DIRECTORS

**Mr. Lam Kwok Hing Wilfred,** *J.P.* ("**Mr. Lam**"), aged 55, was appointed as an independent non-executive director of the Company on 1 December 2010 and re-designated as a non-executive director of the Company on 21 October 2011. He was also appointed as a member of the audit, nomination and the remuneration committees of the Company, all with effect from 1 December 2010.

Mr. Lam is now a director (previously, group vice president) of 3D-GOLD Jewellery (HK) Limited and an executive director and group vice president of Hong Kong Resources Holdings Company Limited (stock code: 2882), a company listed on the Main Board of The Stock Exchange of Hong Kong (the "**Stock Exchange**"). Mr. Lam is also a chairman and an executive director of Chinese Strategic Holdings Limited (stock code: 8089), a company listed on the Growth Enterprise Market of the Stock Exchange ("**GEM**").

Mr. Lam was initially appointed as an independent non-executive director of National Arts Entertainment and Culture Group Limited (stock code: 8228), a company listed on the GEM of the Stock Exchange, on 13 May 2009 and he resigned from his final positions of vice chairman and non-executive director on 11 July 2014. He was also an independent non-executive director of PME Group Limited (stock code: 379), a company listed on the Main Board of the Stock Exchange from 14 April 2011 to 31 December 2014. He was 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.

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

**Mr. Huang Lizhi** ("**Mr. Huang**"), aged 63, was appointed as a non-executive director of the Company on 7 August 2014. He is a consultant with CITIC International Assets Management Limited ("**CIAM**"). Prior to joining CIAM, Mr. Huang held various positions including Deputy Director in Supreme People's Procuratorate of the People's Republic of China for over 17 years. Mr. Huang has extensive experience in the PRC, in particular, investment experience in environmental friendly businesses.

# BIOGRAPHICAL DETAILS OF DIRECTORS

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Ms. Yuen Wai Man** ("**Ms. Yuen**"), aged 43, 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. Ms. Yuen has worked in accounting and auditing area for over 20 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. She was also appointed as an independent non-executive director of Tai Shing International (Holdings) Limited (stock code: 8103), a company listed on the GEM of the Stock Exchange from 3 April 2014 to 30 December 2014.

**Mr. Yeung Wai Hung, Peter** ("**Mr. Yeung**"), aged 57, was appointed as an independent non-executive director of the Company on 1 February 2011. He was also appointed as a member of the audit, nomination and 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 25 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 GEM of the Stock Exchange.

**Mrs. Chu Ho Miu Hing** ("**Mrs. Chu**"), aged 73, was appointed as an independent non-executive director of the Company on 29 July 2014. She has more than 40 years of experience in the securities industry. Mrs. Chu holds a Bachelor's Degree in Chemistry from Mount Holyoke College and a Bachelor's Degree in Music from New England Conservatory of Music, both in the United States. Mrs. Chu was a Council Member of the Stock Exchange from 1994 to 2000. Mrs. Chu was also a member of the Hong Kong Special Administrative Region Election Committee from 1998 to 2000. She was the vice-chairman of The Chamber of Hong Kong Listed Companies and is now a member of the general committee of the same.

# DIRECTORS' REPORT

The directors of the Company (the "**Directors**") present this report together with the audited consolidated financial statements of the Group for the year ended 31 December 2014 (the "**Year**").

## PRINCIPAL ACTIVITIES

The Group is principally engaged in investment holding, treasury investments, the provision of loan financing and design and provision of energy saving solutions. The principal activities and other particulars of the Company's subsidiaries are set out in note 38 to the consolidated financial statements.

The design and provision of energy saving solutions is a new principal activity of the Group following the acquisition of the Weldtech Group.

## 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 47.

The Directors do not recommend the payment of a final dividend for the Year (2013: 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, as extracted from the audited consolidated financial statements, is set out on page 166.

## EQUIPMENT

Details of movements in property, plant and equipment of the Group and the Company during the Year are set out in note 18 to the consolidated financial statements.

## SHARE CAPITAL

Details of the share capital of the Company are set out in note 41 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 51 and note 42 to the consolidated financial statements, respectively.

# DIRECTORS' REPORT

## SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in note 38 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
Ms. Diana Liu He (appointed on 29 July 2014)
Dr. Li Ai Guo (appointed on 10 September 2014)
Mr. Cai Wen Wei (appointed on 23 September 2014)
Mr. Yeung Kwok Leung (retired on 26 June 2014)

### Non-executive Directors:

Mr. Lam Kwok Hing, Wilfred
Mr. Huang Lizhi (appointed on 7 August 2014)

### Independent Non-executive Directors:

Ms. Yuen Wai Man
Mr. Yeung Wai Hung, Peter
Mrs. Chu Ho Miu Hing (appointed on 29 July 2014)
Mr. Lam Raymond Shiu Cheung (retired on 26 June 2014)

In accordance with Article 110 of the Company's articles of association (the "**Articles of Association**"), Dr. Li Ai Guo, Mr. Cai Wen Wei and Mr. Huang Lizhi will hold office until the forthcoming annual general meeting of the Company (the "**AGM**") and, being eligible, offer themselves for re-election at the forthcoming AGM.

In accordance with Article 120 of the Articles of Association, Mr. So Yuen Chun and Ms. Yuen Wai Man will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming AGM.

None of the Directors proposed for re-election at the forthcoming AGM 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 2014, 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 Shares held | Percentage of the issued number of shares as at 31 December 2014 |
|---|---|---|---|
| Mr. So Yuen Chun | Beneficial interest | 4,351,200 | 0.42% |

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; and (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.

As at the date of this report, a total of 23,444,600 Options have been granted under the scheme mandate limit and the remaining scheme mandate limit is 20,070,286, representing approximately 1.64% 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 01.01.2014 | Granted during the Year | Exercised during the Year | Lapsed during the Year | Cancelled during the Year | Outstanding as at 31.12.2014 | 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 (retired on 26 June 2014) | 28.12.2012 | 4,351,200 | – | 4,351,200 | – | – | – | 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** | | 9,136,800 | – | 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** | | 13,488,000 | – | 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 2014, 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 (Note 2) | Interest of controlled corporation | 102,552,205 (L) | 898,751,162 (L) | 97.61% |
| CITIC Limited (Note 2) | Interest of controlled corporation | 102,552,205 (L) | 898,751,162 (L) | 97.61% |
| China CITIC Bank Corporation Limited (Note 2) | Interest of controlled corporation | 102,552,205 (L) | 898,751,162 (L) | 97.61% |
| CITIC International Financial Holdings Limited (Note 2) | Interest of controlled corporation | 102,552,205 (L) | 898,751,162 (L) | 97.61% |
| CITIC International Assets Management Limited ("**CIAM**") (Note 2) | Beneficial owner | 102,552,205 (L) | 898,751,162 (L) | 97.61% |
| Cheng Lut Tim ("**Mr. Cheng**") (Note 3) | Interest of controlled corporation | 35,597,448 (L) | 383,704,262 (L) | 40.87% |
| Chinese Strategic Holdings Limited ("**Chinese Strategic**") (Note 4) | Interest of controlled corporation | 24,928,000 (L) | 325,660,000 (L)<br>270,000,000 (S) | 34.17% |
| Sina Winner Investment Limited ("**Sina Winner**") (Note 4) | Beneficial owner | 16,000 (L) | 310,000,000 (L)<br>270,000,000 (S) | 30.22% |
| Smart Promise Limited ("**Smart Promise**") (Note 3) | Beneficial owner | 22,679,814 (L) | 210,538,725 (L) | 22.73% |
| Infinite Soar Limited ("**Infinite Soar**") (Note 3) | Beneficial owner | 12,917,634 (L) | 119,915,537 (L) | 12.94% |
| Cross Cone Holdings Limited ("**Cross Cone**") (Note 5) | Beneficial owner | 10,058,005 (L) | 93,369,350 (L) | 10.08% |
| Excel Arts Limited ("**Excel Arts**") (Note 5) | Interest of controlled corporation | 10,058,005 (L) | 93,369,350 (L) | 10.08% |
| Lui Wing Patsie ("**Ms. Lui**") (Note 5) | Interest of controlled corporation | 10,058,005 (L) | 93,369,350 (L) | 10.08% |
| Newmargin Partners Ltd. ("**Newmargin**") (Note 6) | Beneficial owner | 9,860,789 (L) | 91,538,575 (L) | 9.88% |
| Wang Qin (Note 6) | Interest of controlled corporation | 9,860,789 (L) | 91,538,575 (L) | 9.88% |

# 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 Group ("**CECEP**") (Note 7) | Interest of controlled corporation | 7,001,160 (L) | 64,992,387 (L) | 7.01% |
| China Energy Conservation and Environmental Protection (Hong Kong) Investment Co., Ltd. ("**CECEP HK**") (Note 7) | Interest of controlled corporation | 7,001,160 (L) | 64,992,387 (L) | 7.01% |
| Carbon Reserve Investments Limited ("**Carbon Reserve**") (Note 7) | Beneficial owner | 7,001,160 (L) | 64,992,387 (L) | 7.01% |
| Ample Richness Investments Limited ("**Ample Richness**") (Note 3) | Beneficial owner | – (L) | 53,250,000 (L) | 5.19% |

(L) denotes the long position held in the shares
(S) denotes the short position held in the shares

Notes:

(1) As at 31 December 2014, the Company's number of issued Share was 1,025,749,466.

(2) These Shares comprise (i) 102,552,205 consideration shares allotted and issued to CIAM and (ii) 898,751,162 conversion shares allotted and issued to CIAM upon the exercise of the conversion rights attaching to the Convertible Bonds issued to CIAM pursuant to the Sale and Purchase Agreement. 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) 22,679,814 consideration shares allotted and issued to Smart Promise; and (b) 12,917,634 consideration shares allotted and issued to Infinite Soar; and (ii)(a) 53,250,000 conversion shares allotted and issued to Ample Richness upon the exercise of the conversion rights attaching to the convertible bonds issued to Ample Richness; (b) 210,538,725 conversion shares allotted and issued to Smart Promise upon the exercise of the conversion rights attaching to the convertible bonds issued to Smart Promise; and (c) 119,915,537 conversion shares allotted and issued to Infinite Soar upon the exercise of the conversion rights attaching to the convertible bonds issued to Infinite Soar pursuant to the Sale and Purchase Agreement. As at 31 December 2014, (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) convertible bonds of the Company in the principal amount of HK$41,850,000 which can be converted into a maximum of 310,000,000 Shares at the conversion price of HK$0.135 per conversion share and (ii) 16,000 Shares, both held by Sina Winner, which is wholly owned by Chinese Strategic and (iii) convertible bonds of the Company in the principal amount of HK$1,566,000 which can be converted into maximum of 15,660,000 Shares at the conversions price of HK$0.1 per conversion shares held by Sure Venture Investment Limited, which is also wholly owned by Chinese Strategic and (iv) 24,912,000 Shares held by other subsidiaries of Chinese Strategic.

(5) These Shares comprise (i) 10,058,005 consideration shares allotted and issued to Cross Cone and (ii) the 93,369,350 conversion shares allotted and issued to Cross Cone upon the exercise of the conversion rights attaching to the convertible bonds issued to Cross Cone pursuant to the Sale and Purchase Agreement. 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.

(6) These Shares comprise (i) 9,860,789 consideration Shares allotted and issued to Newmargin and (ii) the 91,538,575 conversion shares allotted and issued to Newmargin upon the exercise of the conversion rights attaching to the Convertible Bonds issued to Newmargin pursuant to the Sale and Purchase Agreement. 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.

(7) These Shares comprise (i) 7,001,160 consideration shares allotted and issued to Carbon Reserve and (ii) 64,992,387 conversion shares allotted and issued to Carbon Reserve upon the exercise of the conversion rights attaching to the convertible bonds issued to Carbon Reserve pursuant to the Sale and Purchase Agreement. 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

## 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.

## EMOLUMENT POLICY

Details of the Directors' emoluments and emoluments of the five highest paid individuals in the Group are set out in notes 13 and 14 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 36% of the Group's total revenue while the Group's revenue attributed to the largest customer accounted for approximately 14% 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.

# DIRECTORS' REPORT

## 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 50 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 55 to the consolidated financial statements.

## AUDITORS

The consolidated financial statements for the years ended 31 December 2011, 2012 and 2013 were audited by Messrs. ZHONGLEI (HK) CPA Company Limited ("**ZHONGLEI**").

ZHONGLEI has resigned as auditor of the Company on 5 December 2014. HLB Hodgson Impey Cheng Limited ("**HLB**") has been appointed as auditors of the Company to fill the casual vacancy following the resignation of ZHONGLEI for a term ending upon conclusion of the forthcoming AGM. A resolution to re-appoint HLB as auditors of the Company will be proposed at the forthcoming AGM.

For and on behalf of the Board

**So Yuen Chun**
*Executive Director*

Hong Kong, 27 March 2015

# 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.

## CORPORATE GOVERNANCE CODE

Throughout the Year, the Company applied the principles of and complied with the code provisions of the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Listing Rules of 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.

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 were absent from the last AGM held on 26 June 2014 and the extraordinary general meeting of the Company held on 17 September 2014, due to their other important engagement at the relevant time.

Rule 3.10(1) of the Listing Rules provides that every board of directors of a listed issuer must include at least three independent non-executive directors. Subsequent to the retirement of Mr. Lam Raymond Shiu Cheung on 26 June 2014, the number of independent non-executive Directors had fallen below the minimum number required under Rule 3.10(1) of the Listing Rules. On 29 July 2014, the Company appointed Mrs. Chu Ho Miu Hing as an independent non-executive Director and the requirement under Rule 3.10(1) of the Listing Rules was fulfilled since then.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" 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 nine Directors, with four executive Directors, two non-executive Directors and three independent non-executive Directors. The composition of the Board is as follows:

| | |
|---|---|
| **Executive Directors:** | Mr. So Yuen Chun<br>Ms. Diana Liu He<br>Dr. Li Ai Guo<br>Mr. Cai Wen Wei |
| **Non-executive Directors:** | Mr. Lam Kwok Hing, Wilfred<br>Mr. Huang Lizhi |
| **Independent Non-executive Directors:** | Ms. Yuen Wai Man<br>Mr. Yeung Wai Hung, Peter<br>Mrs. Chu Ho Miu Hing |

The brief biographical details of the Directors are set out in the "BIOGRAPHICAL DETAILS OF DIRECTORS" section from pages 15 to 17. 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 brought independent judgment on issues relating to the Group's strategy, performance and management process. They have also taken up various roles in the Board committees.

As at the date of this report, the Company had three independent non-executive Directors representing 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, 11 Board meetings, 1 AGM and 3 extraordinary general meetings were held. Details of the attendance of the Directors are as follows:

| | Attendance of | | |
|---|---|---|---|
| | **Board meetings** | **Annual general meeting** | **Extraordinary general meetings** |
| **Executive Directors:** | | | |
| Mr. So Yuen Chun | 11/11 | 1/1 | 3/3 |
| Ms. Diana Liu He (appointed on 29 July 2014) | 5/6 | N/A | 1/1 |
| Dr. Li Ai Guo (appointed on 10 September 2014) | 3/3 | N/A | 0/1 |
| Mr. Cai Wen Wei (appointed on 23 September 2014) | 2/2 | N/A | N/A |
| Mr. Yeung Kwok Leung (retired on 26 June 2014) | 4/4 | 1/1 | 2/2 |
| **Non-executive Directors:** | | | |
| Mr. Lam Kwok Hing, Wilfred | 8/11 | 0/1 | 3/3 |
| Mr. Huang Lizhi (appointed on 7 August 2014) | 5/5 | N/A | 0/1 |
| **Independent Non-executive Directors:** | | | |
| Mr. Yeung Wai Hung, Peter | 9/11 | 0/1 | 3/3 |
| Ms. Yuen Wai Man | 10/11 | 1/1 | 3/3 |
| Mrs. Chu Ho Miu Hing (appointed on 29 July 2014) | 6/6 | N/A | 1/1 |
| Mr. Lam Raymond Shiu Cheung (retired on 26 June 2014) | 4/4 | 1/1 | 2/2 |

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.

# CORPORATE GOVERNANCE REPORT

## BOARD OF DIRECTORS *(continued)*

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.

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.

# CORPORATE GOVERNANCE REPORT

## 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 AGM, 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 Directors 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 AGM 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 30 to 32 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 Chu Ho Miu Hing.

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;

# CORPORATE GOVERNANCE REPORT

## BOARD COMMITTEES *(continued)*

### Nomination Committee *(continued)*

(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 measurable 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.

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

During the Year, 5 Nomination Committee meetings were held to make recommendations to the Board on the appointment and re-appointment of 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)* | 5/5 |
| Mr. Lam Kwok Hing, Wilfred | 3/5 |
| Mr. Yeung Wai Hung, Peter | 4/5 |
| Mr. Lam Raymond Shiu Cheung (retired on 26 June 2014) | 1/1 |
| Mrs. Chu Ho Miu Hing (appointed on 29 July 2014) | 3/3 |

### 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 Chu Ho Miu Hing. 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, 5 Remuneration Committee meetings were held to review the remuneration packages of the Board and recommend remuneration proposals for newly appointed Directors.

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

| **Remuneration Committee member** | **Number of Remuneration Committee meetings attended/eligible to attend** |
|---|---|
| Ms. Yuen Wai Man *(Chairman)* | 5/5 |
| Mr. Lam Kwok Hing, Wilfred | 3/5 |
| Mr. Yeung Wai Hung, Peter | 4/5 |
| Mrs. Chu Ho Miu Hing (appointed on 29 July 2014) | 3/3 |
| Mr. Lam Raymond Shiu Cheung (retired on 26 June 2014) | 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 13 to the consolidated financial statements.

### Audit Committee

As at the date of this report, the Audit Committee comprises three members, of which the majority are independent non-executive Directors; namely, Messrs. Yuen Wai Man, Lam Kwok Hing, Wilfred and Yeung Wai Hung, Peter. 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.

During the Year, the Audit Committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2013 and the interim financial report for the six months ended 30 June 2014, including the accounting principles and practice adopted by the Group.

The audited final results for the Year has been reviewed by the Audit Committee.

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;

# CORPORATE GOVERNANCE REPORT

## BOARD COMMITTEES *(continued)*

### Audit Committee *(continued)*

(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;

(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, 4 Audit Committee meetings were held.

# CORPORATE GOVERNANCE REPORT

## BOARD COMMITTEES *(continued)*

### Audit Committee *(continued)*

During the meetings held in 2014, the Audit Committee had performed the work as summarised below:

(i) recommended to the Board for the change and 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 2013 and recommended the same to the Board for approval;

(iii) reviewed the financial statements for the six months ended 30 June 2014 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)* | 4/4 |
| Mr. Lam Kwok Hing, Wilfred | 4/4 |
| Mr. Yeung Wai Hung, Peter | 3/4 |
| Mr. Lam Raymond Shiu Cheung (retired on 26 June 2014) | 1/1 |

## 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, HLB, are set out in the Independent Auditor's Report on pages 45 and 46.

# 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 2014, 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 | 1,000 |
| Non-audit services regarding the acquisition of a subsidiary (as defined in note 23) | 1,684 |
| Total | 2,684 |

# 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 |
| Ms. Diana Liu He | B |
| Dr. Li Ai Guo | B |
| Mr. Cai Wen Wei | B |
| Mr. Lam Kwok Hing, Wilfred | A, B |
| Mr. Huang Lizhi | B |
| Ms. Yuen Wai Man | A, B |
| Mr. Yeung Wai Hung, Peter | B |
| Mrs. Chu Ho Miu Hing | A |
| Mr. Yeung Kwok Leung (retired on 26 June 2014) | B |
| Mr. Lam Raymond Shiu Cheung (retired on 26 June 2014) | 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 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.

# CORPORATE GOVERNANCE REPORT

## SHAREHOLDERS' RIGHTS *(continued)*

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.

### 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.

### 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 AGM is a valuable forum for the Board to communicate directly with the Shareholders. The Directors participated in the 2014 AGM and answered questions from the Shareholders. The AGM circular was distributed to all Shareholders at least 20 clear business days prior to the 2014 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.

# INDEPENDENT AUDITORS' REPORT

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

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

**TO THE SHAREHOLDERS OF**
**THE HONG KONG BUILDING AND LOAN AGENCY LIMITED**
*(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 47 to 165, which comprise the consolidated and the company statements of financial position as at 31 December 2014, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

## AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 80 of Schedule 11 to the Hong Kong Companies Ordinance (Cap. 622), 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 AUDITORS' REPORT

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

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

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2014, 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.

## OTHER MATTER

The consolidated financial statements of the Group and of the Company for the year ended 31 December 2013 were audited by another auditor who expressed an unmodified opinion on those statements on 28 March 2014.

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

**Hon Koon Fai, Alex**
Practising Certificate Number: P05029

Hong Kong, 27 March 2015

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2014

| | Notes | 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|---|
| **Revenue** | 8 | **16,423** | 47,046 |
| Cost of operation | | **(8,636)** | (4,548) |
| **Gross profit** | | **7,787** | 42,498 |
| Other income | 9 | **3,227** | 72 |
| Reversal of/(impairment) loss recognised in respect of loan receivables | | **5,680** | (33,712) |
| Fair value change on contingent consideration payables | | **52,856** | – |
| Fair value changes on financial assets at fair value through profit or loss | | **(20,864)** | 14,147 |
| Loss on disposal of financial assets at fair value through profit or loss | | **(281)** | (426) |
| Impairment loss recognised in respect of loan interest receivables | | **(1,250)** | (88,729) |
| Loss on disposal of subsidiaries | | **(58,983)** | – |
| Gain on disposal of available-for-sale investments | | **–** | 3,240 |
| Impairment loss of recognised in respect of available-for-sale investments | | **(259)** | – |
| Selling expenses | | **(4,449)** | – |
| Administrative and operating expenses | | **(176,271)** | (25,235) |
| **Loss from operation** | | **(192,807)** | (88,145) |
| Finance costs | 10 | **(59,958)** | (718) |
| **Loss before taxation** | 12 | **(252,765)** | (88,863) |
| Taxation | 11 | **9,394** | (2,242) |
| **Loss for the year** | | **(243,371)** | (91,105) |
| **Other comprehensive income/(loss) for the year, net of tax** | | | |
| *Items that may be reclassified subsequently to profit or loss:* | | | |
| Exchange differences on translating foreign operations | | **337** | – |
| Reclassification adjustment for the cumulative gain included in profit or loss upon disposal of available-for-sale investments, net of tax | | **–** | (1,761) |
| Other comprehensive income/(loss) for the year, net of tax | | **337** | (1,761) |
| **Total comprehensive loss for the year, net of tax** | | **(243,034)** | (92,866) |
| **Loss for the year attributable to owners of the Company** | | **(243,371)** | (91,105) |
| **Total comprehensive loss attributable to owners of the Company** | | **(243,034)** | (92,866) |
| | | ***HK cents*** | *HK cents* |
| **Loss per share** | 16 | | |
| Basic and diluted | | **(29.59)** | (20.88) |

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

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2014

| | Notes | 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Intangible assets | 17 | **860,389** | – |
| Property, plant and equipment | 18 | **4,879** | 1,141 |
| Construction in progress | 19 | **10,531** | – |
| Goodwill | 20 | **1,275,620** | – |
| Mortgage loans | 21 | **–** | 7,000 |
| Loan receivables | 22 | **30,251** | 60,487 |
| Deposit paid for acquisition of a subsidiary | 23 | **–** | 10,000 |
| Available-for-sale investments | 24 | **–** | 259 |
| Finance lease receivables | 29 | **18,877** | – |
| | | **2,200,547** | 78,887 |
| **Current assets** | | | |
| Mortgage loans | 21 | **–** | 21,346 |
| Financial assets at fair value through profit or loss | 25 | **24,354** | 92,920 |
| Inventories | 26 | **678** | – |
| Loan receivables | 22 | **171,829** | 188,016 |
| Trade and bills receivables | 27 | **1,203** | – |
| Prepayments, deposits and other receivables | 28 | **4,131** | 10,483 |
| Finance lease receivables | 29 | **8,863** | – |
| Amounts due from customers under construction contracts | 30 | **301** | – |
| Tax recoverable | | **1,867** | 2,302 |
| Pledged bank deposits | 31 | **254** | – |
| Cash and bank balances | 31 | **17,512** | 3,979 |
| | | **230,992** | 319,046 |
| **Current liabilities** | | | |
| Trade and other payables | 32 | **17,575** | 15,052 |
| Amounts due to shareholders | 33 | **52,681** | – |
| Borrowings | 34 | **40,000** | 5,000 |
| | | **110,256** | 20,052 |
| **Net current assets** | | **120,736** | 298,994 |
| **Total assets less current liabilities** | | **2,321,283** | 377,881 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2014

| | Notes | **2014** **HK$'000** | 2013 HK$'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Non-convertible bonds | 35 | **40,000** | 50,000 |
| Convertible bonds | 36 | **470,506** | 4,563 |
| Promissory notes | 44 | **192,891** | – |
| Contingent consideration payables | 45 | **93,103** | – |
| Deferred tax liabilities | 37 | **265,658** | – |
| | | **1,062,158** | 54,563 |
| **Net assets** | | **1,259,125** | 323,318 |
| **Capital and reserves** | | | |
| Share capital | 41 | **667,298** | 54,059 |
| Reserves | | **591,827** | 269,259 |
| **Total equity** | | **1,259,125** | 323,318 |

Approved by the Board on 27 March 2015 and signed on its behalf by:

**Mr. So Yuen Chun**
*Director*

**Ms. Diana Liu He**
*Director*

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

# STATEMENT OF FINANCIAL POSITION

At 31 December 2014

| | Notes | 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 18 | **908** | 16 |
| Deposit paid for acquisition of a subsidiary | 23 | **–** | 10,000 |
| Investments in subsidiaries | 38 | **392** | 392 |
| | | **1,300** | 10,408 |
| **Current assets** | | | |
| Prepayment, deposits and other receivables | 28 | **296** | 293 |
| Amounts due from subsidiaries | 39 | **1,992,457** | 365,651 |
| Tax recoverable | | **1,867** | 1,867 |
| Cash and bank balances | 31 | **1,093** | 2,495 |
| | | **1,995,713** | 370,306 |
| **Current liabilities** | | | |
| Other payables and accruals | 32 | **4,528** | 6,172 |
| Borrowings | 34 | **–** | 5,000 |
| Amount due to a shareholder | 33 | **236** | – |
| Amount due to a subsidiary | 40 | **64** | 360 |
| | | **4,828** | 11,532 |
| **Net current assets** | | **1,990,885** | 358,774 |
| **Total assets less current liabilities** | | **1,992,185** | 369,182 |
| **Non-current liabilities** | | | |
| Non-convertible bonds | 35 | **40,000** | 50,000 |
| Convertible bonds | 36 | **470,506** | 4,563 |
| Promissory notes | 44 | **71,827** | – |
| Contingent consideration payables | 45 | **93,103** | – |
| | | **675,436** | 54,563 |
| **Net assets** | | **1,316,749** | 314,619 |
| **Capital and reserves** | | | |
| Share capital | 41 | **667,298** | 54,059 |
| Reserves | 42 | **649,451** | 260,560 |
| **Total equity** | | **1,316,749** | 314,619 |

Approved by the Board on 27 March 2015 and signed on its behalf by:

**Mr. So Yuen Chun**
*Director*

**Ms. Diana Liu He**
*Director*

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

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

| | | | Reserves | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital *HK$'000* | Share premium *HK$'000* | Share capital reserve *HK$'000* | Share options reserve *HK$'000* | Convertible bonds reserve *HK$'000* | Convertible bond options reserve *HK$'000* | Investment revaluation reserve *HK$'000* | Exchange reserve *HK$'000* | Retained profits/ (Accumulated losses) *HK$'000* | Total *HK$'000* |
| At 1 January 2013 | 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 loss for the year | | | | | | | | | | |
| 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 loss for the year | – | – | – | – | – | – | (1,761) | – | (91,105) | (92,866) |
| Issuance of shares upon exercise of share option (Note 51) | 196 | 577 | – | (239) | – | – | – | – | – | 534 |
| Issuance of convertible bonds upon the exercise of convertible bond options (Note 36(a)) | – | – | – | – | 1,971 | (1,953) | – | – | – | 18 |
| Issuance of convertible bonds upon placing (Note 36(b)) | – | – | – | – | 4,539 | – | – | – | – | 4,539 |
| Issuance of shares upon conversion of convertible bonds (Note 36) | 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 |
| At 1 January 2014 | 54,059 | 59,058 | 270,186 | 1,642 | 2,455 | 11,994 | – | – | (76,076) | 323,318 |
| Loss for the year | – | – | – | – | – | – | – | – | (243,371) | (243,371) |
| Other comprehensive income for the year | – | – | – | – | – | – | – | 337 | – | 337 |
| Total comprehensive income/(loss) for the year | – | – | – | – | – | – | – | 337 | (243,371) | (243,034) |
| Transition to no par value regime on 3 March 2014 (Note 41(i)) | 329,244 | (59,058) | (270,186) | – | – | – | – | – | – | – |
| Issuance of shares upon exercise of share options (Note 51) | 5,325 | – | – | (1,642) | – | – | – | – | – | 3,683 |
| Issuance of convertible bonds (Note 36(b)) | – | – | – | – | 10,715 | – | – | – | – | 10,715 |
| Issuance of convertible bonds upon the exercise of convertible bond options (Note 36(a)) | – | – | – | – | 11,994 | (11,994) | – | – | – | – |
| Issuance of shares upon conversion of convertible bonds (Note 36) | 30,870 | – | – | – | (13,376) | – | – | – | – | 17,494 |
| Issuance of shares upon placing (Note 41) | 101,600 | – | – | – | – | – | – | – | – | 101,600 |
| Issuance of consideration shares (Note 41(vi)) | 146,200 | – | – | – | – | – | – | – | – | 146,200 |
| Issuance of convertible bonds for acquisition of a subsidiary (Note 36(c)) | – | – | – | – | 899,149 | – | – | – | – | 899,149 |
| **At 31 December 2014** | **667,298** | **–** | **–** | **–** | **910,937** | **–** | **–** | **337** | **(319,447)** | **1,259,125** |

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

| | Note | 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Loss before taxation | | **(252,765)** | (88,863) |
| Adjustments for: | | | |
| Finance costs | 10 | **59,958** | 5,266 |
| Depreciation of property, plant and equipment | | **1,582** | 100 |
| Impairment loss recognised in respect of available-for-sales investments | | **259** | – |
| Impairment loss recognised in respect of loan receivables | | **–** | 33,712 |
| Impairment loss recognised in respect of loan interest receivables | | **1,250** | 88,729 |
| Reversal of impairment loss in respect of loan receivables | | **(5,680)** | – |
| Reversal of impairment loss in respect of loan interest receivables | | **(471)** | (70) |
| Gain on disposal of available-for-sale investments | | **–** | (3,240) |
| Loss on disposal of financial assets at fair value through profit or loss | | **281** | 426 |
| Fair value changes on financial assets at fair value through profit or loss | | **20,864** | (14,147) |
| Fair value changes on contingent consideration payables | 45 | **(52,856)** | – |
| Loss on disposal of property, plant and equipment | | **128** | – |
| Other interest income | | **(20)** | – |
| Amortisation of intangible assets | | **29,512** | – |
| Loss on disposal of subsidiaries | 47 | **58,983** | – |
| **Operating (loss)/profit before working capital changes** | | **(138,975)** | 21,913 |
| (Increase)/decrease in mortgage loans | | **(31,676)** | 4,735 |
| Decrease/(increase) in financial assets at fair value through profit or loss | | **2,652** | (65,218) |
| (Increase)/decrease in loan receivables | | **(10,264)** | 39,277 |
| Increase in prepayments, deposits and other receivables | | **(9,808)** | (26,994) |
| Increase/(decrease) in trade and other payables | | **52,025** | (3,236) |
| Increase in amount due from customers under construction contracts | | **(301)** | – |
| Increase in trade and bills receivables | | **(338)** | – |
| Increase in finance lease receivables | | **(275)** | – |
| Decrease in inventories | | **13** | – |
| Increase in construction in progress | | **(1,338)** | – |
| Increase in amounts due to shareholders | | **1,254** | – |
| Cash used in operations | | **(137,031)** | (29,523) |
| Interest paid | | **(5,890)** | (4,667) |
| Income tax paid | | **(190)** | (3,293) |
| **Net cash used in operating activities** | | **(143,111)** | (37,483) |

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

| | Note | 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|---|
| **Cash flows from investing activities** | | | |
| Deposit paid for acquisition of a subsidiary | | **–** | (10,000) |
| Proceeds from disposal of available-for-sale investments | | **–** | 4,029 |
| Purchase of property, plant and equipment | | **(6,689)** | (1,190) |
| Other interest income received | | **20** | – |
| Proceeds from disposal of subsidiaries | 47 | **418** | – |
| Net cash inflow from acquisition of a subsidiary | 46 | **12,839** | – |
| Proceeds from disposal of property, plant and equipment | | **26** | – |
| **Net cash generated from/(used in) investing activities** | | **6,614** | (7,161) |
| **Cash flows from financing activities** | | | |
| Proceeds from issuance of non-convertible bonds | | **–** | 20,000 |
| Proceeds from issuance of convertible bonds | | **43,200** | 19,742 |
| New loan raised | | **–** | 2,700 |
| Repayment of borrowings | | **(5,000)** | (2,700) |
| Proceeds from issuance of shares upon exercise of share options | | **3,683** | 534 |
| Proceeds from issuance of options to subscribe convertible bonds | | **13,468** | – |
| Proceeds from issue of non-convertible bonds | | **3,000** | – |
| Repayment for issue of non-convertible bonds | | **(10,000)** | – |
| Proceeds from issue of shares upon placing | | **101,600** | – |
| Increase in pledged bank deposits | | **(254)** | – |
| **Net cash generated from financing activities** | | **149,697** | 40,276 |
| **Net increase/(decrease) in cash and cash equivalents** | | **13,200** | (4,368) |
| **Cash and cash equivalents at beginning of year** | | **3,979** | 8,347 |
| Effect of exchange rate changes on the balance of cash held in foreign currencies | | **333** | – |
| Cash and cash equivalents at end of year | | **17,512** | 3,979 |
| **Analysis of balances of cash and cash equivalents** | | | |
| Cash and bank balances | | **17,512** | 3,979 |

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 1. CORPORATE INFORMATION

The Hong Kong Building and Loan Agency Limited (the "Company") was 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 registered office of the Company is Unit F, 7/F, China Overseas Building, 139 Hennessy Road, Wanchai, Hong Kong.

The consolidated financial statements are presented in Hong Kong dollars ("HK$") which is the same as the functional currency of the Company and rounded to the nearest thousand (HK$'000), unless otherwise stated.

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

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

In the current year, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations (the "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") which are effective for the Group's financial period beginning 1 January 2014. A summary of the new HKFRSs are set out as below:

| | |
|---|---|
| HKFRS 10, HKFRS 12 and HKAS 27 (Amendments) | Investment Entities |
| HKAS 32 (Amendments) | Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities |
| HKAS 36 (Amendments) | Recoverable Amount Disclosures for Non-Financial Assets |
| HKAS 39 (Amendments) | Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting |
| HK(IFRIC) – Int 21 | Levies |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

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

### Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*

The Group has applied the amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities for the first time in the current year. The amendments to HKAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'.

The amendments have been applied retrospectively. The Group has assessed whether certain of its financial assets and financial liabilities qualify for offset based on the criteria set out in the amendments and concluded that the application of the amendments has had no impact on the amounts recognised in the Group's consolidated financial statements.

### Amendments to HKAS 36 *Recoverable Impairment of Assets: Recoverable Amount Disclosure for Non-Financial Assets*

The Group has applied the amendments to HKAS 36 Recoverable Amount Disclosures for Non–Financial Assets for the first time in the current year. 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 applicable to when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by HKFRS 13 Fair Value Measurements.

The application of these amendments has had no material impact on the disclosures in the Group's consolidated financial statements.

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

The Group has applied the amendments to HKFRS 10, HKFRS 12 and HKAS 27 Investment Entities for the first time in the current year. 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 consolidated and separate financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

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

### Amendments to HKFRS 10, HKFRS 12 and HKAS 27 *Investment Entities* *(continued)*

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 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.

As the Company is not an investment entity (assessed based on the criteria set out in HKFRS 10 as at 1 January 2014), the application of the amendments has had no impact on the disclosures or the amounts recognised in the Group's consolidated financial statements.

### Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*

The Group has applied the amendments to HKAS 39 Novation of Derivatives and Continuation of Hedge Accounting for the first time in the current year. The amendments to HKAS 39 provide relief from the requirement to discontinue hedge accounting when a derivative designated as a hedging instrument is novated under certain circumstances. The amendments also clarify that any change to the fair value of the derivative designated as a hedging instrument arising from the novation should be included in the assessment and measurement of hedge effectiveness.

The amendments have been applied retrospectively. As the Group does not have any derivatives that are subject to novation, the application of these amendments has had no impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.

### HK(IFRIC) – Int 21 *Levies*

The Group has applied HK(IFRIC) – Int 21 Levies for the first time in the current year. HK(IFRIC) – Int 21 addresses the issue as to when to recognise a liability to pay a levy imposed by a government. The Interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The Interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

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

### HK(IFRIC) – Int 21 *Levies* *(continued)*

HK(IFRIC) – Int 21 has been applied retrospectively. The application of this Interpretation has had no material impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.

The application of these amendments has had no material impact on the disclosures in the Group's consolidated financial statements.

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

| | |
|---|---|
| HKFRSs (Amendments) | Annual Improvements 2010 – 2012 Cycle[2] |
| HKFRSs (Amendments) | Annual Improvements 2011 – 2013 Cycle[1] |
| HKFRSs (Amendments) | Annual Improvements 2012 – 2014 Cycle[4] |
| HKFRS 7 and HKFRS 9 (Amendments) | Mandatory Effective Date of HKFRS 9 and and Transition Disclosure[6] |
| HKFRS 9 | Financial Instruments[6] |
| HKFRS 10, HKFRS 12 and HKAS 28 (2011) | Investment Entities: Applying the Consolidation Exception[4] |
| HKFRS 11 (Amendments) | Accounting for Acquisitions of Interests in Joint Operations[4] |
| HKFRS 14 | Regulatory Deferral Accounts[3] |
| HKFRS 15 | Revenue from Contracts with Customers[5] |
| HKAS 1 (Amendments) | Disclosure Initiative[4] |
| HKAS 16 and HKAS 38 (Amendments) | Clarification of Acceptable Methods of Depreciation and Amortisation[4] |
| HKAS 16 and HKAS 41 (Amendments) | Agriculture: Bearer Plants[4] |
| HKAS 19 (2011) (Amendments) | Defined Benefit Plans: Employee Contributions[1] |
| HKAS 27 (Amendments) | Equity Method in Separate Financial Statements[4] |
| HKFRS 10 and HKAS 28 (Amendments) | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3] |

1 *Effective for annual periods beginning on or after 1 July 2014*
2 *Effective for annual periods beginning on or after 1 July 2014, with limited exceptions*
3 *Effective for first annual HKFRS financial statements beginning on or after 1 January 2016, with earlier application permitted*
4 *Effective for annual periods beginning on or after 1 January 2016*
5 *Effective for annual periods beginning on or after 1 January 2017*
6 *Effective for annual periods beginning on or after 1 January 2018*

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

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

### HKFRS 9 – *Financial Instruments*

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

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* to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent reporting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting 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.

- 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. Previously, 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.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

### Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011) – *Investment Entities: Applying the Consolidation Exception*

The narrow-scope amendments to HKFRS 10, HKFRS 12 and HKAS 28 introduce clarifications to the requirements when accounting for investment entities. The amendments also provide relief in particular circumstances, which will reduce the costs of applying the Standards.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

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

**Amendments to HKFRS 11 – *Accounting for Acquisition of Interests in Joint Operation***

HKFRS 11 addresses the accounting for interests in joint ventures and joint operations. The amendments add new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions.

**HKFRS 14 *Regulatory Deferral Accounts***

HKFRS 14 permits first-time adopters to continue to recognise amounts related to rate regulation in accordance with their previous Generally Accepted Accounting Principles ("GAAP") requirements when they adopt HKFRS. However, to enhance comparability with entities that already apply HKFRS and do not recognise such amounts, the standard requires that the effect of rate regulation must be presented separately from other items. An entity that already presents HKFRS financial statements is not eligible to apply the standard.

The amendments are effective for annual periods beginning on or after 1 January 2016 with earlier application permitted.

**HKFRS 15 *Revenue from contracts with customers***

The core principle of HKFRS 15 is for companies to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively and improve guidance for multiple-element arrangements.

HKFRS 15 is effective for annual periods beginning on or after 1 January 2017 with earlier application permitted.

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

The amendments to HKAS 1 are designed to further encourage companies to apply professional judgement in determining what information to disclose in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendments clarify that companies should use professional judgement in determining where and in what order information is presented in the financial disclosures.

The amendments can be applied immediately and become mandatory for annual periods beginning on or after 1 January 2016.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

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

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

HKAS 16 and HKAS 38 both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset. The amendments clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.

The amendments also clarify that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.

The amendments are effective for annual periods beginning on or after 1 January 2016 with earlier application permitted.

### Amendments to HKAS 16 and HKAS 41 *Agriculture: Bearer Plants*

HKAS 41 currently requires all biological assets related to agricultural activity to be measured at FVLCTS. This is based on the principle that the biological transformation that these assets undergo during their lifespan is best reflected by FV measurement. However, there is a subset of biological assets, known as bearer plants, which are used solely to grow produce over several periods. At the end of their productive lives they are usually scrapped. Once a bearer plant is mature, apart from bearing produce, its biological transformation is no longer significant in generating future economic benefits. The only significant future economic benefits it generates come from the agricultural produce that it creates.

The amendments state that bearer plants should be accounted for in the same way as PPE in HKAS 16 because their operation is similar to that of manufacturing. Consequently, the amendments include them within the scope of HKAS 16, instead of HKAS 41. The produce growing on bearer plants will remain within the scope of HKAS 41.

Entities are required to apply the amendments for annual periods beginning on or after 1 January 2016. Earlier application is permitted.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

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

### Amendments to HKAS 19 (2011) *Employee Benefits*

The issuance of HKAS 19 (2011) *Employee Benefits* completes improvements to the accounting requirements for pensions and other post-employment benefits and HKAS 19 (2011) makes important improvements by:

- Eliminating an option to defer the recognition of gains and losses, known as the 'corridor method', improving comparability and faithfulness of presentation.
- Streamlining the presentation of changes in assets and liabilities arising from defined benefit plans, including requiring remeasurements to be presented in OCI, thereby separating those changes from changes that many perceive to be the result of an entity's day-to-day operations.
- Enhancing the disclosure requirements for defined benefit plans, providing better information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in those plans.

### Amendments to HKAS 27 *Equity Method in Separate Financial Statements*

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The amendments are effective for annual periods beginning on or after 1 January 2016 with earlier application permitted.

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Statement of compliance

The consolidated 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 include applicable disclosures required by the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Statement of compliance *(continued)*

In accordance with the transitional and saving arrangements for Part 9 of the Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit" as set out in sections 76 to 87 of Schedule 11 to the Hong Kong Companies Ordinance (Cap. 622), the consolidated financial statements are prepared in accordance with the applicable requirements of the predecessor Companies Ordinance (Cap. 32) for this financial year and the comparative period.

### Basis of preparation

The consolidated financial statements have been prepared under the historical cost basis, except for certain financial instruments which 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 these characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in HKAS 2 or value in use in HKAS 36.

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

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (a) Basis of consolidation

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

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

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

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

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

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

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly venture.

### (b) Investments in subsidiaries

Investments 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.

### (c) Business combination

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (c) Business combination *(continued)*

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

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

(ii) liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the Group are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date; and

(iii) assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (c) Business combination *(continued)*

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

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (d) Goodwill

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

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

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

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

### (e) Impairment of non-financial assets (other than goodwill)

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (e) Impairment of non-financial assets (other than goodwill) *(continued)*

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

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

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

### (f) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivables and represents amounts receivable for goods provided in the normal course of business, net of discounts and sales related taxes.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (f) Revenue recognition *(continued)*

*Sale of goods*

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

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

*Rendering of service*

Revenue from provision of service is recognised when services are provided.

*Finance lease interest income*

Finance lease interest income is recognised on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

*Interest income*

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 estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (f) Revenue recognition *(continued)*

*Dealings income*

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.

*Dividend income*

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 measured reliably).

### (g) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred.

Depreciation is provided on the straight line method so as to write down the cost of property, plant and equipment to their realisable value over their anticipated useful lives at the following annual rates:

| | |
|---|---|
| Leasehold improvement: | Over the shorter the term of the lease or 20% |
| Office equipment: | 25% |
| Furniture and fixture: | 20% |
| Computer: | 25% |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (g) Property, plant and equipment *(continued)*

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed and adjusted if appropriate, at least at each financial year end.

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item at the date of transfer is recognised in other comprehensive income and accumulated in property revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to retained profits.

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 derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the year in which the item is derecognised.

### (h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average costing method. Net realisable value is based on estimated selling price less any estimated costs to be incurred to completion on sale.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (i) Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as the amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under trade and other receivables.

### (j) Leasing

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

*The Group as lessor*

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (j) Leasing *(continued)*

*The Group as lessee*

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight line basis.

### (k) Foreign currencies translation

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are re-translated at the rates prevailing on the end of the reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are re-translated 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 re-translated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements. Exchange differences arising on the re-translation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the re-translation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (k) Foreign currencies translation *(continued)*

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of the reporting period. Exchange differences arising are recognised in the exchange reserve.

### (l) Retirement benefits costs

(i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Payments to Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance are made based on a percentage of the employee's basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme.

(iii) Payments to the state-managed retirement benefit schemes ("PRC Scheme") are charged as expenses when employees have rendered services entitling them to the contributions.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (m) 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 profit before tax as reported in the consolidated statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from 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 and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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 realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (m) Taxation *(continued)*

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

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

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

### (n) Intangible assets

*Intangible assets acquired in a business combination*

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (o) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

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

*Financial assets*

The Group's financial assets are classified into financial assets at FVTPL, available-for-sale financial assets ("AFS financial assets") and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (p) 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.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

AFS financial assets

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

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including mortgage loans, loan receivables, trade and bills receivables, deposit and other receivables, finance lease receivables, amounts due from subsidiaries, pledged bank deposits, and cash and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy-impairment of financial assets below).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (p) Financial instruments *(continued)*

*Financial assets (continued)*

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

A financial asset other than a financial asset held for trading may be designated as at 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (p) Financial instruments *(continued)*

*Financial assets (continued)*

Financial assets at FVTPL *(continued)*

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss 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 5(c) to the consolidated financial statements.

*Impairment of financial assets*

Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

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

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period of 30 days, observable changes in national or local economic conditions that correlate with default on receivables.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (p) Financial instruments *(continued)*

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

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

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

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

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 2014

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (p) Financial instruments *(continued)*

*Financial liabilities and equity instruments*

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

An equity instrument is any contract that evidences a residual interest in the asset of the Group after deducting all of its liabilities. The Group's financial liabilities are classified into other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Other financial liabilities

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

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

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.

Interest expense is recognised on an effective interest basis other than those financial liabilities designated as at FVTPL.

Convertible bonds

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 of 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 2014

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (p) Financial instruments *(continued)*

*Financial liabilities and equity instruments (continued)*

Convertible bonds *(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 2014

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (p) Financial instruments *(continued)*

*Derecognition*

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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 accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, 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.

Financial liabilities are derecognised when the obligation specific in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liabilities derecognised and the consideration paid and payable is recognised in profit or loss.

Offsetting of financial instruments

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (q) 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.

### (r) Provisions

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (s) Cash and cash equivalents

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

For the purpose of the Group and Company statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

### (t) Related party transactions

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

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

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

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

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

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

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

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

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (t) Related party transactions *(continued)*

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

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

### (u) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. Contingent assets are not recognised but are disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

### (v) Segment reporting

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies which are described in Note 3 to the consolidated financial statements, management has made certain key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that may have a significant risk in causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

### (a) Income taxes

Significant judgement is required in determining the provision for income tax. 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 determinations are made.

### (b) Impairment allowances on loan receivables

The Group has established impairment allowances in respect of estimated incurred loss in mortgage loans and loan receivables. The allowances on loan receivables are set out in Note 22 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.

During the year ended 31 December 2014, no impairment loss in respect of loan receivables (2013: HK$33,712,000) had been recognised in the consolidated statement of profit or loss and other comprehensive income.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

### (b) Impairment allowances on loan receivables *(continued)*

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.

### (c) Impairment loss recognised in respect of amounts due from subsidiaries

The Group uses assumptions that are mainly based on market conditions existing at the end of each reporting period.

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 2014, the carrying amount of amounts due from subsidiaries were approximately HK$1,992,457,000 (2013: HK$365,651,000). Impairment loss of approximately HK$271,000 (2013: HK$112,213,000) has been recognised in statement of profit or loss during the year ended 31 December 2014

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

### (d) Impairment loss recognised in respect of available-for-sale investments

The Group follows the guidance of HKAS 39 to determine whether an available-for-sale investments are 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. Impairment loss on available-for-sale investments of approximately HK$259,000 (2013: Nil) has been recognised during the year ended 31 December 2014.

### (e) Impairment of intangible assets

Determine whether intangible assets are impaired requires estimation of the value in use. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value.

The carrying amounts of intangible assets at the end of the reporting period were approximately HK$860,389,000 (2013: Nil) and no impairment loss was recognised for the year (2013: Nil). Details of the impairment loss calculation are provided in Note 17 to the consolidated financial statements.

### (f) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation requires the Group estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate the present value.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

### (a) Categories of financial instruments

**The Group**

| | 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|
| **Financial assets** | | |
| Financial assets at FVTPL | **24,354** | 92,920 |
| Loan and receivables (including cash and cash equivalents) | **252,044** | 290,821 |
| Available-for-sale investments | **–** | 259 |
| | **276,398** | 384,000 |
| **Financial liabilities** | | |
| Amortised costs | | |
| Other financial liabilities | **149,809** | 70,052 |
| Promissory notes | **192,891** | – |
| Convertible bonds | **470,506** | 4,563 |
| | **813,206** | 74,615 |
| At fair value | | |
| Contingent consideration payables | **93,103** | – |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

### (a) Categories of financial instruments *(continued)*

**The Company**

| | **2014** | 2013 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Financial assets** | | |
| Loan and receivables | | |
| (including cash and cash equivalent) | **1,993,653** | 368,149 |
| **Financial liabilities** | | |
| Amortised cost | | |
| Other financial liabilities | **44,828** | 61,532 |
| Promissory notes | **71,827** | – |
| Convertible bonds | **470,506** | 4,563 |
| | **587,161** | 66,095 |
| At fair value | | |
| Contingent consideration payables | **93,103** | – |

### (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, pledged bank deposits, cash and bank balances, trade and other payables, borrowings, amounts due to shareholders, non-convertible bonds, contingent consideration payables, promissory notes and convertible bonds. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

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

*Market risk*

The Group's and the Company's activities expose them primarily to the financial risks of changes in foreign exchange risk, interest rate risk and other price risk (the prices of held-for-trading equity investments and available-for-sale investments).

Market risk exposures are measured by sensitivity analysis. There has been no change to the Group's exposure to market risk or the manner in which it manages and measures the risk.

(i) Foreign exchange risk

The Group and the Company operates in Hong Kong and the PRC is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to US dollars and Renminbi ("RMB"). Foreign exchange risk arises from the foreign currency denomination of commercial transactions, assets and liabilities. The Group has no significant direct exposure to foreign currencies as most of the commercial transactions, assets and liabilities are denominated in a currency same as the functional currency of each entity of the Group.

(ii) Interest rate risk

The Group is also exposed to cash flow interest rate risk mainly in relation to 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, loan receivables, borrowings, non-convertible bonds, promissory notes and convertible bonds.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

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

*Market risk (continued)*

(ii) Interest rate risk *(continued)*

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for financial instruments at the end of reporting period. The analysis is prepared assuming the structured loan and variable-rate mortgage loans outstanding at the end of the reporting period were outstanding for the whole period. A 100 basis point for the period increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's pre-tax loss for the year would increase/decrease by approximately HK$1,824,000 (2013: HK$1,709,000).

(ii) 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 analyses below have been determined based on the exposure to price risk at the end of reporting period.

If market prices of held-for-trading equity investments have been 20% (2013: 20%) higher/lower, loss after tax for the year ended 31 December 2014 would decrease/increase by approximately HK$4,067,000 (2013: loss after tax decrease/increase by approximately HK$15,518,000).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

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

*Credit risk*

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations at 31 December 2014 and 31 December 2013 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. 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 review the recoverable amount of each individual mortgage loan, loan receivable and finance lease receivables 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, Nil and 86% (2013: 99% and 71%) of the total gross mortgage loans and loan receivables respectively was due from zero and one customers (2013: two and one customers) of the Group's money lending business. The finance lease receivables arising from design and provision of energy saving solutions business, 34% of the finance lease receivables were due from three customers. 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 loan receivables and finance lease receivables are sufficient to cover the carrying amount of loan receivables and finance lease receivables as at 31 December 2014.

*Liquidity risk*

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

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

*Liquidity risk (continued)*

The following table details the Group 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.

**The Group**

| | Weighted average interest rate | Repayable on demand or less than 1 year | 1-2 years | 2-5 years | Total Over 5 years | Total undiscounted cash flows | Total carrying amount |
|---|---|---|---|---|---|---|---|
| | % | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **31 December 2014** | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | |
| Trade and other payables | – | 17,128 | – | – | – | 17,128 | 17,128 |
| Amounts due to shareholders | 14.00 | 52,681 | – | – | – | 52,681 | 52,681 |
| Borrowings | 12.00 | 40,000 | – | – | – | 40,000 | 40,000 |
| Non-convertible bonds | 8.00 | 3,200 | 3,200 | 9,600 | 43,200 | 59,200 | 40,000 |
| Promissory notes | 15.40 | – | – | 342,131 | – | 342,131 | 192,891 |
| Convertible bonds | 15.57 | – | 43,573 | 96,897 | 1,414,000 | 1,554,470 | 470,506 |
| | | 113,009 | 46,773 | 448,628 | 1,457,200 | 2,065,610 | 813,206 |
| **31 December 2013** | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | |
| Trade and other payables | – | 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 2014

## 5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

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

*Liquidity risk (continued)*

**The Company**

| | Weighted average interest rate | Repayable on demand or less than 1 year | 1-2 years | 2-5 years | Total Over 5 years | Total undiscounted cash flows | Total carrying amount |
|---|---|---|---|---|---|---|---|
| | *%* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **31 December 2014** | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | |
| Other payables and accruals | **–** | **4,528** | **–** | **–** | **–** | **4,528** | **4,528** |
| Amount due to a subsidiary | **–** | **64** | **–** | **–** | **–** | **64** | **64** |
| Amount due to a shareholder | **–** | **236** | **–** | **–** | **–** | **236** | **236** |
| Non-convertible bonds | **8.00** | **3,200** | **3,200** | **9,600** | **43,200** | **59,200** | **40,000** |
| Promissory notes | **15.40** | **–** | **–** | **127,400** | **–** | **127,400** | **71,827** |
| Convertible bonds | **15.57** | **–** | **43,573** | **96,897** | **1,414,000** | **1,554,470** | **470,506** |
| | | **8,028** | **46,773** | **233,897** | **1,457,200** | **1,745,898** | **587,161** |
| **31 December 2013** | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | |
| 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 2014

## 5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

### (c) Fair values of financial instrument

The fair value of financial assets and financial liabilities are determined as follows:

(i) The fair value of financial assets and financial liabilities with standard terms and conditions and traded in active markets are determined with reference to quoted market bid prices and ask prices respectively, and

(ii) The fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models (e.g. discounted cash flow analysis using observable and/or unobservable inputs).

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

(i) Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets and liabilities.

(ii) Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

(iii) Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

### (c) Fair values of financial instrument *(continued)*

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

| Financial assets/ financial liabilities | Fair value as at 31 December 2014 | Fair value as at 31 December 2013 | Fair value hierarchy | Valuation techniques and key inputs | Significant unobservable inputs |
|---|---|---|---|---|---|
| Listed equity securities classified as investment held for trading | **Assets approximately HK$24,354,000** | Assets approximately HK$92,920,000 | Level 1 | Quoted bid prices in an active market | N/A |
| Contingent consideration payables | **Liabilities approximately HK$93,103,000** | Liabilities approximately Nil | Level 3 | Discounted cash flow method was used to capture the present value of the expected future economic benefits that will flow out of the Group arising from the contingent consideration | Discounted rate of 14.5% determined using a Capital Asset Pricing Model and the Probability adjustment on the occurrence of the expected event |

**Fair value hierarchy as at 31 December 2014**

**The Group**

| | Level 1 *HK$'000* | Level 2 *HK$'000* | Level 3 *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Financial assets at FVTPL | | | | |
| Equity securities listed in Hong Kong | 24,354 | – | – | 24,354 |
| **Financial liabilities** | | | | |
| Contingent consideration payables | – | – | 93,103 | 93,103 |
| Convertible bonds | – | – | 497,293 | 497,293 |
| Promissory notes | – | – | 199,084 | 199,084 |
| | – | – | 789,480 | 789,480 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

### (c) Fair values of financial instrument *(continued)*

Fair value hierarchy as at 31 December 2013

**The Group**

| | Level 1<br>*HK$'000* | Level 2<br>*HK$'000* | Level 3<br>*HK$'000* | Total<br>*HK$'000* |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Financial assets at FVTPL | | | | |
| Equity securities listed in Hong Kong | 92,920 | – | – | 92,920 |

**Fair value hierarchy as at 31 December 2014**

**The Company**

| | **Level 1**<br>***HK$'000*** | **Level 2**<br>***HK$'000*** | **Level 3**<br>***HK$'000*** | **Total**<br>***HK$'000*** |
|---|---|---|---|---|
| **Financial liabilities** | | | | |
| Contingent consideration payables | **–** | **–** | **93,103** | **93,103** |
| Convertible bonds | **–** | **–** | **497,293** | **497,293** |
| Promissory notes | **–** | **–** | **74,133** | **74,133** |
| | **–** | **–** | **664,529** | **664,529** |

Except as disclosed as above, the Directors consider the carrying amounts of financial assets and financial liabilities recorded at amortised costs in the consolidated financial statements approximates to their fair values.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 6. 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, amounts due to shareholders, non-convertible bonds, promissory notes 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, amounts due to shareholders, non-convertible bonds, promissory notes 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:

| | **2014** | 2013 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Amounts due to shareholders (Note 33) | **52,681** | – |
| Borrowings (Note 34) | **40,000** | 5,000 |
| Non-convertible bonds (Note 35) | **40,000** | 50,000 |
| Convertible bonds (Note 36) | **470,506** | 4,563 |
| Promissory notes (Note 44) | **192,891** | – |
| Less: cash and cash equivalents (including pledged bank deposits) | **(17,766)** | (3,979) |
| Net debt | **778,312** | 55,584 |
| Total equity | **1,259,125** | 323,318 |
| Total capital | **2,037,437** | 378,902 |
| Gearing ratio | **38%** | 15% |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 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 organized 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
- design and provision of energy saving solutions

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

### Segment revenue and results

| | Loan financing | | Treasury investments | | Design and provision of energy saving solutions | | Unallocated | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 | **2014** | 2013 | **2014** | 2013 | **2014** | 2013 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| **Revenue** | | | | | | | | | | |
| External sales | **10,402** | 47,046 | **–** | – | **6,021** | – | **–** | – | **16,423** | 47,046 |
| **Results** | | | | | | | | | | |
| Segment results | **11,257** | (89,063) | **(21,560)** | 16,897 | **(17,841)** | – | **–** | – | **(28,144)** | (72,166) |
| Unallocated corporate expenses | | | | | | | **(159,116)** | (15,981) | **(159,116)** | (15,981) |
| Unallocated corporate income | | | | | | | **839** | 2 | **839** | 2 |
| Loss on disposal of subsidiaries | | | | | | | **(58,983)** | – | **(58,983)** | – |
| Impairment loss recognised in respect of available-for-sale investments | | | | | | | **(259)** | – | **(259)** | – |
| Fair value change on contingent consideration payables | | | | | | | **52,856** | – | **52,856** | – |
| Finance costs | **–** | – | **–** | – | **(3,336)** | – | **(56,622)** | (718) | **(59,958)** | (718) |
| Loss before taxation | | | | | | | | | **(252,765)** | (88,863) |
| Taxation | | | | | | | | | **9,394** | (2,242) |
| Loss for the year | | | | | | | | | **(243,371)** | (91,105) |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 7. SEGMENT INFORMATION *(continued)*

Revenue reported was generated from external customers. There were no inter-segment sales for the year (2013: Nil).

Segment results represent the profit/(loss) by each segment without allocation of centralised administration costs such as certain other income, directors' emoluments, staff salaries, operating lease payments and certain legal and professional fees. This is the measure reported to the CODM for the purpose of resource allocation and assessment of segment performance.

### Segment assets and liabilities

| | Loan financing | | Treasury investments | | Design and provision of energy saving solutions | | Consolidated | |
|---|---|---|---|---|---|---|---|---|
| | **2014** **HK$'000** | 2013 HK$'000 | **2014** **HK$'000** | 2013 HK$'000 | **2014** **HK$'000** | 2013 HK$'000 | **2014** **HK$'000** | 2013 HK$'000 |
| **Assets** | | | | | | | | |
| Segment assets | **205,168** | 284,236 | **24,354** | 95,914 | **2,197,997** | – | **2,427,519** | 380,150 |
| Unallocated corporate assets | | | | | | | **4,020** | 17,783 |
| | | | | | | | **2,431,539** | 397,933 |
| **Liabilities** | | | | | | | | |
| Segment liabilities | **40,710** | 50,818 | **–** | – | **66,493** | – | **107,203** | 50,818 |
| Unallocated corporate liabilities | | | | | | | **1,065,211** | 23,797 |
| | | | | | | | **1,172,414** | 74,615 |

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

- all assets are allocated to reportable segments other than corporate financial assets;
- all liabilities are allocated to reportable segments other than corporate financial liabilities, deferred tax liabilities, convertible bonds, promissory notes and contingent consideration payables.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 7. SEGMENT INFORMATION *(continued)*

### Other segment information

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

| | Loan financing | | Treasury investments | | Design and provision of energy saving solutions | | Unallocated | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 | **2014** | 2013 | **2014** | 2013 | **2014** | 2013 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Interest income | **10,402** | 47,046 | **–** | – | **–** | – | **–** | – | **10,402** | 47,046 |
| Interest expenses classified in: | | | | | | | | | | |
| – cost of operation | **(4,035)** | (4,548) | **–** | – | **–** | – | **–** | – | **(4,035)** | (4,548) |
| – finance costs | **–** | – | **–** | – | **(3,336)** | – | **(56,622)** | (718) | **(59,958)** | (718) |
| Reversal of impairment loss recognised in respect of loan interest receivables | **471** | 70 | **–** | – | **–** | – | **–** | – | **471** | 70 |
| Reversal of/(impairment) loss recognised in respect of loan receivables | **5,680** | (33,712) | **–** | – | **–** | – | **–** | – | **5,680** | (33,712) |
| Impairment loss recognised in respect loan interest receivables | **(1,250)** | (88,729) | **–** | – | **–** | – | **–** | – | **(1,250)** | (88,729) |
| Loss on disposal of financial assets at fair value through profit of loss | **–** | – | **(281)** | (426) | **–** | – | **–** | – | **(281)** | (426) |
| 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 | **–** | – | **(20,864)** | 14,147 | **–** | – | **–** | – | **(20,864)** | 14,147 |
| Impairment loss recognised in respect of available-for-sale investments | **–** | – | **–** | – | **–** | – | **(259)** | – | **(259)** | – |
| Loss on disposal of subsidiaries | **–** | – | **–** | – | **–** | – | **(58,983)** | – | **(58,983)** | – |
| Fair value change on contingent consideration payables | **–** | – | **–** | – | **–** | – | **52,856** | – | **52,856** | – |
| Capital expenditure | | | | | | | | | | |
| – others | **–** | – | **–** | – | **(3,553)** | – | **(3,136)** | – | **(6,689)** | – |
| Depreciation of property, plant and equipment | **–** | – | **–** | – | **(633)** | – | **(949)** | – | **(1,582)** | – |
| Amortisation of intangible assets | **–** | – | **–** | – | **–** | – | **(29,512)** | – | **(29,512)** | – |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 7. SEGMENT INFORMATION *(continued)*

### Geographical information

The Group operates in two principal geographical areas – Hong Kong and the People's Republic of China (the "PRC").

The Group's revenue from external customers and information about its non-current assets by geographical location are detailed below:

| | Revenue from external customers | | Non-current assets | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| The PRC | **6,021** | – | **2,169,388** | – |
| Hong Kong | **10,402** | 47,046 | **31,159** | 78,887 |
| | **16,423** | 47,046 | **2,200,546** | 78,887 |

### Information about major customers

Included in the Group's revenue of approximately HK$16,423,000 (2013: HK$47,046,000), the revenue of approximately HK$2,264,000 (2013: HK$30,107,000) which arose from one (2013: one) customer of the design and provision of energy saving solutions business (2013: Loan financing business) which contributed 10% or more to the Group's revenue for the year. No other single customer contributed 10% or more to the Group's revenue for the year ended 31 December 2014.

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

| | **2014** | 2013 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Customer A | **–** | 30,107 |
| Customer B | **2,264** | – |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 8. REVENUE

Revenue which is also the Group turnover, represents interest income from loan financing, treasury investments and income from design and provision of energy saving and solutions.

An analysis of the Group's revenue by principal activities are as follows:

| | **2014** **HK$'000** | 2013 HK$'000 |
|---|---|---|
| Loan financing: | | |
| Interest on mortgage loans | **3,342** | 2,909 |
| Interest on loan receivables | **7,060** | 44,137 |
| | **10,402** | 47,046 |
| Design and provision of energy saving solutions: | | |
| Sale of goods | **1,728** | – |
| Sale of goods under finance lease | **4,293** | – |
| | **6,021** | – |
| | **16,423** | 47,046 |

## 9. OTHER INCOME

| | **2014** **HK$'000** | 2013 HK$'000 |
|---|---|---|
| Service income | **839** | – |
| Reversal of impairment loss in respect of loan interest receivables | **471** | 70 |
| Bank interest income | **20** | – |
| Interest income on finance lease receivables | **1,744** | – |
| Others | **153** | 2 |
| | **3,227** | 72 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 10. FINANCE COSTS

| | **2014** | 2013 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Interest expense on borrowings | **3,731** | 599 |
| Interest expense on securities trading accounts | **19** | 68 |
| Imputed interest charged on promissory notes | **19,301** | – |
| Imputed interest charged on convertible bonds | **36,907** | 51 |
| | **59,958** | 718 |

## 11. TAXATION

| | **2014** | 2013 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Current taxation – Hong Kong** | | |
| Provision for the year | **–** | 1,914 |
| Under/(over) provision in prior year | **625** | (20) |
| **Deferred taxation** | | |
| (Credit)/charge for the year | **(10,019)** | 348 |
| | **(9,394)** | 2,242 |

The Group is subject to income tax on an entity basis on profit arising in or derived from the jurisdictions in which members of the Group are domiciled and operates.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 11. TAXATION *(continued)*

### (i) Hong Kong Profit Tax

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

### (ii) PRC Enterprise Income Tax

The subsidiary of the Group established in the PRC is generally subject to PRC Enterprise Income Tax on its taxable income at an income tax rate of 25%. The Company's subsidiary in the PRC is qualified as an High Technology Enterprise from 1 January 2012 and enjoy PRC Enterprise Income Tax rate of 15% from the year 2012 to 2014.

Reconciliation between tax expenses and accounting profit at applicable tax rates:

| | **2014** | | 2013 | |
|---|---|---|---|---|
| | ***HK$'000*** | ***%*** | *HK$'000* | *%* |
| Loss before taxation | **(252,765)** | | (88,863) | |
| Tax calculated at the rates applicable to the tax jurisdiction concerned | **(41,706)** | **(16.5)** | (14,662) | (16.5) |
| Tax effect non-taxable income | **(13,977)** | **(5.5)** | (726) | (0.8) |
| Tax effect non-deductible expenses | **49,992** | **19.8** | 925 | 1.0 |
| Utilisation of tax losses previously not recognised | **–** | **–** | (2,260) | (2.5) |
| Tax effect of temporary differences | **(10,019)** | **(3.9)** | 348 | 0.4 |
| Tax effect of unused tax losses not recognised | **5,691** | **2.3** | 18,637 | 20.9 |
| Under/(over) provision of profit tax for prior year | **625** | **0.2** | (20) | (0.1) |
| Taxation (credit)/charges for the year | **(9,394)** | **(3.7)** | 2,242 | 2.4 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 12. LOSS BEFORE TAXATION

The Group's loss for the year is arrived at after charging:

| | **2014** | 2013 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Staff costs (including Directors' remuneration (Note 13) | | |
| – Directors' fee | **2,306** | 630 |
| – Salaries, bonus and wages | **15,079** | 5,698 |
| – Contribution to retirement benefits schemes | **1,768** | 147 |
| | **19,153** | 6,475 |
| Amortisation of intangible assets | **29,512** | – |
| Depreciation of property, plant and equipment | **1,582** | 100 |
| Cost of inventories sold | **4,600** | – |
| Auditors' remuneration | | |
| – audit services | **1,000** | 400 |
| – non-audit services | **1,684** | 25 |
| Operating lease payments | **3,818** | – |
| Loss on disposal of property, plant and equipment | **128** | – |
| Legal and professional fees | **14,080** | 9,776 |
| Referral fee for acquisition of a subsidiary | **86,660** | – |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 13. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of eleven (2013: six) Directors are as follows:

**Year ended 31 December 2014**

| | Directors' fees *HK$'000* | Basic salaries, allowances and other benefits *HK$'000* | Contributions to retirement benefit schemes *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|
| **Executive Directors** | | | | |
| Mr. So Yuen Chun | – | 1,800 | 34 | 1,834 |
| Mr. Yeung Kwok Leung (retired on 26 June 2014) | – | 1,012 | 16 | 1,028 |
| Ms. Diana Liu He (appointed on 29 July 2014) | 1,189 | – | – | 1,189 |
| Dr. Li Ai Guo (appointed on 10 September 2014) | 74 | 293 | 30 | 397 |
| Mr. Cai Wen Wei (appointed on 23 September 2014) | 65 | 228 | 26 | 319 |
| | 1,328 | 3,333 | 106 | 4,767 |
| **Non-Executive Directors** | | | | |
| Mr. Lam Kwok Hing, Wilfred | 480 | – | – | 480 |
| Mr. Huang Lizhi (appointed on 7 August 2014) | 96 | – | – | 96 |
| | 576 | – | – | 576 |
| **Independent Non-Executive Directors** | | | | |
| Ms. Yuen Wai Man | 120 | – | – | 120 |
| Mr. Yeung Wai Hung, Peter | 120 | – | – | 120 |
| Mr. Lam Raymond Shiu Cheung (retired on 26 June 2014) | 60 | – | – | 60 |
| Mrs. Chu Ho Miu Hing (appointed on 29 July 2014) | 102 | – | – | 102 |
| | 402 | – | – | 402 |
| **Total** | 2,306 | 3,333 | 106 | 5,745 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 13. DIRECTORS' EMOLUMENTS *(continued)*

Year ended 31 December 2013

| | Directors' fees *HK$'000* | Basic salaries, allowances and other benefits *HK$'000* | Contributions to retirement benefit schemes *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|
| **Executive Directors** | | | | |
| Mr. So Yuen Chun | – | 1,800 | 30 | 1,830 |
| Mr. Yeung Kwok Leung | – | 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 | 120 | – | – | 120 |
| Mr. Lam Raymond Shiu Cheung | 120 | – | – | 120 |
| | 360 | – | – | 360 |
| Total | 630 | 3,600 | 60 | 4,290 |

There were no arrangements under which a Director waived or agreed to waive any emoluments during the years ended 31 December 2014 and 2013. Apart from Directors, the Group has not classified any other person as chief executives during the years ended 31 December 2014 and 2013.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 14. EMPLOYEES' EMOLUMENTS

### (a) Five highest paid individuals

Of the five individuals with the highest emoluments in the Group, four (2013: two) were Directors whose emoluments are included in Note 13. The aggregate of the emoluments in respect of the remaining one (2013: three) individual, included one (2013: three) of senior management, were as follows:

| | **2014** *HK$'000* | 2013 *HK$'000* |
|---|---|---|
| Salaries, bonus and other benefits | **707** | 1,061 |
| Contributions to retirement benefits scheme | **11** | 43 |
| | **718** | 1,104 |

The emoluments were within the following band:

| | **Number of individuals** | |
|---|---|---|
| | **2014** | 2013 |
| **HK$** | | |
| Nil – 1,000,000 | **1** | 3 |

### (b) Senior management of the Company

The emoluments of the senior management of the Company are within the following bands:

| | **Number of individuals** | |
|---|---|---|
| | **2014** | 2013 |
| **HK$** | | |
| Nil – 1,000,000 | **1** | 3 |

During the year ended 31 December 2014 and 2013, no emoluments were paid by the Group to any of the highest paid individuals and senior management as an inducement to joining the Group or as compensation for loss of office.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 15. DIVIDEND

The Directors do not recommend payment of any dividend for the year (2013: Nil).

## 16. LOSS PER SHARE

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

| | **2014** | 2013 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Loss** | | |
| Loss attributable to the owners of the Company for the purpose of basic and diluted loss per share | **(243,371)** | (91,105) |

| | **2014** | 2013 |
|---|---|---|
| | ***'000*** | *'000* |
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purpose of basic and diluted loss per share | **822,496** | 436,231 |

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

Note: The computation of diluted loss per share for the year ended 31 December 2014 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 17. INTANGIBLE ASSETS

### The Group

| | Patent<br>*HK$'000* |
|---|---|
| **Cost** | |
| At 1 January 2013, 31 December 2013 and 1 January 2014 | – |
| Acquisition through business combination | 889,901 |
| **At 31 December 2014** | **889,901** |
| **Accumulated amortisation and impairment** | |
| At 1 January 2013, 31 December 2013 and 1 January 2014 | – |
| Amortisation expenses | 29,512 |
| **At 31 December 2014** | **29,512** |
| **Carrying amounts** | |
| **At 31 December 2014** | **860,389** |
| At 31 December 2013 | – |

Note:

(a) The intangible assets represent 7 patents regarding the acquired and owned "Ultra Performance Plant Control System" ("UPPC") for its novelty and industrial applicability in the PRC.

(b) The patents for UPPC system's useful life used in the calculation of amortisation is 16.3 years.

(c) The valuation of the patent is based on the relief-from-royalty method and uses cash flow projections based on financial estimates covering a ten-year period, the expected sales deriving from the patents in provision and design of energy system CGU and the pre-tax discount rate used is 18.67% per annum. The cash flows beyond the ten-year period are extrapolated using a steady 3% growth rate per annum. Management has considered the above assumptions and valuation and also taken into account the business plan going forward.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 18. PROPERTY, PLANT AND EQUIPMENT

### The Group

| | Leasehold Improvement *HK$'000* | Office Equipment *HK$'000* | Furniture and fixtures *HK$'000* | Computer *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 January 2013 | – | 19 | 47 | 287 | 353 |
| Additions | 1,100 | 90 | – | – | 1,190 |
| At 31 December 2013 and 1 January 2014 | 1,100 | 109 | 47 | 287 | 1,543 |
| Additions | 4,695 | 1,672 | 106 | 216 | 6,689 |
| Disposal | – | (153) | – | (1) | (154) |
| Acquisition of subsidiaries | 177 | 179 | – | 844 | 1,200 |
| Disposal of subsidiaries | (3,170) | (130) | – | – | (3,300) |
| Exchange differences | 1 | 1 | – | 12 | 14 |
| **At 31 December 2014** | **2,803** | **1,678** | **153** | **1,358** | **5,992** |
| **Accumulated depreciation** | | | | | |
| At 1 January 2013 | – | 15 | 27 | 260 | 302 |
| Charge for the year | 61 | 9 | 9 | 21 | 100 |
| At 31 December 2013 and 1 January 2014 | 61 | 24 | 36 | 281 | 402 |
| Charge for the year | 1,282 | 73 | 14 | 213 | 1,582 |
| Disposal of subsidiaries | (845) | (36) | – | – | (881) |
| Exchange differences | 2 | 2 | – | 6 | 10 |
| **At 31 December 2014** | **500** | **63** | **50** | **500** | **1,113** |
| **Carrying amount** | | | | | |
| **At 31 December 2014** | **2,303** | **1,615** | **103** | **858** | **4,879** |
| At 31 December 2013 | 1,039 | 85 | 11 | 6 | 1,141 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 18. PROPERTY, PLANT AND EQUIPMENT *(continued)*

### The Company

| | Leasehold Improvement *HK$'000* | Office Equipment *HK$'000* | Furniture and fixtures *HK$'000* | Computer *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 January 2013, 31 December 2013 and 1 January 2014 | – | 14 | 47 | 277 | 338 |
| Additions | 839 | – | 106 | 81 | 1,026 |
| **At 31 December 2014** | **839** | **14** | **153** | **358** | **1,364** |
| **Accumulated Depreciation** | | | | | |
| At 1 January 2013 | – | 10 | 27 | 251 | 288 |
| Charge for the year | – | 4 | 9 | 21 | 34 |
| At 31 December 2013 and 1 January 2014 | – | 14 | 36 | 272 | 322 |
| Charge for the year | 112 | – | 14 | 8 | 134 |
| **At 31 December 2014** | **112** | **14** | **50** | **280** | **456** |
| **Carrying amount** | | | | | |
| **At 31 December 2014** | **727** | **–** | **103** | **78** | **908** |
| At 31 December 2013 | – | – | 11 | 5 | 16 |

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

| | |
|---|---|
| Leasehold improvements | over the shorter the terms of the leases or 20% |
| Office Equipment | 25% |
| Furniture and fixtures | 20% |
| Computer | 25% |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 19. CONSTRUCTION IN PROGRESS

### The Group

| | HK$'000 |
|---|---|
| As at 1 January 2013, 31 December 2013 and 1 January 2014 | – |
| Addition due to business combination (note 46) | 9,194 |
| Additions | 5,798 |
| Transfer to cost of sales | (4,539) |
| Exchange realignment | 78 |
| **As at 31 December 2014** | **10,531** |

## 20. GOODWILL

### The Group

| | HK$'000 |
|---|---|
| **Cost** | |
| As at 1 January 2013, 31 December 2013, and 1 January 2014 | – |
| Arising from business combination (note 46) | 1,275,620 |
| **At 31 December 2014** | **1,275,620** |
| **Impairment** | |
| As at 1 January 2013, 31 December 2013 and 1 January 2014 | – |
| Impairment for the year | – |
| **At 31 December 2014** | **–** |
| **Carrying amounts** | |
| **As at 31 December 2014** | **1,275,620** |
| As at 31 December 2013 | – |

### Particular of impairment testing on goodwill is disclosed below:

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

– Design and provision of energy saving solutions

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 20. GOODWILL *(continued)*

### Impairment testing on goodwill

The recoverable amount of the above cash generating unit was determined on the basis of value in use calculations. The recoverable amount is based on certain assumptions. All value in use calculations use cash flow projections based on the financial budgets approved by the management covering a 10-year period. The pre-tax discount rate used is 18.67% per annum. Cash flows beyond 10-year period are extrapolated using a steady 3% growth rate per annum. The directors believe that any reasonably possible further change in the key assumptions on which the recoverable amount is based would not cause the carrying amount to exceed its recoverable amount.

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

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

## 21. MORTGAGE LOANS

### The Group

| | **2014** **HK$'000** | 2013 HK$'000 |
|---|---|---|
| Fixed-rate loan receivables | – | 28,346 |
| Carrying amount analysed for reporting purposes: | | |
| Current assets | – | 21,346 |
| Non-current assets | – | 7,000 |
| | – | 28,346 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



## 21. MORTGAGE LOANS *(continued)*

No mortgage loans (2013: approximately HK$28,346,000) are secured by mortgage properties. No impairment on these mortgage loans has been recognised during the year ended 31 December 2014 (2013: Nil).

The mortgage loans outstanding at 31 December 2014 and 2013 are denominated in Hong Kong dollars.

All mortgage loans were disposed through the disposal of subsidiaries during the year.

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:

| | **2014** | 2013 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Repayable: | | |
| Within 3 months | – | 537 |
| Over 3 months but less than 1 year | – | 20,809 |
| Over 1 year but less than 5 years | – | 7,000 |
| | – | 28,346 |

Before accepting any new customer, the Group uses internal assessment system to assess the potential credit quality and determines credit limits by customer. No mortgage loans that are neither past due nor impaired have timely repayment of principal and interest (2013: HK$28,346,000).

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 2014

## 22. LOAN RECEIVABLES

### The Group

| | 2014<br>*HK$'000* | 2013<br>*HK$'000* |
|---|---|---|
| Fixed-rate loan receivables | **30,400** | 82,503 |
| Variable-rate loan receivables (note ii) | **200,712** | 200,712 |
| | **231,112** | 283,215 |
| Less: accumulated impairment allowance | **(29,032)** | (34,712) |
| | **202,080** | 248,503 |

| | 2014<br>*HK$'000* | 2013<br>*HK$'000* |
|---|---|---|
| *Carrying amount analysed for reporting purposes:* | | |
| Current assets | **171,829** | 188,016 |
| Non-current assets | **30,251** | 60,487 |
| | **202,080** | 248,503 |

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

| | 2014<br>*HK$'000* | 2013<br>*HK$'000* |
|---|---|---|
| Repayable: | | |
| Within 3 months | **171,716** | 171,713 |
| Over 3 months but less than 1 year | **113** | 16,303 |
| Over 1 year but less than 5 years | **10,251** | 487 |
| Over than 5 years | **20,000** | 60,000 |
| | **202,080** | 248,503 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 22. LOAN RECEIVABLES *(continued)*

Movement in the provision for accumulated impairment allowance on loan receivables is as follow:

| | *HK$'000* |
|---|---|
| At 1 January 2013 | 1,000 |
| Charge during the year | 33,712 |
| At 31 December 2013 and 1 January 2014 | 34,712 |
| Reversal during the year | (5,680) |
| Charge during the year | – |
| At 31 December 2014 | **29,032** |

Included in the above accumulated impairment allowance recognised at 31 December 2014 was individually impaired loan receivables with carrying amount of approximately HK$200,712,000 (2013: approximately HK$206,392,000) before impairment which have been in financial difficulties.

Notes:

i) The loan receivables outstanding as at 31 December 2014 and 2013 are denominated in Hong Kong dollars.

ii) As at 31 December 2014, a loan receivable in the principal amount of approximately HK$200,712,000 (2013: approximately 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").

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%.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 22. LOAN RECEIVABLES *(continued)*

Notes: *(continued)*

ii) *(continued)*

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 11 March 2015 prepared by Malcolm & Associates Appraisal Limited, an independent valuer, the fair value of the Property as at 31 December 2014 is HK$290,000,000 (2013: HK$290,000,000) while the forced sale value of the Property will be discounted to HK$232,000,000 (2013: 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. No Impairment has been made for the year

iii) As at 31 December 2014, included in the fixed rate loan receivables, approximately HK$ Nil, HK$20,000,000 and HK$10,000,000 (2013: approximately HK$4,680,000, HK$20,000,000 and HK$56,200,000) are secured by ordinary shares of a unlisted company, properties and corporate guarantees respectively. These loans carry fixed interest rates at a range from 6% to 20.5% (2013: 6% to 20.5%) per annum.

iv) The loan receivables amounting to approximately HK$400,000 (2013: approximately HK$1,623,000) are unsecured and carry fixed interest rates at 9% (2013: from 9% to 20%) per annum.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 23. DEPOSIT PAID FOR ACQUISITION OF A SUBSIDIARY

### The Group and the Company

| | **2014** | 2013 |
|---|---|---|
| | ***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 (the "Consideration Shares") by the Company (the "Total Consideration"). At 31 December 2013, the balance represented a refundable deposit for the above proposed Acquisition. The deposit was recognised as part of consideration to the Acquisition completed during the year 2014.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 24. AVAILABLE-FOR-SALE INVESTMENTS

### The Group

| | 2014<br>HK$'000 | 2013<br>HK$'000 |
|---|---|---|
| Unlisted equity securities, at cost | **500** | 500 |
| Less: accumulated impairment allowance | **(500)** | (241) |
| Unlisted equity securities in Hong Kong, net | **–** | 259 |

The unlisted investments represent investments in unlisted equity securities in 5% (2013: 5%) of the total outstanding issued shares of a company incorporated in Hong Kong at the end of the reporting period. They are measured at cost less identified impairment losses at the end of the reporting period because their fair values cannot be measured reliably.

During the year ended 31 December 2014, an objective evidence of impairment was considered to exist due to adverse financial position of such private entity. For the purpose of impairment, the management considered that the recoverable amount of available-for-sale financial assets was significantly less than its investment cost and hence an impairment loss of approximately HK$259,000 was recognised against the investment cost during the year.

## 25. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

### The Group

| | 2014<br>HK$'000 | 2013<br>HK$'000 |
|---|---|---|
| Held-for-trading investments: | | |
| Equity securities listed in Hong Kong | **24,354** | 92,920 |

(i) At 31 December 2014, the fair value of the listed equity securities, amounting to approximately HK$24,354,000 (2013: HK$92,920,000), was determined based on the quoted market bid prices available on the Stock Exchange.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 25. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS *(continued)*

(ii) As at 31 December 2012, a loan receivables with 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. The repaid amounts by such listed shares were classified as financial assets at fair value through profit or loss. For any surplus arising from the conversion of shares for the settlement, there is a possibility that the Company may face with relevant claim from the borrower. The directors of the Company advise that all such shares have been dealt with in accordance with legal advice.

## 26. INVENTORIES

**The Group**

| | **2014** | 2013 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Raw material | **678** | – |

## 27. TRADE AND BILLS RECEIVABLES

**The Group**

| | **2014** | 2013 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade receivables | **1,124** | – |
| Bills receivables | **79** | – |
| | **1,203** | – |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2014

## 27. TRADE AND BILLS RECEIVABLES *(continued)*

The ageing analysis of trade receivables is as follows:

| | **2014** **HK$'000** | 2013 *HK$'000* |
|---|---|---|
| 0 – 90 days | **1,006** | – |
| 91 – 180 days | **–** | – |
| 181 – 365 days | **–** | – |
| Over 365 days | **118** | – |
| | **1,124** | – |

According to the credit rating of different customers, the Group allows average credit term of 90 days to its customers.

Ageing of trade receivables which are past due but not impaired is as follows:

| | **2014** **HK$'000** | 2013 *HK$'000* |
|---|---|---|
| Overdue by: | | |
| 0 – 90 days | **–** | – |
| 91 – 180 days | **–** | – |
| 181 – 365 days | **–** | – |
| Over 365 days | **118** | – |
| | **118** | – |

In determining the recoverability of trade receivables, the Group considers any change in credit quality of the trade receivables from the date credit was initially granted up to the end of the reporting period. The impairment loss recognised represents the difference between the carrying amount of the specific trade receivables and the present value of the expected recoverable amount.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 28. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

### The Group

| | 2014<br>HK$'000 | 2013<br>HK$'000 |
|---|---|---|
| Interest receivables | **88,753** | 94,774 |
| Prepayments | **1,176** | 490 |
| Receivables from securities brokers | **–** | 2,364 |
| Receivables from disposal of subsidiaries | **9,300** | 9,200 |
| Value-added tax receivables | **353** | – |
| Other receivables | **86** | – |
| Others | **1,921** | 1,584 |
| | **101,589** | 108,412 |
| Less: accumulated impairment allowance | **(97,458)** | (97,929) |
| | **4,131** | 10,483 |

Movement in the provision for accumulated impairment allowance on interest receivables and other receivables is as follows:

| | Accumulated impairment allowance on interest receivables<br>HK$'000 | Accumulated impairment allowance on other receivables<br>HK$'000 | Total<br>HK$'000 |
|---|---|---|---|
| At 1 January 2013 | 70 | 9,200 | 9,270 |
| Charge during the year | 88,729 | – | 88,729 |
| Reverse during the year | (70) | – | (70) |
| At 31 December 2013 and 1 January 2014 | 88,729 | 9,200 | 97,929 |
| Charge during the year | – | – | – |
| Reverse during the year | (471) | – | (471) |
| **At 31 December 2014** | **88,258** | **9,200** | **97,458** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 28. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(continued)*

### The Company

| | **2014** | 2013 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Prepayments | **193** | 290 |
| Receivables from disposal of subsidiaries | **9,300** | 9,200 |
| Others | **3** | 3 |
| | **9,496** | 9,493 |
| Less: accumulated impairment allowance | **(9,200)** | (9,200) |
| | **296** | 293 |

As at 31 December 2014 and 2013, the receivables from disposal of a subsidiary amounting to HK$9,200,000 was overdue and an impairment allowance of HK$9,200,000 was provided.

## 29. FINANCE LEASE RECEIVABLES

### The Group

| | **2014** | 2013 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Current finance lease receivables | **18,877** | – |
| Non-current finance lease receivables | **8,863** | – |
| | **27,740** | – |

### Leasing arrangements

Certain of the Group's energy saving equipment are leased out under finance leases. All leases are denominated in RMB. The average term of finance lease entered into is 5 – 10 years.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 29. FINANCE LEASE RECEIVABLES *(continued)*

### Amounts receivable under finance leases

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Not later than 1 year | **9,129** | – | **8,863** | – |
| Later than one year and not later than five years | **19,459** | – | **16,470** | – |
| Later than five years | **3,455** | – | **2,407** | – |
| | **32,043** | – | **27,740** | – |
| Less: unearned finance income | **(4,303)** | – | **N/A** | N/A |
| Present value of minimum lease payments receivable | **27,740** | – | **27,740** | – |
| Allowance for uncollectible lease payment | **–** | – | **–** | – |
| | **27,740** | – | **27,740** | – |

The interest rate inherent in the leases is fixed at the contract date for the entire lease term. The average effective interest rate is approximately 8.45% per annum for the year ended 31 December 2014 (2013: 8.45%).

The finance lease receivables as at 31 December 2014 are neither past due nor impaired (2013: Nil).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 30. AMOUNTS DUE FROM CUSTOMERS UNDER CONSTRUCTION CONTRACTS

### Contracts in progress at the end of the reporting period

### The Group

| | **2014** **HK$'000** | 2013 *HK$'000* |
|---|---|---|
| Contract costs incurred plus recognised profit less recognised losses | **3,715** | – |
| Less: Progress billings | **(3,414)** | – |
| | **301** | – |

## 31. CASH AND BANK BALANCES/PLEDGED BANK DEPOSITS

The amount 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% (2013: 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$") and Renminbi ("RMB") denominated cash and bank balances, which expose the Group and the Company to foreign currency risk. RMB is not freely convertible into other currencies. The carrying amounts of the Group's and the Company's US$ and RMB denominated monetary assets at the end of the reporting period are as follows:

| | **The Group** | | **The Company** | |
|---|---|---|---|---|
| | **2014** **HK$'000** | 2013 *HK$'000* | **2014** **HK$'000** | 2013 *HK$'000* |
| US$ | **338** | 338 | **338** | 338 |
| RMB | **3,466** | – | **–** | – |

The pledged bank deposits are pledged to secure for the guarantee deposit of maintenance fund of sale of goods. The pledge will be released upon the warranty period for sales of goods project is expired.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 32. TRADE AND OTHER PAYABLES

### The Group

| | 2014<br>HK$'000 | 2013<br>HK$'000 |
|---|---|---|
| Trade payables | 2,416 | – |
| Accrued service fee for acquisition of a subsidiary | 3,871 | 5,870 |
| Accrued expenses | 7,258 | 6,958 |
| Receipt in advance | 447 | – |
| Interest payables | 2,285 | 1,044 |
| Other payables | 1,298 | 1,180 |
| | 17,575 | 15,052 |

The ageing analysis of trade payables is as follows:

| | 2014<br>HK$'000 | 2013<br>HK$'000 |
|---|---|---|
| Overdue by: | | |
| 0 – 90 days | 1,585 | – |
| 91 – 180 days | 214 | – |
| 181 – 365 days | – | – |
| Over 365 days | 617 | – |
| | 2,416 | – |

Trade payables are interest-free and normally settled on delivery. The average credit period for purchase of goods is 90 days.

### The Company

| | 2014<br>HK$'000 | 2013<br>HK$'000 |
|---|---|---|
| Accrued expenses | 3,424 | 4,910 |
| Interest payables | 885 | 1,044 |
| Other payables | 219 | 218 |
| | 4,528 | 6,172 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 33. AMOUNTS DUE TO SHAREHOLDERS

### The Group

Among the balances due to a shareholder, an amount of approximately RMB5,000,000 (equivalent to approximately HK$6,338,000) carries a fixed interest rate of 14% per annum and is due on 31 March 2015. The remaining balance of amounts due to shareholders was unsecured, interest-free and repayable on demand.

### The Company

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

## 34. BORROWINGS

### The Group

| | **2014** | 2013 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| *Carrying amount repayable:* | | |
| Borrowing due within one year | **40,000** | 5,000 |

### The Company

| | **2014** | 2013 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| *Carrying amount repayable:* | | |
| Borrowing due within one year | **–** | 5,000 |

At 31 December 2014, the Group entered into a loan agreement with an independent third party, for borrowing of HK$40,000,000, which is secured by a guarantee given by CITIC International Assets Management Limited ("CIAM"), a shareholder of the Company, and carries a fixed interest rate at 12% per annum.

A borrowing amounting to HK$5,000,000 is interest-bearing at 10%, secured by shares issued by a listed entity in Hong Kong and fully repaid during the year ended 31 December 2014.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 35. NON-CONVERTIBLE BONDS

### The Group and the Company

| | **2014** | 2013 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Non-current (note (i)) | **40,000** | 50,000 |
| Current | **–** | – |
| | **40,000** | 50,000 |

As at 31 December 2014, the Group had issued non-convertible bonds with a principal amount of HK$40,000,000 to four bond holders (2013: HK$50,000,000 to five bond holders). The principal terms of the non-convertible bonds are as follows:

Note:

| | | |
|---|---|---|
| (i) | Principal amount of each of the four bonds: | HK$10,000,000 |
| | Interest rate: | 8% per annum, payable annually in arrear |
| | Maturity: | 90 months |
| | Redemption: | The Group may redeem all or some of the non-convertible bonds from issue date to maturity date, at 100% of their principal amount |

## 36. CONVERTIBLE BONDS

### The Group and the Company

(a) During the year ended 31 December 2014, as mentioned in Note 43 to the consolidated financial statements, the Company issued CB I with principal amount of HK$7,986,600 (the "CB Ia") and HK$5,481,000 (the "CB Ib"), on 30 June 2014 and 28 July 2014, upon the exercise of 51 and 35 convertible bond options by the option holders, respectively.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 36. CONVERTIBLE BONDS *(continued)*

(a) *(continued)*

The principal terms of 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 reorganization became Effective on 19 December 2012, the conversion price Has been adjusted to HK$0.18 per conversion share<br><br>As a result of the completion of placement of the first tranche of CB II (as defined in Note 36(b)), the conversion price of CB I has been adjusted from HK$0.18 to HK$0.14 per conversion share and such adjustment became effective on 19 December 2013. Details of the CB II are disclosed in Note 36(b) to the consolidated financial statement.<br><br>As a result of the completion of placing of all remaining tranches of CB II, the conversion price of CB I has been further adjusted from HK$0.14 to HK$0.10 per conversion share with effect from 17 February 2014. |

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 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 aggregated of principal amount of HK$13,467,600 has been converted into 134,676,000 ordinary shares of the Company at HK$0.10 during the year ended 31 December 2014.

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 36. CONVERTIBLE BONDS *(continued)*

(a) *(continued)*

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 2014 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 and 1 January 2014 | 1,552 | 1,408 | 2,960 |
| Transfer from convertible bond options reserve (Note 43) | 13,468 | 11,994 | 25,462 |
| Conversion to shares during the year | (13,468) | (11,994) | (25,462) |
| Interest charged | 163 | – | 163 |
| Interest paid | (157) | – | (157) |
| **At 31 December 2014** | **1,558** | **1,408** | **2,966** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 36. CONVERTIBLE BONDS *(continued)*

(a) *(continued)*

The fair value of the CB I has been arrived on the basis of a valuation carried out on the date of issue and at the end of the reporting period by an independent professional valuer. The effective interest rate is 13.72% per annum.

(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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 36. CONVERTIBLE BONDS *(continued)*

(b) *(continued)*

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.

The remaining CB II with principal amount HK$4,058,000 has been converted into 30,000,000 ordinary shares of the Company at HK$0.135 on 2 January 2014.

On 17 February 2014, the Company issued CB II with a principal amount of HK$43,200,000. Each bond entitled the holder to convert to ordinary share of the Company at a conversion price of HK$0.135 per share. The maturity date of the convertible bonds is 31 December 2016.

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 on initial recognition is 10.448%.

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$0.48 |
| Conversion price | HK$0.135 |
| Contractual life | 2.88 years |
| Risk-free rate | 0.654% |
| Expected dividend yield | 0% |
| Volatility | 71.17% |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 36. CONVERTIBLE BONDS *(continued)*

(b) *(continued)*

The movements of the liability and equity components of the CB II for the year ended 31 December 2014 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 and 1 January 2014 | 3,011 | 1,047 | 4,058 |
| Issued during the year | 37,885 | 10,715 | 48,600 |
| Conversion to shares during the year | (9,426) | (1,382) | (10,808) |
| Interest charged | 2,853 | – | 2,853 |
| **At 31 December 2014** | **34,323** | **10,380** | **44,703** |

The fair values of the CB II have been arrived on the basis of a valuation carried out on the date of issue and at the end of the reporting period by an independent professional valuer. The effective interest rate is 14.27% per annum.

(c) On 13 June 2014, the Company issued convertible bonds, convertible bonds A ("CB A" and convertible bonds B ("CB B"), with principal amounts of HK$434,980,000 and HK$827,520,000 respectively as a part of the consideration for the Acquisition (note 46). Both convertible bonds are non-interest bearing for the first three years, followed by 3% interest per annum from the fourth to the remaining years. CB A can be converted commencing from the date of issue while CB B can only be converted commencing from 1 July 2015. The maturity date of CB A and CB B fall on the date of 31 December 2023. The effective interest rate of the liability component on initial recognition is 15.99% per annum.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 36. CONVERTIBLE BONDS *(continued)*

(c) *(continued)*

The movements of the liability and equity components of the CB A for the year ended 31 December 2014 are set out below:

*CB A*

| | **Liability component** *HK$'000* | **Equity component** *HK$'000* | **Total** *HK$'000* |
|---|---|---|---|
| At 1 January 2013, 31 December 2013 and 1 January 2014 | – | – | – |
| Consideration for the Acquisition | 138,068 | 316,996 | 455,064 |
| Interest charged | 11,677 | – | 11,677 |
| **At 31 December 2014** | **149,745** | **316,996** | **466,741** |

The movements of the liability and equity components of the CB B for the year ended 31 December 2014 are set out below:

*CB B*

| | **Liability component** *HK$'000* | **Equity component** *HK$'000* | **Total** *HK$'000* |
|---|---|---|---|
| At 1 January 2013, 31 December 2013 and 1 January 2014 | – | – | – |
| Consideration for the Acquisition | 262,666 | 582,153 | 844,819 |
| Interest charged | 22,214 | – | 22,214 |
| **At 31 December 2014** | **284,880** | **582,153** | **867,033** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 36. CONVERTIBLE BONDS *(continued)*

(c) *(continued)*

Interest expenses of CB A and CB B are calculated using the effective interest method by applying the effective interest rate of 15.99% to the liability component. The fair values of the CB A and CB B have been arrived on the basis of a valuation carried out on the date of issue and at the end of reporting period by an independent professional valuer. The effective interest rate is 15.08% per annum.

## 37. DEFERRED TAX LIABILITIES

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

### The Group

| | Intangible assets | Convertible notes | Available-for-sale investments | Investment revaluation | Total |
|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| At 1 January 2013 | – | – | 348 | (348) | – |
| Charge to profit or loss (Note 11) | – | – | (348) | – | (348) |
| Charge to other comprehensive income | – | – | – | 348 | 348 |
| At 31 December 2013 and 1 January 2014 | – | – | – | – | – |
| Acquisition of subsidiaries | 133,485 | – | – | – | 133,485 |
| Issuance of Convertible bonds for business combination | – | 142,192 | – | – | 142,192 |
| Credit to profit or loss (Note 11) | (4,427) | (5,592) | – | – | (10,019) |
| **At 31 December 2014** | **129,058** | **136,600** | **–** | **–** | **265,658** |

At the end of the reporting period, the Group has estimated tax losses of approximately HK$119,008,000 (2013: HK$174,947,000) 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 38. INVESTMENTS IN SUBSIDIARIES

### The Company

| | **2014** | 2013 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Unlisted shares, at cost | **542** | 542 |
| Less: accumulated impairment allowance | **(150)** | (150) |
| | **392** | 392 |

Movement in provision for accumulated allowance for impairment loss on investments in subsidiaries is as follows:

### The Company

| | *HK$'000* |
|---|---|
| At 1 January 2013, 31 December 2013 and 1 January 2014 | 150 |
| Impairment loss recognised | – |
| **At 31 December 2014** | **150** |

Particulars of the principal subsidiaries of the Company as at 31 December 2014 were as follows:

| **Name of companies** | **Place of incorporation/ operation** | **Issued and fully paid-up share/ registered capital** | **Percentage of equity interest and voting power held by the Company** | | **Principal activities** |
|---|---|---|---|---|---|
| | | | **Direct** | **Indirect** | |
| The BLA (Asia) | Hong Kong | HK$2 | 100% | – | Money lending |
| Alpha Gain Limited | Hong Kong | HK$2 | 100% | – | Inactive |
| United Warrior Limited | BVI | US$1 | 100% | – | Inactive |
| Total Global | BVI | US$50,000 | 100% | – | Inactive |
| Diamond Team Limited | BVI | US$1 | 100% | – | Inactive |
| Revelry Gains Limited | BVI | US$1 | – | 100% | Inactive |
| Weldtech Technology | Hong Kong | HK$1,724 | – | 100% | Investment holding |
| 濠信節能科技(上海)有限公司 (Haoxin Technology (Shanghai) Company Limited) | PRC | Paid-up capital US$8,880,000 | – | 100% | Design and provision of energy saving solutions |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 38. INVESTMENTS IN SUBSIDIARIES *(continued)*

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

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

## 39. AMOUNTS DUE FROM SUBSIDIARIES

### The Company

| | **2014** *HK$'000* | 2013 *HK$'000* |
|---|---|---|
| Amounts due from subsidiaries | **2,105,772** | 569,562 |
| Less: accumulated impairment allowance | **(113,315)** | (203,911) |
| | **1,992,457** | 365,651 |

The amounts due from subsidiaries amounting of HK$2,105,772,000 (2013: HK$354,562,000) are unsecured, interest-free and have no fixed repayment terms. As at 31 December 2013, the amount due from a subsidiary amounting of HK$215,000,000 is unsecured, bear interest 7.25% to 12.25% per annum and have no fixed repayment terms.

Movement in provision for accumulated allowance for impairment loss on amounts due from subsidiaries is as follow:

### The Company

| | *HK$'000* |
|---|---|
| At 1 January 2013 | 91,698 |
| Charge during the year | 112,213 |
| At 31 December 2013 and at 1 January 2014 | 203,911 |
| Reversal of impairment loss during the year | (90,867) |
| Charge during the year | 271 |
| **At 31 December 2014** | **113,315** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 40. AMOUNT DUE TO A SUBSIDIARY

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

## 41. SHARE CAPITAL

| | Number of shares | | Share capital | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | | | ***HK$'000*** | *HK$'000* |
| **Maximum number of shares can be issued:** | | | | |
| At the beginning and end of the year | | | | |
| Ordinary shares (note (i)) | **3,000,000,000** | 3,000,000,000 | **–** | – |
| **Issued and fully paid:** | | | | |
| At the beginning of the year | **540,585,466** | 435,148,866 | **54,059** | 43,515 |
| Transition to no-par value regime on 3 March 2014 (Note (i)) | **–** | – | **329,244** | – |
| Exercise of share option (Note (v)) | **13,488,000** | 1,956,600 | **5,325** | 196 |
| Issuance of shares upon placing (Note (ii) and (iv)) | **127,000,000** | – | **101,600** | – |
| Issuance of consideration shares (Note (vi)) | **170,000,000** | – | **146,200** | – |
| Issuance of shares upon conversion of convertible bonds (Note 36) | **174,676,000** | 103,480,000 | **30,870** | 10,348 |
| At the end of the year | **1,025,749,466** | 540,585,466 | **667,298** | 54,059 |

Note:

(i) Under the new Hong Kong Companies Ordinance (Cap. 622), which commenced operation on 3 March 2014, the concepts of "authorised share capital" and "par value" no longer exist. As part of the transition to the no-par value regime, the amounts standing to the credit of the share premium account and the share capital reserve account (in the nature of capital redemption reserve as it was generated from capital reduction occurred in the year 2012) on 3 March 2014 have become part of the company's share capital, under the transitional provisions set out in section 37 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622). These changes do not have an impact on the number of shares in issue or the relative entitlement of any of the members.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 41. SHARE CAPITAL *(continued)*

Note: *(continued)*

(ii) Placing 2014

On 27 May 2014, the Company and (i) China Securities (International) Corporate Finance Company Limited; (ii) Pacific Foundation Securities Limited ("PFS"); (iii) FT Securities Limited ("FTS"); (iv) RHB OSK Securities Hong Kong Limited; and (v) Ping An of China Securities (Hong Kong) Company Limited (collectively, the "Joint Placing Agents") entered into a placing agreement pursuant to which, the Company has conditionally agreed to place, through the Joint Placing Agents on a best effort basis, up to 397,000,000 placing shares in tranches at the placing price of HK$0.8 per placing share, to not less than six places who and whose beneficial owners are independent third parties to the Company (the "Placing 2014").

The gross proceeds from the Placing 2014 were approximately HK$69,600,000 and the net proceeds after deducting placing commission and other related expenses were approximately HK$65,600,000. The net proceeds were used as to (i) HK$35.6 million for professional fees and expenses in relation to the Acquisition; and (ii) HK$30 million for general working capital of Weldtech Group (Note 46), including applying for the roll out of energy management contract projects and its daily operating expenses.

(iii) Subscription of New Shares under General Mandate

Pursuant to the stock lending and subscription agreement, which was entered into between the Company, a group of shareholders procured by PFS (the "Other Vendors"), and PFS, the Other Vendors conditionally agreed to lend or otherwise make available up to 87,000,000 shares (the "PF Placing Shares") to PFS for the purpose of the placing by PFS, and PFS was authorised to deal with the PF Placing Shares in such manner in the placing by PFS under the Placing 2014 as it deems fit and appropriate. The Other Vendors also undertook to subscribe for up to 87,000,000 shares as was equivalent to the exact number of PF Placing Shares placed, and the subscription was governed and regulated by the provisions under the stock lending and subscription agreement. The shares subscribed were issued under the general mandate granted to the Directors by the shareholders of the Company at the annual general meeting of the Company held on 21 June 2013.

For further details, please refer to the Company's announcement dated 27 May 2014, 28 May 2014, 6 June 2014 and 16 June 2014.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 41. SHARE CAPITAL *(continued)*

Note: *(continued)*

(iv) Subscription of New Convertible Bond under Specific Mandate

On 27 May 2014, the Company, Sina Winner Investment Limited (a company incorporated in the British Virgin Islands with limited liability and an indirect wholly-owned subsidiary of Chinese Strategic Holdings Limited, a company incorporated in Bermuda with limited liability and whose shares are listed on the Growth Enterprise Market of the Stock Exchange (Stock Code: 8089)) (the "Sina Winner"), and FTS entered into a convertible bonds lending and subscription agreement pursuant to which, Sina Winner has conditionally agreed to lend or otherwise make the existing convertible bonds in the principal amount of HK$41,850,000 which upon full conversion can be converted into 310,000,000 new shares to be allotted and issued by the Company at the conversion price of HK$0.135 per share (the "CB 2014") available to FTS at the principal amount of the CB 2014, and FTS may convert the principal amount of the CB 2014 or any part thereof into such number of Shares (the "CB Lending and Subscription Agreement") for the purpose of the placing by FTS ("FT Placing").

Based on the initial conversion price of HK$0.135 of the new convertible bonds, a maximum number of 310,000,000 new conversion shares will be allotted and issued upon exercise of the conversion rights attaching to the new convertible bonds in full.

This placing has been completed on 4 July 2014, in accordance with the terms and conditions of the placing agreement (as revised and supplemented by the supplemental placing agreement dated 16 June 2014) and the CB Lending and Subscription Agreement. An aggregate of 40,000,000 Shares have been successfully placed by the Joint Placing Agents to LA COMPAGNIE FINANCIERE EDMOND DE ROTHSCHILD BANQUE SA and Leighton Deck Limited at the placing price of HK$0.8 per share.

The gross proceeds from the placing of 40,000,000 Shares were approximately HK$32,000,000. The net proceeds, after deducting the placing commission, the bookrunner and FTS praecipium and other related expenses, were approximately HK$26,600,000. The net proceeds were used as to professional fees and expenses in relation to the Acquisition and general working capital of the Group.

(v) Exercise of share options

During the year, 13,488,000 ordinary shares of HK$0.10 each were issued as a result of exercise of share options under the Share Option Scheme.

During the year ended 31 December 2013, 1,956,600 ordinary shares of HK$0.10 each were issued as a result of exercise of share options under the Share Option Scheme.

(vi) Issuance of consideration of shares

On 13 June 2014, 170,000,000 consideration shares were issued at market price of HK$0.86 per share in relation to part of the consideration for the Acquisition.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 42. RESERVES

### The Company

| | Share premium HK$'000 | Share capital reserve HK$'000 | Share option reserve HK$'000 | Convertible bonds reserve HK$'000 | Convertible bond options reserve HK$'000 | Accumulated losses HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| At 1 January 2013 | 54,119 | 270,186 | 1,881 | – | 13,947 | 22,379 | 362,512 |
| Loss for the year and other comprehensive loss | – | – | – | – | – | (107,154) | (107,154) |
| Total comprehensive loss | – | – | – | – | – | (107,154) | (107,154) |
| Issuance of share upon exercise of share option (Note 51) | 577 | – | (239) | – | – | – | 338 |
| Issuance of convertible bonds upon the exercise of convertible bond options (Note 36(a)) | – | – | – | 1,971 | (1,953) | – | 18 |
| Issuance of convertible bonds upon placing (Note 36(b)) | – | – | – | 4,539 | – | – | 4,539 |
| Issuance of shares upon conversion of convertible bonds (Note 36) | 4,362 | – | – | (4,055) | – | – | 307 |
| At 31 December 2012 and 1 January 2013 | 59,058 | 270,186 | 1,642 | 2,455 | 11,994 | (84,775) | 260,560 |
| Loss for the year and other comprehensive loss | – | – | – | – | – | (176,711) | (176,711) |
| Total comprehensive loss | – | – | – | – | – | (176,711) | (176,711) |
| Transition to no par value regime on 3 March 2014 (Note 41(i)) | (59,058) | (270,186) | – | – | – | – | (329,244) |
| Issuance of share upon exercise of share option (Note 51) | – | – | (1,642) | – | – | – | (1,642) |
| Issuance of convertible bonds (Note 36(b)) | – | – | – | 10,715 | – | – | 10,715 |
| Issuance of convertible bonds upon the exercise of convertible bond options (Note 36(a)) | – | – | – | 11,994 | (11,994) | – | – |
| Issuance of convertible bonds for acquisition of a subsidiary (Note 36(c)) | – | – | – | 899,149 | – | – | 899,149 |
| Issuance of shares upon conversion of convertible bonds (Note 36) | – | – | – | (13,376) | – | – | (13,376) |
| **At 31 December 2014** | **–** | **–** | **–** | **910,937** | **–** | **(261,486)** | **649,451** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 43. 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 ("CB I").

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 an independent professional valuer, Messrs. Roma Appraisals Limited.

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 |
| Expected life | 1.81 year |
| Dividend yield | 0% |
| Risk free rate | 0.25% |

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 reorganization became Effective on 19 December 2012, the conversion price has been adjusted to HK$0.18 per conversion share<br><br>As a result of the completion of placement of the first tranche of CB II (as defined in Note 36(a)), the conversion price of CB I has been adjusted from HK$0.18 to HK$0.14 per conversion share and such adjustment became effective on 19 December 2013.<br><br>As a result of the completion of placing of all remaining tranches of CB II, the conversion price of CB I has been further adjusted from HK$0.14 to HK$0.10 per conversion share with effect from 17 February 2014. |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 43. OPTIONS TO SUBSCRIBE FOR CONVERTIBLE BONDS *(continued)*

During the period and up to the maturity date, the CB I holders shall be able to convert in their entirety or any part of the outstanding principal amount of the CB I. The Company may, on the maturity date, at its absolute discretion, redeem all CB I which have not been redeemed or converted by maturity date at 100% of their principal amount or convert into the shares. The CB I are denominated in Hong Kong dollars and will mature on 31 December 2015. The Directors consider the CB I 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.

During the year ended 31 December 2014, 86 options (2013: 14) were exercised by the CB I option holders and CB I in the principal amount of approximately HK$13,467,600 (2013: HK$2,192,400) was issued by the Company (Note 36(a)).

## 44. PROMISSORY NOTES

### The Group

On 13 June 2014, the Company issued Promissory Notes ("PN A") with a principal amount of HK$474,400,000 as a part of consideration for acquiring the entire issued share capital of Weldtech Technology. The fair value of PN A was approximately HK$247,295,000 on 13 June 2014. PN A is non-interest bearing and mature on 31 December 2018. The effective interest rate on initial recognition is 15.4% per annum.

The movement of the carrying amount of PN A during the year ended 31 December 2014 is set out below:

| | *HK$'000* |
|---|---|
| At 1 January 2013, 31 December 2013 and 1 January 2014 | – |
| Consideration for business combination | 247,295 |
| Interest charged calculated at an effective interest rate | 19,301 |
| Disposal of subsidiaries | (73,705) |
| **At 31 December 2014** | **192,891** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 44. PROMISSORY NOTES *(continued)*

### The Company

| | *HK$'000* |
|---|---|
| At 1 January 2013, 31 December 2013 and 1 January 2014 | – |
| Consideration for business combination | 247,295 |
| Assignment of promissory note to subsidiaries | (189,552) |
| Interest charged calculated at an effective interest rate | 14,084 |
| **At 31 December 2014** | **71,827** |

On 11 September 2014, the Company, as the assignor, The BLA (Asia), a wholly-owned subsidiary of the Company, as the assignee (the "Assignee") and the relevant holder of the PN A, the promissory notes in the aggregate principal amount of HK$474,000,000 for part of the Consideration and shall be due on 31 December 2018) (the "Note Holder") entered into a deed of assignment (the "Deed A"). The Note Holder was the sole legal and beneficial owner of PN A numbered 004 (the "Relevant PN A 004") in the principal amount of HK$197,000,000 issued by the Company. Under and in accordance with the Relevant PN A 004, the Company has unconditionally and irrevocably promised to pay to the Note Holder the sum of HK$197,000,000 on final maturity thereof, being 31 December 2018.

Pursuant to the Deed A, the Company was desirous of transferring, assigning and/or novating all the Company's duties and obligations in and under the Relevant PN A 004, including (but not limited to) the repayment obligation thereof, to the Assignee (collectively, the "Assignment"). Pursuant to the Deed A, amongst others, the Company shall procure (i) the Note Holder to surrender to the Assignee the Relevant PN A 004 at completion of the Assignment ("Completion"), and (ii) the Assignee to issue new promissory note(s) to the Note Holder (or to any nominee of the Note Holder) in the principal amount of HK$197,000,000 to replace the Relevant PN A 004 as soon as practicable after Completion in accordance with the Deed A.

On 19 November 2014, the Company, as the assignor, the Assignee and the Note Holder entered into a deed of assignment (the "Deed B"). The Note Holder was the sole legal and beneficial owner of PN A numbered 002 (the "Relevant PN A 002") in the principal amount of HK$177,000,000 issued by the Company. Under and in accordance with the Relevant PN A 002, the Company has unconditionally and irrevocably promised to pay to the Note Holder the sum of HK$177,000,000 on final maturity thereof, being 31 December 2018.

Pursuant to the Deed B, the Company was desirous of transferring, assigning and/or novating all the Company's duties and obligations with respect to the principal amount of HK$150,000,000 in and under the Relevant PN A 002, including (but not limited to) the repayment obligation of that said sum of HK$150,000,000, to the Assignee (collectively, the "Second Assignment"). Pursuant to the Deed B, the Assignee is desirous of accepting the Second Assignment in accordance with the terms and conditions of the Deed B, and the Note Holder has no objection to the Second Assignment. Following the Second Assignment, the Assignee shall repay HK$150,000,000 in principal amount of the Relevant PN A 002 to the Note Holder in accordance with the terms of the Relevant PN A 002, while the Company shall remain liable to repay HK$27,000,000, being the remaining principal amount under the Relevant PN A 002, to the Note Holder.

As at 31 December 2014, the fair value of PN A of the Group and the Company were approximately HK$199,084,000 and HK$74,133,000 respectively.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 45. CONTINGENT CONSIDERATION PAYABLES

| | The Group and the Company | |
|---|---|---|
| | **2014** | 2013 |
| | ***HK$'000*** | *HK$'000* |
| Arising from the Acquisition | **145,959** | – |
| Less: fair value change on contingent consideration payables | **(52,856)** | – |
| At fair value | **93,103** | – |

Pursuant to the completion of the Acquisition, as a part of consideration, the Group and the Company liable to settle the contingent consideration by issuance of PN B and PN C with aggregate principal amount of HK$560,000,000 to the vendors. The PN B and PN C are subject to target profit guarantee provided by the vendors under the Sale and Purchase Agreement. If the audited consolidated profit before tax of the Weldtech Technology for the year ended 2014 and 2015 falls below HK$120,000,000 and HK$160,000,000 respectively, all of the PN B and PN C shall become null and void respectively for year ended 31 December 2014 and 2015. The fair value of the contingent consideration payables were in aggregate amount approximately of HK$145,959,000 at the date of the Acquisition.

As at 31 December 2014, since the profit guarantee for 2014 is not meet and all the PN B have become null and void.

The fair values as at the date of the Acquisition and 31 December 2014 were determined with reference to the valuations as at those dates performed by an independent valuers. The valuations was calculated based on the expected cash flow approach which determined the expected value probability weighted discount cash flow at 14.5%.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 46. BUSINESS COMBINATION

On 13 June 2014 (the "Acquisition Date"), the Group completed the Acquisition which was satisfied by the Total Consolidation (note 23).

The Weldtech Group is principally engaged in design and provision of 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 airconditioning system via its proprietary UPPC System and other components. The Acquisition allows the Company to diversify into a new line of business with positive prospect.

The net assets acquired in the transaction and the goodwill arising therefrom, are as following:

| | **Acquiree's carrying amount before the Acquisition** *HK$'000* | **Fair value adjustment** *HK$'000* | **Fair value** *HK$'000* |
|---|---|---|---|
| Net assets acquired: | | | |
| Property, plant and equipment | 1,200 | – | 1,200 |
| Intangible assets (note 17) | – | 889,901 | 889,901 |
| Finance lease receivables | 27,465 | – | 27,465 |
| Inventories | 691 | – | 691 |
| Construction in progress | 9,193 | – | 9,193 |
| Trade and bills receivables | 865 | – | 865 |
| Prepayment, deposits and other receivables | 2,816 | – | 2,816 |
| Pledged bank deposits | 785 | – | 785 |
| Cash and bank balances | 12,054 | – | 12,054 |
| Borrowings | (40,000) | – | (40,000) |
| Trade and other payables | (4,685) | – | (4,685) |
| Amount due to a shareholder | (17,792) | – | (17,792) |
| Deferred tax liabilities | – | (275,676) | (275,676) |
| | (7,408) | 614,225 | 606,817 |
| Goodwill arising on the Acquisition (note 20) | | | 1,275,620 |
| | | | 1,882,437 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 46. BUSINESS COMBINATION *(continued)*

Total consideration satisfied by:

| | *HK$'000* |
|---|---|
| Deposit paid | 10,000 |
| Cash payable | 33,100 |
| Convertible bonds (Note 36(c)) | 1,299,883 |
| Promissory notes (Note 44) | 247,295 |
| Contingent consideration payables (Note 45) | 145,959 |
| Consideration shares (Note 41(vi)) | 146,200 |
| Total consideration | 1,882,437 |

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

| | *HK$'000* |
|---|---|
| Cash consideration paid | – |
| Pledged bank deposits | 785 |
| Cash and bank balances acquired | 12,054 |
| Net inflow of cash and cash equivalents included in cash flows from investing activities | 12,839 |
| Transaction costs of the Acquisition recognised in the consolidated statement of profit or loss for the year | 47,551 |

### Impact of the Acquisition on the result of the Group

The Weldtech Group contributed revenue of approximately of HK$6,021,000 to the consolidated statement of profit or loss since Acquisition Date. The Weldtech Group contributed loss of approximately of HK$21,177,000 over the same period. Had the Weldtech Group been consolidated from 1 January 2014, the consolidated statement of profit or loss would show pro-forma revenue of approximately HK$16,759,000 and loss of approximately of HK$256,358,000.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 47. DISPOSAL OF SUBSIDIARIES

(a) On 24 November 2014, the Group entered into a sale and purchase agreement to disposal of its 100% equity interest in Palmy Right Limited to an independent third party for cash consideration of HK$100,000. The disposal was completed on 24 November 2014. Summary of the effects of the disposal is as follows:

| | *HK$'000* |
|---|---|
| **Net assets disposed of:** | |
| Financial assets at fair value through profit or loss | 55,769 |
| Prepayments, deposits and other receivables | 7,433 |
| Cash and bank balances | 1 |
| Promissory notes | (34,611) |
| Net assets disposed of | 28,592 |

**Loss on disposal of a subsidiary**

| | *HK$'000* |
|---|---|
| Consideration received | 100 |
| Net assets disposed of | (28,592) |
| Loss on disposal | (28,492) |

**Net cash inflow from disposal of a subsidiary**

| | *HK$'000* |
|---|---|
| Consideration received in cash and cash equivalents | 100 |
| Less: cash and cash equivalent balances disposed of | (1) |
| Net cash inflow from disposal of a subsidiary | 99 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 47. DISPOSAL OF SUBSIDIARIES *(continued)*

(b) On 5 December 2014, the Group entered into a sale and purchase agreement to disposal of its 100% equity interest in Wise Planner Limited to an independent third party for cash consideration of HK$100,000. The disposal was completed on 5 December 2014. Summary of the effects of the disposal is as follows:

| | *HK$'000* |
|---|---|
| **Net assets disposed of:** | |
| Prepayments, deposits and other receivables | 3,652 |
| Mortgage loans | 14,733 |
| Loan receivables | 33,460 |
| Trade and other payables | (5,869) |
| Bond interest payable | (470) |
| Bond payables | (3,000) |
| Promissory notes | (23,719) |
| Net assets disposed of | 18,787 |

**Loss on disposal of a subsidiary**

| | *HK$'000* |
|---|---|
| Consideration received | 100 |
| Net assets disposed of | (18,787) |
| Loss on disposal | (18,687) |

**Net cash inflow from disposal of a subsidiary**

| | *HK$'000* |
|---|---|
| Consideration received in cash and cash equivalents | 100 |
| Less: cash and cash equivalent balances disposed of | – |
| Net cash inflow from disposal of a subsidiary | 100 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 47. DISPOSAL OF SUBSIDIARIES *(continued)*

(c) On 5 December 2014, the Group entered into a sale and purchase agreement to disposal of its 100% equity interest in Good Earnings Limited to an independent third party for cash consideration of HK100,000. The disposal was completed on 5 December 2014. Summary of the effects of the disposal is as follows:

| | *HK$'000* |
|---|---|
| **Net assets disposed of:** | |
| Plant and equipment | 2,419 |
| Cash and bank balances | 1 |
| Prepayments, deposits and other receivables | 7,082 |
| Accruals | (40) |
| Promissory notes | (5,280) |
| Net assets disposed of | 4,182 |

**Loss on disposal of a subsidiary**

| | *HK$'000* |
|---|---|
| Consideration received | 100 |
| Net assets disposed of | (4,182) |
| Loss on disposal | (4,082) |

**Net cash inflow from disposal of a subsidiary**

| | *HK$'000* |
|---|---|
| Consideration received in cash and cash equivalents | 100 |
| Less: cash and cash equivalent balances disposed of | (1) |
| Net cash inflow from disposal of a subsidiary | 99 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 47. DISPOSAL OF SUBSIDIARIES *(continued)*

(d) On 25 December 2014, the Group entered into a sale and purchase agreement to disposal of its 100% equity interest in Mighty Profit Holdings Limited to an independent third party for cash consideration of HK$100,000. The disposal was completed on 25 December 2014. Summary of the effects of the disposal is as follows:

| | *HK$'000* |
|---|---|
| **Net assets disposed of:** | |
| Prepayments, deposits and other receivables | 30 |
| Loan receivables | 17,907 |
| Promissory notes | (10,095) |
| Net assets disposed of | 7,842 |

**Loss on disposal of a subsidiary**

| | *HK$'000* |
|---|---|
| Consideration received | 100 |
| Net assets disposed of | (7,842) |
| Loss on disposal | (7,742) |

**Net cash inflow from disposal of a subsidiary**

| | *HK$'000* |
|---|---|
| Consideration received in cash and cash equivalents | 100 |
| Less: cash and cash equivalent balances disposed of | – |
| Net cash inflow from disposal of a subsidiary | 100 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 47. DISPOSAL OF SUBSIDIARIES *(continued)*

(e) On 15 June 2014, the Group entered into a sale and purchase agreement to disposal of its 100% equity interest in Majestic View Holdings Limited to an independent third party for cash consideration of HK$20,000. The disposal was completed on 15 June 2014. Summary of the effects of the disposal is as follows:

| | *HK$'000* |
|---|---|
| **Net assets disposed of:** | |
| Amounts due from the Group | 86,660 |
| Trade and other payables | (86,660) |
| Net assets disposed of | – |

**Gain on disposal of a subsidiary**

| | *HK$'000* |
|---|---|
| Consideration received | 20 |
| Net assets disposed of | – |
| Gain on disposal | 20 |

**Net cash inflow from disposal of a subsidiary**

| | *HK$'000* |
|---|---|
| Consideration received in cash and cash equivalents | 20 |
| Less: cash and cash equivalent balances disposed of | – |
| Net cash inflow from disposal of a subsidiary | 20 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 48. CAPITAL COMMITMENT

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

| | 2014<br>HK$'000 | 2013<br>HK$'000 |
|---|---|---|
| Commitments for the construction contract | 4,338 | – |
| Acquisition of Weldtech Technology | – | 2,466,000 |
| | 4,338 | 2,466,000 |

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 46 to the consolidated financial statements.

## 49. 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

| | 2014<br>HK$'000 | 2013<br>HK$'000 |
|---|---|---|
| Within one year | 6,207 | 3,985 |
| In the second to fifth years inclusive | 6,480 | 6,348 |
| | 12,687 | 10,333 |

Leases are negotiated and rental are fixed for term of 1 to 3 years (2013: 1 to 3 years).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 49. OPERATING LEASES *(continued)*

### The Company

| | **2014** | 2013 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within one year | **60** | 75 |
| In the second to fifth years inclusive | **–** | 19 |
| | **60** | 94 |

Leases are negotiated and rental are fixed for terms 1 to 2 years (2013: 1 to 2 years).

## 50. RETIREMENT BENEFITS PLANS

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$1,500 in maximum of relevant payroll costs to the scheme, which contribution is matched by employees.

Pursuant to the regulations of the relevant authorities in the PRC, the Group participates in the PRC Schemes whereby the Group is required to contribute to the PRC Schemes to fund the retirement benefits of the eligible employees. Contributions made to the PRC Schemes are calculated based on certain percentages of the applicable payroll costs as stipulated under the requirements in the PRC. The relevant authorities of the PRC are responsible for the entire pension obligations payable to the retired employees. The only obligation of the Group with respect to the PRC Schemes is to pay the ongoing required contributions under the PRC Schemes.

The retirement benefit schemes contribution represents gross contributions by the Group to the PRC Schemes operated by the relevant authorities of the PRC.

The total cost charged to the profit or loss of approximately HK$131,000 (2013: HK$147,000) represents contributions paid and payable to the MPF Scheme by the Group in respect of the current year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 51. 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; and (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. 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 2014

## 51. 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 (2013: HK$0.65).

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

**2014**

| Category of grantee | Date of grant | Exercise price per share | Expiry date | Balance as at 1.1.2014 | Exercise during the year | Balance as at 31.12.2014 |
|---|---|---|---|---|---|---|
| **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) | – |
| Ms. Yuen Wai Man | 28.12.2012 | HK$0.273 | 27.12.2022 | 434,400 | (434,400) | – |
| **Consultant** | 28.12.2012 | HK$0.273 | 27.12.2022 | 4,351,200 | (4,351,200) | – |
| | | | | 13,488,000 | (13,488,000) | – |
| **Exercisable at the end of the year** | | | | | | – |
| **Weighted average exercise price *(HK$)*** | | | | 0.273 | 0.273 | – |
| **Weighted average remaining contractual life** | | | | | | Nil |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 51. SHARE OPTION SCHEME *(continued)*

2013

| 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 Raymond Shiu Cheung | 28.12.2012 | HK$0.273 | 27.12.2022 | 434,400 | (434,400) | – |
| **Consultant** | 28.12.2012 | HK$0.273 | 27.12.2022 | 4,351,200 | – | 4,351,200 |
| | | | | 15,444,600 | (1,956,600) | 13,488,000 |
| Exercisable at the end of the year | | | | | | 13,488,000 |
| Weighted average exercise price *(HK$)* | | | | 0.273 | 0.273 | 0.273 |
| Weighted average remaining contractual life | | | | | | 8.99 years |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 52. MATERIAL RELATED PARTIES TRANSACTIONS

Save as disclosed elsewhere in the consolidated financial statements, during the year the Group had the following transactions with related parties.

### (a) Income or expense items:

**The Group**

| | **2014** | 2013 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Loan interest income from a company with common director | **774** | 64 |
| Interest expense to a company with common director | **75** | 500 |
| Commission to a company with common director | **3,470** | 639 |
| Interest charged for a loan by a shareholder | **536** | – |
| Rental expenses charged by a shareholder | **396** | – |
| Guarantee fee paid to a shareholder | **350** | – |

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 52. MATERIAL RELATED PARTIES TRANSACTIONS *(continued)*

### (b) Balances

**The Group**

| | **2014** | 2013 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Amounts due to shareholders (note 33) | **52,681** | – |
| Loan receivables from a borrower with common director | **–** | 7,500 |
| Other receivables from a borrower with common director | **–** | 220 |
| Borrowing from a lender with common director | **–** | 5,000 |
| Interest payable from a lender with common director | **–** | 208 |

### (c) Compensation of key management personnel

The key management of the Group comprises all Directors, details of their remuneration are disclosed in Note 13 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.

## 53. NON-CASH TRANSACTIONS

During the year, the Group acquired the entire issued share capital of Weldtech Technology Co. Limited for a total consideration of HK$2,476,000,010, the consideration was partly satisfied by promissory note with principal amount of approximately HK$474,400,000, Convertible bonds with principal amount of approximately HK$1,262,500,000 and 170,000,000 issued consideration shares of the Company of approximately HK$146,200,000.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 54. PLEDGE OF ASSETS

The Group pledged the bank deposits of approximately HK$254,000 (2013: Nil) as the security deposit for the warranty fund of sale of goods.

## 55. EVENTS AFTER THE REPORTING PERIOD

(i) On 22 January 2015, the Company has granted 8,000,000 share options to Ms. Diana Liu He, an executive Director of the Company under the Company's share option scheme adopted on 22 May 2008. Each of Options shall entitle its holders to subscribe for one ordinary share of HK$0.1 each in the capital of the Company.

(ii) On 13 March 2015, the due date for settlement of the Cash consideration has been further extended to on or before 13 September 2015.

## 56. COMPARATIVES

Certain comparative amounts have been reclassified to conform to the current year's presentation.

## 57. APPROVAL FOR CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 27 March 2015.

# 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 2014, as extracted from the audited consolidated financial statements, is as set out below.

## RESULTS

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2014** | 2013 | 2012 | 2011 | 2010 |
| | ***HK$'000*** | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Revenue | **16,423** | 47,046 | 42,224 | 37,995 | 18,850 |
| (Loss)/profit for the year attributable to owners of the Company | **(243,371)** | (91,105) | 10,324 | (49,305) | (33,727) |
| | ***HK cents*** | *HK cents* | *HK cents* | *HK cents* | *HK cents* |
| (Loss)/earnings per share | | | | | |
| – Basic | **(29.59)** | (20.88) | 2.37 | (11.71) | (11.84) |
| – Diluted | **(29.59)** | (20.88) | 2.34 | (11.71) | (11.84) |

## ASSETS AND LIABILITIES

| | At 31 December | | | | |
|---|---|---|---|---|---|
| | **2014** | 2013 | 2012 | 2011 | 2010 |
| | ***HK$'000*** | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Total assets | **2,431,539** | 397,933 | 453,160 | 381,627 | 397,128 |
| Total liabilities | **(1,172,414)** | (74,615) | (52,722) | (9,024) | (2,771) |
| Net assets | **1,259,125** | 323,318 | 400,438 | 372,603 | 394,357 |