

HARMONIC STRAIT FINANCIAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

STOCK CODE: 0033



ANNUAL REPORT 2015

CONTENTS

Corporate Information	2
Company Profile	4
Management Discussion and Analysis	5
Directors and Senior Management	9
Directors' Report	11
Corporate Governance Report	18
Independent Auditor's Report	31
Consolidated Statement of Profit or Loss and Other Comprehensive Income	33
Consolidated Statement of Financial Position	35
Consolidated Statement of Changes in Equity	36
Consolidated Cash Flow Statement	37
Notes to the Consolidated Financial Statements	39
Financial Summary	100

The English text of this annual report shall prevail over the Chinese text in case of inconsistencies.

CORPORATE INFORMATION

Executive Directors

Tong Nai Kan
Wong Kwong Sum (*appointed on March 9, 2015*)
Zhao Tieliu
Xie Li (*appointed as a non-executive director on July 24, 2015 and re-designed as an executive director with effect from October 26, 2015*)
Leung Heung Ying (*appointed on June 9, 2015 and resigned on October 27, 2015*)
Lo Siu Leung (*resigned with effect from June 8, 2015*)

Non-executive Directors

Wang Edward Xu (*appointed on October 27, 2015*)
Ko Ming Tung, Edward (*resigned with effect from July 24, 2015*)

Independent Non-executive Directors

Cheung Wah Keung (*Chairman*)
Anthony Espina
Ho Chun Chung, Patrick (*appointed on July 10, 2015*)
Zhang Huadi (*appointed on July 10, 2015*)
Cheng Wai Lam, James (*resigned with effect from July 10, 2015*)

Executive Committee

Tong Nai Kan
Wong Kwong Sum (*appointed on March 9, 2015*)
Zhao Tieliu
Xie Li (*appointed as a non-executive director on July 24, 2015 and re-designed as an executive director with effect from October 26, 2015*)
Lo Siu Leung (*resigned with effect from June 8, 2015*)

Audit Committee

Anthony Espina (*Chairman*)
Cheung Wah Keung
Ho Chun Chung, Patrick (*appointed on July 10, 2015*)
Zhang Huadi (*appointed on July 10, 2015*)
Wang Edward Xu (*appointed on October 27, 2015*)
Ko Ming Tung, Edward (*resigned with effect from July 24, 2015*)
Cheng Wai Lam, James (*resigned with effect from July 10, 2015*)

Remuneration Committee

Cheung Wah Keung (*Chairman*)
Anthony Espina
Ho Chun Chung, Patrick (*appointed on July 10, 2015*)
Zhang Huadi (*appointed on July 10, 2015*)
Wang Edward Xu (*appointed on October 27, 2015*)
Ko Ming Tung, Edward (*resigned with effect from July 24, 2015*)
Cheng Wai Lam, James (*resigned with effect from July 10, 2015*)

Nomination Committee

Cheung Wah Keung (*Chairman*)
Anthony Espina
Tong Nai Kan
Ho Chun Chung, Patrick (*appointed on July 10, 2015*)
Zhang Huadi (*appointed on July 10, 2015*)
Wang Edward Xu (*appointed on October 27, 2015*)
Ko Ming Tung, Edward (*resigned with effect from July 24, 2015*)
Cheng Wai Lam, James (*resigned with effect from July 10, 2015*)

CORPORATE INFORMATION

Risk Management Committee (established on December 28, 2015)

Xie Li (*Chairman*)
Wong Kwong Sum
Zhao Tieliu

Authorised Representatives

Tong Nai Kan
Lo Siu Leung

Company Secretary

Chen Kwok Wang

Website

www.harmonics33.com

Registered Office

P.O. Box 309
Ugland House
South Church Street
George Town
Grand Cayman, KY1-1104
Cayman Islands

Principal Place of Business in Hong Kong

Unit B, 35/F.
No. 169 Electric Road
North Point
Hong Kong

Principal Share Registrar and Transfer Office

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

Hong Kong Branch Share Registrar and Transfer Office

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

Principal Bankers

China Minsheng Banking Corporation Limited
The Hongkong and Shanghai Banking Corporation Limited

Legal Adviser

Fairbairn Catley Low & Kong
23/F Shui On Centre
6-8 Harbour Road,
Hong Kong

Auditor

Cheng & Cheng Limited
Certified Public Accountants
10/F, Allied Kajima Building
138 Gloucester Road, Wanchai
Hong Kong

Stock Code

33 (Listed on the Main Board of The Stock Exchange of Hong Kong Limited)

COMPANY PROFILE

The Group is principally engaged in the credit guarantee and investment business and asset management business in the People's Republic of China (the "PRC"), and trading of metal and minerals and party products businesses.

As at December 31, 2015, the Group had 59 employees, 32 of them are located in Hong Kong.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the year ended December 31, 2015 ("Current Year"), the economy of China was uncertain and the global economic volatility increased significantly especially in the second half year, the Company maintained the conservative strategy in managing the credit guarantee and investment business. Combining with the effect of the market shrinkage of the trading business of party products, the revenue of the Group dropped by half. In order to maintain the steady revenue, the Company has widened its financial platform by obtained the Private Investment Fund Manager Registration granted by the Asset Management Association of China and acquired a company which is in development of an internet financial platform for the trading of asset management products.

During the year, the Company has completed a placing of new shares under a specific mandate to place 4,000,000,000 shares and the net proceeds from it was approximately HK\$395 million. The HK\$147.5 million and HK\$102 million of it were used to settle the other short term loan and the convertible bonds.

FINANCIAL REVIEW

For the Current Year, the Group's turnover was HK\$67.4 million, representing a significant drop of 48.3% from HK\$130.4 million for the year ended December 31, 2014 ("Prior Year"), due to market shrinkage of the trading business as mentioned above.

Gross profit during Current Year was HK\$6.1 million, representing a decrease of 60.6% from HK\$15.4 million for the Prior Year. In terms of gross profit margin, the relevant figure for the Current Year was 9.0%, representing a decrease of 2.8% from 11.8% for Prior Year. The decreases in both gross profit and gross profit margin were mainly due to the loss of trading of metal and mineral business.

Other revenue was HK\$1.7 million in the Current Year, which decreased from the HK\$4.2 million of the Prior Year. For operating expenses, the relevant figure for the Current Year was HK\$36.9 million, representing an increase of 58.1% from HK\$23.3 million for the Prior Year as addition administrative expenses induced as the expansion of the financial platform.

Finance cost during the Current Year was HK\$29.5 million which decreased from HK\$62.0 million of the Prior Year. Such decrease was mainly due to the financial cost reduced as the repayment of outstanding loan in amount of HK\$147.5 million and the redemption of convertible bonds in amount of HK\$102 million during the year.

In current year, the Group has impaired the goodwill and the trade receivable arouse from the credit guarantee and investment business in amount of HK\$2.0 million and HK\$0.7 million respectively (2014: impaired the other receivable amounting to HK\$13.6 million), as the unfavorable business environment of the credit guarantee and investment business.

LIQUIDITY AND FINANCIAL RESOURCES

As at December 31, 2015, net current assets were HK\$270.1 million (2014: net current liabilities were HK\$28.4 million). Current ratio as at December 31, 2015 was 6.26 (2014: 0.89). The increase in both of net current assets and current ratio were mainly due to the completion of the placing of new shares during the Current Year. The Group has no bank borrowing as at December 31, 2015 (2014: HK\$1.1 million which is secured by the corporate guarantees provided by the Company) and therefore the gearing ratio was zero (2014: 0.5% which is total bank borrowings divided by total assets). As at December 31, 2015, the Group had cash and bank balances of HK\$116.8 million (2014: HK\$55.1 million) which was mainly denominated in Renminbi ("RMB"), HK dollars and US dollars.

MANAGEMENT DISCUSSION AND ANALYSIS

As at December 31, 2015, the Group had prepayments, deposits and other receivables of HK\$164.7 million which represents an increase of HK\$27.8 million (20.3%) from HK\$136.9 million as at December 31, 2014. The increase was mainly attributable to HK\$20 million prepayment made for the development of internet financial platform and HK\$4.7 million as the deposits for the acquisition of the license corporations regulated by Securities and Futures Commission ("SFC").

The Group has no structured investment products, foreign exchange contracts and investments in listed shares, bond and debentures as at December 31, 2015.

No significant exchange risk is expected as the Group's cash, borrowings, income and expenses are settled in Hong Kong dollars, RMB or US dollars. As the exchange rates of RMB and US dollars against Hong Kong dollars are relatively stable, the Group did not perform any foreign currency hedging activities during the year. Nevertheless, the Group will from time to time review and adjust the Group's investment and financing strategies based on the RMB, US dollars and Hong Kong dollars exchange rate movement.

As at December 31, 2015, the Group had HK\$6.1 million capital commitments (2014: Nil) as it had entered into a sale and purchase agreement to acquire a license corporation regulated by SFC with initial consideration of HK\$9.5 million. The operating lease commitment for the Group as at December 31, 2015 was HK\$35.0 million (2014: HK\$2.9 million), the increase in operating lease commitment is due to the new offices established in Hong Kong and China.

It is the Group's policy to adopt a prudent financial management strategy and maintain a suitable level of liquidity and banking facilities to meet operation requirements and acquisition opportunities.

CAPITAL STRUCTURE

On February 23, 2015, the Company entered into a placing agreement with a placing agent to place up to 4,000,000,000 placing shares at the placing price of HK\$0.1 per placing share, a discount of approximately 13.79% to the closing price of HK\$0.116 per Share as quoted on the Stock Exchange on February 18, 2015. The authorized share capital of the Company from HK\$500,000,000 to HK\$1,000,000,000 by the creation of an additional 5,000,000,000 Shares and the placing of shares were approved by shareholders at the extraordinary general meeting on April 21, 2015. On May 29, 2015, 4,000,000,000 ordinary shares were placed to not less than six places at HK\$0.1 per placing shares. The aggregate gross proceeds from the placing of new shares and the aggregate nominal value were HK\$400 million and the net proceeds was approximately HK\$395 million, i.e. HK\$0.09875 per share, after deduction all the professional fees incurred in the placement. The Company intended to utilize the net proceeds from the placing as to approximately (i) HK\$102 million for the convertible bonds repayment; (ii) HK\$141.5 million for the settlement of the outstanding amount of the loans including the interests; and (iii) the remaining for development of the existing financial platform. As at December 31, 2015, HK\$102 million was used for the repayment of convertible bonds; HK\$147.5 million was used for settlement of the outstanding amount of the loans including the interests; HK\$30 million was applied to the acquisition and development of a financial platform and the remaining HK\$115.5 million was held as general working capital for development of the financial platform and general use of the Company.

32,328,000 ordinary shares were repurchased on the Exchange and cancelled in aggregate amount of HK\$3.3 million at the price per share between HK\$0.097 and HK\$0.110 during the year.

HK\$510,000,000 convertible bonds of the Company were converted into 408,000,000 shares during the year ended December 31, 2015. The remaining of HK\$102,000,000 convertible bonds of the Company were redeemed at maturity during the year.

MANAGEMENT DISCUSSION AND ANALYSIS

EVENTS AFTER REPORTING PERIOD

On November 5, 2015, the Company entered into a subscription agreement with the subscriber and Ms. Cheung Kwan (“Ms. Cheung”) pursuant to which the subscriber has conditionally agreed to subscribe for and the Company has conditionally agreed to (i) allot and issue of 1,000,000,000 new shares at the subscription price of HK\$0.10 per subscription Share; (ii) issue the convertible bonds in the principal amount of HK\$100,000,000, which entitle the holder(s) thereof to subscribe for up to 1,000,000,000 conversion shares at the initial conversion price of HK\$0.10 per conversion share (subject to adjustments); and (iii) Ms. Cheung has agreed to guarantee the performance by the subscriber of its obligations under the subscription agreement. The subscriber is wholly owned by Ms. Cheung who is a substantial shareholder of the Company. To the best of the directors’ knowledge, save for Ms. Cheung, no shareholder has a material interest in the transactions contemplated under the subscription agreement and Ms. Cheung and her associates will abstain from voting on the resolution for approving the subscription agreement and the transactions contemplated thereunder. The Company’s independent shareholders have approved the subscription of shares and convertible bonds on January 25, 2016. The subscription agreement have been fulfilled and the completion took place on February 18, 2016, 1,000,000,000 ordinary shares have been allotted at HK\$0.10 per subscription share and the convertible bonds in the principal amount of HK\$100,000,000 have been issued to the Subscriber and the net proceeds was approximately 199 million, i.e. HK\$0.0995 per share, after deduction all the professional fees incurred in the subscription. The Company intends to use the net proceeds from the subscription as to: (i) approximately HK\$13 million for the acquisition of a company licensed by the SFC with Type 4 (advising on securities) and Type 9 (asset management) licences. The Company has entered into a sale and purchase agreement with the vendor on December 2, 2015 for such acquisition; (ii) approximately HK\$70 million will be used as capital to expand the asset management business as stated above; (iii) approximately HK\$32 million for the acquisition of a company licensed by the SFC with Type 1 licence (dealing in securities). A sale and purchase agreement was entered on January 15, 2016 for such acquisition. The Group plans to use approximately HK\$80 million from the net proceeds to develop the securities firm such as increasing the capital bases so as to expand the margin business of it. If the acquisition of the company licensed by the SFC with Type 1 licence (dealing in securities), for whatever reasons, could not be materialised, the Company would adjust the proceeds from the Proposed Subscription to the fund management business in the PRC. The Company has recently obtained the Private Investment Fund Manager Registration (私募投資基金管理人登記證明) granted by the Asset Management Association of China (中國證券投資基金業協會). The Company plans to set up an investment fund and will use the proceed as seed money; and (iv) approximately HK\$4 million as general working capital and/or for future acquisitions.

On January 15, 2016, a wholly-owned subsidiary of the company entered into a sale and purchase agreement with independent third parties, for the acquisition of the 100% controlling equity interests in Treasure Securities Limited (“Treasure Securities”) at the initial consideration of HK\$27,200,000, which is subject to adjustment and will be settled by cash. Treasure Securities is a licensed corporation to carry out Type 1 (Dealing in Securities) regulated activity under the Securities and Futures Ordinance (“SFO”) and is an exchange participant of the Stock Exchange. It is principally engaged in the business of securities brokerage. The directors are of the view that the acquisition provides a prime opportunity for the Group to expand its financial platform to the financial service industry in Hong Kong, and the Group is expected to be benefited from the creation of synergies with existing operations of the Group which is expected to increase its shareholders’ value and benefit the Company and its shareholders as a whole. As at the date of this report, the acquisition has not been completed and subjected to the approval of change of substantial shareholder by SFC.

On February 5, 2016, the Company entered into the non-legal binding MOU with an independent third party in relation to the possible acquisition of a company which carries on the business of designs, development and implementation of mobile instant lottery system, and distribution of the mobile game-based lottery products in China.

On March 23, 2016, the Company entered into the non-legal binding MOU with the Vendor to acquire a global financial technology Company which is creating a global financial settlement network targeting global markets, especially countries along the “one belt, one road” routes, to provide international settlement services for international trading and consumption.

MANAGEMENT DISCUSSION AND ANALYSIS

MATERIAL ACQUISITION AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATES

During the year ended December 31, 2015, the Group has acquired 90% equity interest of a company in trading of metal and mineral by subscription of its shares and acquired 51% of equity interest of another company which is in development of an internet financial platform of asset management products in China at a consideration of HK\$10 million.

The Group has also acquired 40% equity interest of an associate, which invest a yacht, at HK\$18.5 million.

As at December 31, 2015, the Group has entered into a sale and purchase agreement to acquire a license corporation regulated by SFC, its initial considerations are HK\$9.5 million. It has not been completed and subjected to the approval by SFC.

Except for the above, the Group did not make any material acquisition or disposal of subsidiaries, associates and affiliated companies during the year ended December 31, 2015.

CONTINGENT LIABILITIES

The Group's contingent liabilities, if any, are set out in the note 35 to the consolidated financial statements.

HUMAN RESOURCES

As at December 31, 2015, the Group had 59 employees. It is the Group's policy to recruit the right person for each position based on the person's qualification and experience. The remuneration of each employee is reviewed every year based on the performance of the employee with reference to the prevailing market conditions.

FINAL DIVIDEND

The Board did not recommend any final dividend for the Current Year.

OUTLOOK

After the completions of the placing of new shares and issuance of convertible bonds, the Group would use the proceeds from them to widen its financial platform and develop the internet trading business. Currently, it has entered into sale and purchase agreements to acquire two license corporations regulated by SFC in Hong Kong and the completions of them are subjected to the approval from SFC. Upon the completions, the Group would carry out Type 1 (Dealing in Securities), Type 4 (advising on securities) and Type 9 (asset management) regulated activity under the SFO. The Group will continue to recruit talents in various professions to support its expansion.

For the credit guarantee and investment business, its unfavorable business environment is expected to be lasted for few years, the group will continue its conservative business strategies. As the market shrinkage, intense competition and the raising requirement by customers and authorities of the trading business, the Group will try to minimize its risk by outsourcing its operations and widen the nature of trading products.

Although the global economic is in volatile, the management is still confident of the global financial market, especially the countries along the "one belt, one road" routes, in future and continues to develop its financial platform, create a global financial settlement network and explore any business opportunities. The Company may finance the expansion from new investors and investment funds to satisfy any additional capital requirements.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Tong Nai Kan (唐乃勤), aged 57, was appointed as an Executive Director of the Company in February 24, 2012. He has over 20 years of experience in investment in various businesses in Mainland China and has participated in energy-related businesses in recent few years. He was an executive director of New Smart Energy Group Limited (Stock Code: 91) for the period from March 1999 to June 2013, a company listed on the Main Board of the Stock Exchange. He was previously an executive director of China Mining Resources Group Limited (formerly known as “INNOMAXX Biotechnology Group Limited”) (Stock Code: 340) for the period from May 2000 to May 2004, a company listed on the Main Board of the Stock Exchange. He is currently the director of certain subsidiaries of the Group. He was awarded as the 11th World Outstanding Chinese Award from the World Chinese Business Foundation and the Honorary Doctoral Degree from the International American University in March 2009. Mr. Tong is responsible for the strategic planning, business development and overall management of the Group. Mr. Tong joined the Group in August 2010.

Mr. Wong Kwong Sum (黃光森), aged 49, was appointed as the Executive Director of the Company on March 9, 2015. Mr. Wong holds a Bachelor in Business Administration of West Coast Institute of Management & Technology and has over twenty years of experience in the construction materials supply and retail business. Mr. Wong was a director of Hong Kong Optical Company Limited. Currently, he is a committee member of the Chinese People’s Political Consultative Conference — Guangzhou Baiyun District.

Mr. Zhao Tielu (趙鐵流), aged 58, was appointed as an Executive Director of the Company on December 27, 2013. Mr. Zhao graduated from Tianjin University of Finance and Economics with a Bachelor degree of Economics in 1984 and obtained a Master degree in Business Administration from Oklahoma City University, USA in 1990. Mr. Zhao held positions in Tianjin University of Finance and Economics as lecturer, the Department of Accounting as deputy dean, and as division director of the Futures Supervision Division and Intermediary Supervision Division of China Securities Regulatory Commission at the Tianjin Regulatory Bureau. Mr. Zhao was previously an executive director and managing director of Sanyuan Group Limited (Stock Code: 140), a company previously listed on the Main Board of The Hong Kong Stock Exchange Limited, and a non-executive director of CIAM Group Limited (Stock Code: 378), a company listed on the Main Board of The Hong Kong Stock Exchange Limited. He was also the President of Weida Applied Technology Company Limited (Stock Code: 000603) which listed on the Shenzhen Stock Exchange and the executive director of Masterwork Machinery Co., Limited (Stock Code: 300195) which listed on the Growth Enterprise Market of the Shenzhen Stock Exchange. He is currently the director and general manager of Harmonic Strait Financing Guarantee Co. Ltd. and is responsible for the operation of the credit guarantee and investment business and the trading of metal and minerals business.

Mr. Xie Li (謝力), aged 51, was appointed as a Non-Executive Director of the Company on July 24, 2015 and re-designed as an Executive Director on October 26, 2015. Mr. Xie has over 20 years of experience in finance and asset management. He holds the master degrees from University of Reading in United Kingdom and University of Ottawa in Canada respectively.

Non-Executive Director

Dr. Wang Edward Xu (王旭), aged 52, was appointed as a Non-Executive Director of the Company on October 27, 2015. Dr. Wang graduated from the Peking University. He received a master’s degree from the Chinese Academy of Sciences, and a doctorate degree from Yale University. He had worked in a number of well-known United States software and internet companies and was responsible for the software development and the technical management. He is experienced on the development and the management of software and internet projects.

DIRECTORS AND SENIOR MANAGEMENT

Independent Non-Executive Directors

Dr. Cheung Wah Keung (張華強), aged 55, was appointed as an Independent Non-Executive Director of the Company on June 4, 2007 and the Chairman of the Company on September 5, 2013. Dr. Cheung has over 23 years of experience in management of trading and manufacturing of consumer electronic products. Dr. Cheung graduated from the Chinese University of Hong Kong with a bachelor degree in Business Administration in 1994, a degree of Master of Corporate Governance in 2010 and a degree of Doctor of Business Administration in 2013 from The Hong Kong Polytechnic University. Dr. Cheung was the chairman of Shinhint Acoustic Link Holdings Limited (Stock Code: 2728) from 2005 to 2014 and an independent non-executive director of China Kingstone Mining Holdings Limited (Stock Code: 1380) from July 2015 to December 2015 whose shares are listed on the Main Board of the Hong Kong Stock Exchange. He is currently an independent non-executive director of Sky Light Holdings Limited (Stock Code: 3882) which listed on the Main Board of the Hong Kong Stock Exchange and the chairman of Tai Sing Industrial Company Limited.

Mr. Anthony Espina (艾秉禮), aged 67, was appointed as an Independent Non-Executive Director of the Company on June 4, 2007. Mr. Espina has over 40 years of experience in the accounting and finance industry. He is the managing director of Goldride Securities Limited and was the chairman of the Hong Kong Securities Association. Mr. Espina is the chairman of the management board and member of supervisory board of AFT Bank in Kazakhstan. He is also the independent non-executive director of the "Single Accumulative Pension Fund" of a wholly-owned subsidiary of the National Bank of Kazakhstan administering the pension assets of all employees in Kazakhstan. He is also the chairman of supervisory board of Optima Bank in Kyrgyzstan. Mr. Espina was a partner of Arthur Andersen & Co. from 1982 to 1986 and Deloitte Touche Tohmatsu from 1986 to 1990. He was also the president of the Hong Kong Computer Society from 1978 to 1979. He graduated from the University of Southern Queensland with a bachelor degree in business and is an associate member of CPA Australia, is a fellow member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Hong Kong Institute of Directors.

Mr. Zhang Huadi (張華弟), aged 48, was appointed as an Independent Non-Executive Director of the Company on July 10, 2015. Mr. Zhang obtained a Bachelor of Law Degree from East China University of Political Science and Law in 1996. He has worked as the judge of the Court and the legal profession over 20 years and possesses strong legal experience especially in the fields of economics and commercial as well as the corporate restructuring aspects. Currently, he is a partner of a law firm in Shanghai.

Mr. Ho Chun Chung, Patrick (何振琮), aged 52, was appointed as an Independent Non-Executive Director of the Company on July 10, 2015. Mr. Ho is a certified public accountant and an associate member of the Hong Kong Institute of Certified Public Accountants and the Chartered Association of Certified Accountants. Mr. Ho obtained from the City University of Hong Kong a master degree in Finance in 1996 and a postgraduate diploma in banking and finance in 1992. Mr. Ho served as the financial controller for Gold Peak Industries (Holdings) Ltd. (the shares of which are listed on the main board of the Stock Exchange (stock code: 40) in 1999 and Chen Hsong Holdings Limited (the shares of which are listed on the main board of the Stock Exchange (stock code: 57) from 2002 to 2005. He is currently an independent non-executive director of Tesson Holdings Limited (Stock Code: 1201) which shares are listed on the Main Board of the Stock Exchange.

SENIOR MANAGEMENT

Mr. Chen Kwok Wang (陳國宏), aged 53, has joined the Company as Company Secretary on October 9, 2014. Mr. Chen is a qualified solicitor in Hong Kong with current practice in corporate finance.

DIRECTORS' REPORT

The directors present their annual report and the audited consolidated financial statements for the year ended December 31, 2015.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of the Group are set out in the "Company Profile" section of this annual report.

RESULTS AND DIVIDEND

The results of the Group for the Current Year are set out in the consolidated statement of profit or loss and other comprehensive income of this annual report.

The Directors do not recommend the payment of any dividends for the Current Year.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December, 2015 as set out in the section headed "Management Discussion and Analysis" on the page 5 to 8 of the annual report.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to supporting the environmental sustainability. The Group is committed to implementing policies and measures in our daily business operations to foster reduction of the Group's environmental impact. Energy saving and power monitoring systems are in place for various business units to monitor our environmental performance. The Company also strives to implement recycling and reducing measures in office premises where applicable.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the year under review, as far as the Company is aware, there was no material breach of or non-compliance with applicable laws and regulations by our Group that has a significant impact on the business and operations of our Group.

RELATIONSHIPS WITH STAKEHOLDERS

The Company recognizes that employees are our valuable assets. Thus employee management focuses on recruiting and growing the right people. Staff performance is measured on a regular and structured basis to provide employees with appropriate feedback and to ensure their alignment with the Group's corporate strategy.

Our Group also understands that maintaining long-term good relationship with business partners is also one of the primary objectives of the Group. Accordingly, our management have kept good communication, promptly exchanged ideas and shared business update with them when appropriate. During the year under review, there was no material and significant dispute between our Group and its business partners.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at December 31, 2015 are set out in the note 20 to the consolidated financial statements.

DIRECTORS' REPORT

DONATION

No donation has been made by the Group during the year (2014: Nil).

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

Details of movements in the share capital of the Company during the Current Year are set out in the note 19 to the consolidated financial statements.

DIRECTORS

The Directors up to the date of this report were:

Executive Directors

Tong Nai Kan

Wong Kwong Sum (*appointed on March 9, 2015*)

Zhao Tieliu

Xie Li (*appointed as a non-executive director on July 24, 2015 and re-designed as an executive director with effect from October 26, 2015*)

Leung Heung Ying (*appointed on June 9, 2015 and resigned on October 27, 2015*)

Lo Siu Leung (*resigned with effect from June 8, 2015*)

Non-executive Directors

Wang Edward Xu (*appointed on October 27, 2015*)

Ko Ming Tung, Edward (*resigned with effect from July 24, 2015*)

Independent Non-executive Directors

Cheung Wah Keung (*Chairman*)

Anthony Espina

Ho Chun Chung, Patrick (*appointed on July 10, 2015*)

Zhang Huadi (*appointed on July 10, 2015*)

Cheng Wai Lam, James (*resigned with effect from July 10, 2015*)

According to Article 130, Mr. Tong Nai Kan and Mr. Zhao Tieliu as Executive Directors, Dr. Cheung Wah Keung as Independent Non- Executive Director, shall retire from office at Annual General Meeting and shall offer themselves for re-election.

DIRECTORS' REPORT

None of the Directors offering themselves for re-election at the forthcoming Annual General Meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

The Company has received an annual confirmation of independence from each of the Independent Non-executive Directors pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The Company considers all of the Independent Non-executive Directors to be independent.

Each of the Independent Non-executive Directors and the Non-executive Directors was appointed for a fixed term and is subject to retirement by rotation at the Annual General Meeting.

None of the Executive Directors has any service contract with any member of the Group.

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

As at December 31, 2015, the interests and short positions of the Directors in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or 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") contained in the Appendix 10 of Listing Rules, were as follows:

Name	Nature of Interests	Number of shares	Percentage of the issued share capital of the Company
Mr. Tong Nai Kan	Interest of spouse (<i>Note 1</i>)	40,000,000 (long position)	0.54%
	Interest of a controlled corporation (<i>Note 2</i>)	24,000,000 (long position)	0.33%

Note 1: Ms. Chow Shun Yuk, the spouse of Mr. Tong Nai Kan, holds 40,000,000 shares.

Note 2: Gold Blue Group Limited, a company wholly-owned by Mr. Tong Nai Kan, holds 24,000,000 shares.

Save as disclosed above, as at December 31, 2015, as far as the Directors are aware, none of the Directors had any other interests, long positions or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are recorded in the register 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. As at December 31, 2015, the Company had no Chief Executive Officer.

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS' INTERESTS

So far as is known to any Director, as at December 31, 2015, other than the interests of the Directors and Chief Executive Officer as disclosed above, the following persons had interests in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO. The number of issued share capital as at December 31, 2015 was 7,368,072,000.

Name	Nature of Interests	Number of shares	Percentage to the issued share capital of the Company
Cheung Kwan	Beneficial Owner	1,450,000,000 (long position)	19.68%
	Interest of a controlled corporate (Note 1, 2)	2,000,000,000 (long position)	27.14%
Internet Finance Investment Co., Ltd.	Beneficial Owner (Note 2)	2,000,000,000 (long position)	27.14%
Chan Shing	Interest of a controlled corporate (Note 3)	583,902,000 (long position)	7.92%
Lau Ting	Interest of a controlled corporate (Note 3)	583,902,000 (long position)	7.92%
Favor King Limited	Interest of a controlled corporate (Note 3)	583,902,000 (long position)	7.92%
Glory Add Limited	Beneficial Owner (Note 3)	583,902,000 (long position)	7.92%

Note 1: Cheung Kwan owns the entire share capital of Internet Finance Investment Co., Ltd.. Therefore, Cheung Kwan was deemed to be interested in 2,000,000,000 Shares.

Note 2: The interest in 2,000,000,000 Shares arises from entering into the subscription agreement whereby Internet Finance Investment Co., Ltd. agreed to subscribe 1,000,000,000 Subscription Shares and convertible bonds convertible into 1,000,000,000 Conversion Shares.

Note 3: Chan Shing and Lau Ting wholly own the entire issued share capital of Favor King Limited which in turn wholly owns the entire issued share capital of Glory Add Limited. Therefore, Chan Shing, Lau Ting and Favor King Limited were deemed to be interested in 583,902,000 Shares.

DIRECTORS' REPORT

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as otherwise disclosed herein, at no time during the Current Year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

There was no contract of significance to which the Company, its holding company, any of its subsidiaries or any of its fellow subsidiaries was a party in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the Current Year or at any time during the Current Year.

EMPLOYEES AND REMUNERATION POLICIES

The remuneration policy of the employees of the Group is set up by the Remuneration Committee on the basis of the merits, qualifications and competence of employees. The emoluments of the Directors are decided by the Remuneration Committee with regard to the Group's operating results, individual performance and comparable market statistics. None of the Directors or any of their associates, and executive is involved in deciding his own remuneration. As at December 31, 2015, the Group had 59 employees (2014: 31 employees). The Group remunerates its employees based on their individual performance, job nature and responsibilities. Moreover, the Group provides its employees with training and various benefits including medical care, provident funds, bonuses and other incentives.

PERMITTED INDEMNITY PROVISION

A permitted indemnity provision for the benefit of the Directors is currently in force and was in force throughout the financial year. The Company has taken out and maintained appropriate insurance cover in respect of potential legal actions against its Directors and officers.

SHARE OPTION SCHEME

The purpose of the Share Option Scheme is to enable the Company to grant options to selected persons as incentives or rewards for their contribution to the Group. The Board may, at its absolute discretion, invite any employees (whether full time or part time), any executive Directors, any non-executive Directors, any independent non-executive Directors, or any consultants, suppliers or customers of the Group to take up options to subscribe for Shares.

The principal terms of the Share Option Scheme are as follows:

- (i) The total number of Shares which may be issued upon the exercise of all options to be granted under the Share Option Scheme and any other option schemes of the Company must not in aggregate exceed ten (10) per cent of the Shares in issue on the annual general meeting held on June 5, 2015; and the overall maximum number of Shares which may be issued upon the exercise of all outstanding options grants and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company must not in aggregate exceed 30% of the Shares in issue from time to time ("30% Overall Limit").
- (ii) The total number of Shares in respect of which options may be granted to each eligible participant in any 12-month period must not exceed one (1) per cent of the issued share capital of the Company for the time being.

DIRECTORS' REPORT

- (iii) The subscription price shall be a price determined by the Directors, but shall not be less than the highest of (a) the closing price of the Shares as stated in the Stock Exchange's daily quotations on the date of grant, which must be a business day; (b) the average closing price of the Shares as stated in the Stock Exchange's daily quotations for the five business days immediately preceding the date of grant; and (c) the nominal value of the Share.
- (iv) An option may be accepted by an eligible participant for a period of 30 days from the date upon which the offer of the grant of option is made. A non-refundable nominal consideration of HK\$10.00 is payable by the grantee upon acceptance of an option.
- (v) An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined on the date of offer or grant of option and notified by the Directors to each grantee, which period may commence from the date of acceptance of the offer for the grant of options but shall end in any event not later than 10 years from the Date of Grant, subject to the provisions for early termination thereof. An option may not be exercised after of grant of option to the Participant pursuant to the Share Option Scheme impose restrictions on the exercise of an option during the period an option may be exercised including (but not limited to), if appropriate, the minimum period for an option must be held or may be exercised.
- (vi) The Share Option Scheme remains valid for a period of 10 years commencing on October 30, 2007.

There was no share options granted for the Current Year and no share options outstanding as at December 31, 2015.

The total number of Shares available for issue under the Share Option Scheme was 737,640,000 as at December 31, 2015, representing approximately 8.81% of the issued Shares (8,368,072,000 Shares) as at the date of this report.

CONVERTIBLE SECURITIES, OPTIONS, WARRANTS OR SIMILAR RIGHTS

Details of the convertible bond of the Company and its movements during the Current Year are set out in the note 25 to the consolidated financial statements.

PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES

For the year ended December 31, 2015, except for the repurchase of the Company's own ordinary shares on the exchange as set out below, the Company nor any of its subsidiaries has purchased, redeemed or sold any of the listed securities of the Company.

Month/year	Number of shares repurchased	Highest price paid per share HK\$	Lowest price paid per share HK\$	Aggregate price paid HK\$
July 2015	32,328,000	0.110	0.097	3,326,984

The amount paid on the repurchased shares was paid out of the share premium and all the repurchased shares were cancelled during the year.

CORPORATE GOVERNANCE

The Company's corporate governance principles and practices are set out in the Corporate Governance Report of this annual report.

DIRECTORS' REPORT

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, there is sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules.

MAJOR CUSTOMERS AND SUPPLIERS

For the Current Year, the percentages of purchases attributable to the Group's largest supplier and five largest suppliers combined were 6.2% and 20.8%, respectively (2014: 13.1% and 23.4%). For the Current Year, the percentages of sales attributable to the Group's largest customer and 5 largest customers combined were 33.3% and 71.5%, respectively (2014: 29.2% and 83.8%). At no time during the year did a director, an associate of a director or a substantial shareholder (owned more than 5% of the Company's issued share capital to the knowledge of the directors) has a beneficial interest in any of the Group's five largest suppliers or customers.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands.

CHANGES IN INFORMATION OF DIRECTORS

Pursuant to Rule 13.51B(1) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the changes in information of directors of the Company subsequent to the date of the 2015 Interim Report is set out below:

Dr. Cheung Wah Keung was resigned as independent non-executive director of China Kingstone Mining Holdings Limited (stock code 1380) on December 9, 2015, a company listed on the Main Board of the Stock Exchange.

AUDITOR

The consolidated financial statements of the Group for the Current Year have been audited by Cheng & Cheng Limited ("C&C"). C&C was re-appointed on June 5, 2015 as the auditor of the Company and hold office until the conclusion of the forthcoming Annual General Meeting ("AGM"). C&C retires and, being eligible, offers itself for reappointment. C&C was first appointed as our auditor for the annual report for the period ended December 31, 2008 on November 19, 2008. A resolution for re-appointment of C&C as auditor of the Company is to be proposed at the forthcoming AGM.

On behalf of the Board

Tong Nai Kan
Executive director

Hong Kong
March 30, 2016

CORPORATE GOVERNANCE REPORT

The Company is committed to maintaining a high standard of corporate governance and has put in place self-regulatory corporate practices to protect the interests of its shareholders and the enhancement of shareholder's value. We are committed to providing high-quality products and services to the satisfaction of our customers; to maintaining high standards of business ethics and achieving these goals while, at the same time, providing satisfactory and sustainable returns to shareholders. The board had adopted the Code on Corporate Governance Practices (the "CG Code") as contained in Appendix 14 of the Listing Rules.

The Board is pleased to report compliance with code provisions of the CG Code for the period from January 1, 2015 up to December 31, 2015, except CG Code A.2.1, A.6.7 and E.1.2.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules regarding directors' securities since its listing on November 19, 2007. Having made specific enquiries to all Directors, all Directors have confirmed that they have fully complied with the required standard set out in the Model Code for the Current Year.

CORPORATE GOVERNANCE REPORT

THE BOARD

The Board is responsible for the formulation of business policies and strategies in relation to the business operation of the Group, for nomination and appointment of directors, and to ensure the availability of resources as well as to the effectiveness of its system of internal control. The senior management was delegated the authority and responsibilities by the Board for the day-to-day management and operations of the Group. In addition, the Board has also established Board sub-committees and has delegated to these Board committees various responsibilities set out in their terms of reference respectively. Each Director shall ensure that he carries out his duty in good faith and in compliance with the standards of applicable laws and regulations, and acts in the interests of the Company and its shareholders at all times. From January 1, 2015 to December 31, 2015, 14 Board meetings, one Annual General Meeting held on June 5, 2015 ("2015 AGM") and one Extraordinary General Meeting held on April 21, 2015 ("2015 EGM") were held and the attendance of each director is set out as follows:

Directors	Number of Attendance		
	Board Meetings	2015 AGM	2015 EGM
Executive Directors			
Tong Nai Kan	12/14	1/1	0/1
Wong Kwong Sum (<i>appointed on March 9, 2015</i>) (<i>note 1</i>)	12/12	1/1	1/1
Zhao Tieliu	7/14	0/1	0/1
Xie Li (<i>appointed as a non-executive director on July 24, 2015 and re-designed as an executive director with effect from October 26, 2015</i>) (<i>note 2</i>)	1/3	N/A	N/A
Leung Heung Ying (<i>appointed on June 9, 2015 and resigned on October 27, 2015</i>) (<i>note 3</i>)	3/4	N/A	N/A
Lo Siu Leung (<i>resigned with effect from June 8, 2015</i>) (<i>note 4</i>)	7/7	1/1	1/1
Non-executive Directors			
Wang Edward Xu (<i>appointed on October 27, 2015</i>) (<i>note 5</i>)	1/1	N/A	N/A
Ko Ming Tung, Edward (<i>resigned with effect from July 24, 2015</i>) (<i>note 6</i>)	8/10	1/1	1/1
Independent Non-executive Directors			
Cheung Wah Keung (<i>Chairman</i>)	12/14	1/1	1/1
Anthony Espina	12/14	0/1	1/1
Ho Chun Chung, Patrick (<i>appointed on July 10, 2015</i>) (<i>note 7</i>)	4/4	N/A	N/A
Zhang Huadi (<i>appointed on July 10, 2015</i>) (<i>note 8</i>)	3/4	N/A	N/A
Cheng Wai Lam, James (<i>resigned with effect from July 10, 2015</i>) (<i>note 9</i>)	9/9	1/1	1/1

The Chairman, Dr. Cheung Wah Keung attended 2015 AGM to answer questions and collect views of shareholders. Though one independent non-executive director was unable to attend 2015 AGM due to his prior engagement, other Directors, the Company Secretary and the auditors had attended the meeting to answer questions at the meeting.

Board minutes are kept by the Company Secretary and are open for inspection by the Directors.

CORPORATE GOVERNANCE REPORT

Notes:

1. Mr. Wong Kwong Sum was appointed on March 9, 2015 and he was eligible to attend 12 board meetings, 2015 AGM and 2015 EGM.
2. Mr. Xie Li was appointed as a non-executive director on July 24, 2015 and re-designed as an executive director with effect from on October 26, 2015 and he was eligible to attend 3 board meetings, and was not eligible to attend 2015 AGM and 2015 EGM.
3. Mr. Leung Heung Ying was appointed on June 9, 2015 and resigned on October 27, 2015 and he was eligible to attend 4 board meetings, and was not eligible to attend 2015 AGM and 2015 EGM.
4. Mr. Lo Siu Leung resigned on June 8, 2015 and he was eligible to attend 7 board meetings, 2015 AGM and 2015 EGM.
5. Dr. Wang Edward Xu was appointed on October 27, 2015 and he was eligible to attend 1 board meetings, and was not eligible to attend 2015 AGM and 2015 EGM.
6. Mr. Ko Ming Tung, Edward resigned on July 24, 2015 and he was eligible to attend 10 board meetings, 2015 AGM and 2015 EGM.
7. Mr. Ho Chun Chung, Patrick was appointed on July 10, 2015 and he was eligible to attend 4 board meetings, and was not eligible to attend 2015 AGM and 2015 EGM.
8. Mr. Zhang Huadi was appointed on July 10, 2015 and he was eligible to attend 4 board meetings, and was not eligible to attend 2015 AGM and 2015 EGM.
9. Mr. Cheng Wai Lam, James resigned on July 10, 2015 and he was eligible to attend 9 board meetings, 2015 AGM and 2015 EGM.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

For the year ended December 31, 2015, the Company has complied with the code provisions set out in the CG Code as set out in Appendix 14 of the Listing Rules except the following.

Under A.2.1 of the CG Code, the role of Chairman and Chief Executive Officer should be separated and should not be performed by the same individual and the division of responsibilities between Chairman and Chief Executive Officer should be established and set out in writing. Since January 10, 2011, the Company has not had any Chief Executive Officer. The functions of Chief Executive Officer were performed by the Executive Directors. The Board considers that this structure will not impair the balance of the power and authority between the Board and the management of the Company, and has been effective in discharging its responsibilities satisfactorily and facilitating the Company's operation and business development.

Code provision A.6.7 of the Code requires that independent non-executive directors and other non-executive directors shall attend general meetings and develop a balanced understanding of the views of shareholders. Mr. Anthony Espina, being the independent non-executive director, did not attend the Company's annual general meeting held on June 5, 2015 due to his prior engagement.

Under code provision E.1.2 of the Corporate Governance Code, the chairman of the audit committee should be available to answer questions at the annual general meeting of the Company. Due to prior engagement, the chairman of the audit committee was unable to attend the annual general meeting of the Company held on June 5, 2015 in person, but he has already delegated to one of the independent non-executive directors of the Company on his behalf to answer questions at the annual general meeting of the Company.

CORPORATE GOVERNANCE REPORT

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Independent Non-executive Directors are persons with academic and professional qualifications as stated in Directors and Senior Management section. They support the effective discharge of the duties and responsibilities of the Board. Each Independent Non-executive Director has provided an annual confirmation of independence to the Company and the Company considers these Directors to be independent under Rule 3.13 of the Listing Rules.

NON-EXECUTIVE DIRECTORS

The service contract of Independent Non-executive Directors, Dr. Cheung Wah Keung and Mr. Anthony Espina were renewed for two years commencing from November 19, 2014, Mr. Ho Chun Chung, Patrick and Mr. Zhang Huadi were appointed for one year commencing from July 10, 2015, the Non-executive Director, Dr. Wang Edward Xu was appointed for one year commencing from October 27, 2015 and are subject to retirement by rotation at the Annual General Meeting.

BOARD SUB-COMMITTEES

A. Executive Committee

To assist the board of directors in running the operations on a daily basis, the Board had set up a sub-committee, namely Executive Committee on July 15, 2009. The Executive Committee meets at least six times a year. The terms of reference of the Executive Committee are available on the Company's website at www.harmonics33.com and the website of the Stock Exchange.

From January 1, 2015 to December 31, 2015, twenty-six Executive Committee meetings were held. The attendance of each member of Executive Committee is set out as follows:

Directors	Number of Attendance
Executive Directors	
Tong Nai Kan	26/26
Wong Kwong Sum (<i>appointed on March 9, 2015</i>) (<i>note 1</i>)	21/21
Zhao Tieliu	3/26
Xie Li (<i>appointed as a non-executive director on July 24, 2015 and re-designed as an executive director with effect from October 26, 2015</i>) (<i>note 2</i>)	4/5
Lo Siu Leung (<i>resigned with effect from June 8, 2015</i>) (<i>note 4</i>)	12/12

Notes:

1. Mr. Wong Kwong Sum was appointed on March 9, 2015 and he was eligible to attend 21 Executive Committee meetings.
2. Mr. Xie Li was appointed as a non-executive director on July 24, 2015 and re-designed as an executive director with effect from on October 26, 2015. He has been appointed as the member of executive committee with effect from October 27, 2015 and he was eligible to attend 5 Executive Committee meetings.
3. Mr. Lo Siu Leung resigned on June 8, 2015 and he was eligible to attend 12 Executive Committee meetings.

CORPORATE GOVERNANCE REPORT

B. Remuneration Committee

The Remuneration Committee was established on October 30, 2007. The Remuneration Committee assists the Board to determine the policy for the remuneration of executive directors and senior management, assessing performance of executive directors and senior management and approving the terms of executive directors' and senior management's service contracts and to develop a formal and transparent remuneration policy. The Remuneration Committee makes recommendations to the board on the remuneration packages of individual executive directors and senior management.

The Remuneration Committee comprises four Independent Non-executive Directors, namely Dr. Cheung Wah Keung, Mr. Anthony Espina, Mr. Ho Chun Chung, Patrick and Mr. Zhang Huadi, and one Non-executive Director, Dr. Wang Edward Xu. Dr. Cheung Wah Keung is the Chairman of the Remuneration Committee. The Remuneration Committee meets at least two times a year. The terms of reference of Remuneration Committee are available on the Company's website at www.harmonics33.com and the website of the Stock Exchange.

From January 1, 2015 to December 31, 2015, six Remuneration Committee meetings were held. The attendance of each member of Remuneration Committee is set out as follows:

Directors	Number of Attendance
Independent Non-executive Directors	
Cheung Wah Keung (<i>Chairman</i>)	5/6
Anthony Espina	5/6
Ho Chun Chung, Patrick (<i>appointed on July 10, 2015</i>) (<i>note 1</i>)	2/2
Zhang Huadi (<i>appointed on July 10, 2015</i>) (<i>note 2</i>)	2/2
Cheng Wai Lam, James (<i>resigned with effect from July 10, 2015</i>) (<i>note 3</i>)	3/3
Non-executive Directors	
Ko Ming Tung, Edward (<i>resigned with effect from July 24, 2015</i>) (<i>note 4</i>)	4/4
Wang Edward Xu (<i>appointed on October 27, 2015</i>) (<i>note 5</i>)	0/0

During these meetings, the Remuneration Committee reviewed the remuneration packages for all Directors and senior management, the employee's salary increment proposal and relevant reports.

Notes:

1. Mr. Ho Chun Chung, Patrick was appointed on July 10, 2015 and he was eligible to attend 2 Remuneration Committee meetings for the period.
2. Mr. Zhang Huadi was appointed on July 10, 2015 and he was eligible to attend 2 Remuneration Committee meetings for the period.
3. Mr. Cheng Wai Lam, James resigned on July 10, 2015 and he was eligible to attend 3 Remuneration Committee meetings for the period.
4. Mr. Ko Ming Tung, Edward resigned on July 24, 2015 and he was eligible to attend 4 Remuneration Committee meetings for the period.
5. Dr. Wang Edward Xu was appointed on October 27, 2015 and he was not eligible to attend any Remuneration Committee meeting for the period.

CORPORATE GOVERNANCE REPORT

Details of remuneration paid to members of senior management other than the directors fell within the following bands:

	Number of individuals
HK\$0–HK\$1,000,000	1

C. Audit Committee

The Audit Committee was established on October 30, 2007. The Audit Committee is mainly responsible for corporate governance, financial reporting and corporate control.

The Audit Committee comprises four Independent Non-executive Directors, namely Mr. Anthony Espina, Dr. Cheung Wah Keung, Mr. Ho Chun Chung, Patrick and Mr. Zhang Huadi, and one Non-executive Director, Dr. Wang Edward Xu. Mr. Anthony Espina is the Chairman of the Audit Committee.

The Audit Committee meets at least four times a year. The terms of reference of Audit Committee are available on the Company's website at www.harmonics33.com and the website of the Stock Exchange.

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

Directors	Number of Attendance
Independent Non-executive Directors	
Anthony Espina (<i>Chairman</i>)	4/4
Cheung Wah Keung	4/4
Ho Chun Chung, Patrick (<i>appointed on July 10, 2015</i>) (<i>note 1</i>)	2/2
Zhang Huadi (<i>appointed on July 10, 2015</i>) (<i>note 2</i>)	2/2
Cheng Wai Lam, James (<i>resigned with effect from July 10, 2015</i>) (<i>note 3</i>)	2/2
Non-executive Directors	
Ko Ming Tung, Edward (<i>resigned with effect from July 24, 2015</i>) (<i>note 4</i>)	1/2
Wang Edward Xu (<i>appointed on October 27, 2015</i>) (<i>note 5</i>)	0/0

For the Current Year, the work performed by the Audit Committee included:

- reviewing the annual report which comprised the audited consolidated financial statements for the Current Year; and
- reviewing the final result announcement; and
- reviewing the interim report and interim result announcement; and
- reviewing the significant accounting issues raised by the management; and
- reviewing the Company's compliance with regulatory and statutory requirements; and
- reviewing the Group's risk management process; and
- reviewing the Group's internal control system.

The Audit Committee of the Company has reviewed the Group's financial results for the Current Year.

CORPORATE GOVERNANCE REPORT

Notes:

1. Mr. Ho Chun Chung, Patrick was appointed on July 10, 2015 and he was eligible to attend 2 Audit Committee meetings for the period.
2. Mr. Zhang Huadi was appointed on July 10, 2015 and he was eligible to attend 2 Audit Committee meetings for the period.
3. Mr. Cheng Wai Lam, James resigned on July 10, 2015 and he was eligible to attend 2 Audit Committee meetings for the period.
4. Mr. Ko Ming Tung, Edward resigned on July 24, 2015 and he was eligible to attend 2 Audit Committee meetings for the period.
5. Dr. Wang Edward Xu was appointed on October 27, 2015 and he was not eligible to attend any Audit Committee meeting for the period.

D. Nomination Committee

The Nomination Committee was established on March 27, 2012. The Nomination Committee assists the Board to determine the policy, procedures, process and criteria adopted by the Nomination Committee to select and recommend candidates for directorship. In addition, the Nomination Committee is also responsible for reviewing the structure, size and composition of the board, identifying, individuals suitably qualified to become board members, assessing the independence of independent non-executive directors and making recommendations to the board on relevant matters relating to the appointment or re-appointment of directors.

The Nomination Committee comprises four Independent Non-executive Directors, namely Dr. Cheung Wah Keung, Mr. Anthony Espina, Mr. Ho Chun Chung, Patrick and Mr. Zhang Huadi; one Non-executive Director, Dr. Wang Edward Xu and one Executive Director, Mr. Tong Nai Kan. Dr. Cheung Wah Keung is the Chairman of the Nomination Committee.

The Nomination Committee meets at least one time a year. The terms of reference of Nomination Committee are available on the Company's website at www.harmonics33.com and the website of the Stock Exchange.

From January 1, 2015 to December 31, 2015, six Nomination Committee meetings were held. The attendance of each member of Nomination Committee is set out as follows:

Directors	Number of Attendance
Independent Non-executive Directors	
Cheung Wah Keung (<i>Chairman</i>)	4/6
Anthony Espina	5/6
Ho Chun Chung, Patrick (<i>appointed on July 10, 2015</i>) (<i>note 1</i>)	2/2
Zhang Huadi (<i>appointed on July 10, 2015</i>) (<i>note 2</i>)	2/2
Cheng Wai Lam, James (<i>resigned with effect from July 10, 2015</i>) (<i>note 3</i>)	2/3
Non-executive Directors	
Ko Ming Tung, Edward (<i>resigned with effect from July 24, 2015</i>) (<i>note 4</i>)	4/4
Wang Edward Xu (<i>appointed on October 27, 2015</i>) (<i>note 5</i>)	0/0
Executive Director	
Tong Nai Kan	5/6

CORPORATE GOVERNANCE REPORT

During these meetings, the Nomination Committee reviewed the board structure of the Company and recommended candidates for directorship.

Notes:

1. Mr. Ho Chun Chung, Patrick was appointed on July 10, 2015 and he was eligible to attend 2 Nomination Committee meetings for the period.
2. Mr. Zhang Huadi was appointed on July 10, 2015 and he was eligible to attend 2 Nomination Committee meetings for the period.
3. Mr. Cheng Wai Lam, James resigned on June 10, 2015 and he was eligible to attend 3 Nomination Committee meetings for the period.
4. Mr. Ko Ming Tung, Edward resigned on July 24, 2015 and he was eligible to attend 4 Nomination Committee meetings for the period.
5. Dr. Wang Edward Xu was appointed on October 27, 2015 and he was not eligible to attend any Nomination Committee meeting for the period.

E. Risk Management Committee

The Risk Management Committee was established on December 28, 2015 and therefore, no meeting was held during the year. The Risk Management Committee is responsible for assisting the Board to evaluate and determine the nature and extent of the risks the Board is willing to take in achieving the Group's strategic objectives, ensuring that the Group establishes and maintains appropriate and effective risk management and internal control systems, and assisting the Board to oversee management in the design, implementation and monitoring of the risk management and internal control systems. Currently, members of the Risk Management Committee comprise three Executive Directors namely, Mr. Xie Li, Mr. Wong Kwong Sum and Mr. Zhao Tieliu.

The Risk Management Committee meets at least one time a year. The terms of reference of Risk Management Committee are available on the Company's website at www.harmonics33.com and the website of the Stock Exchange.

Corporate Governance Functions

No corporate governance committee has been established and the Board is responsible for performing the corporate governance functions such as developing and reviewing the Company's policies and practices on corporate governance; reviewing and monitoring the training and continuous professional development of directors and senior management; reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements; and reviewing the Company's compliance with the code and disclosure in this Corporate Governance Report.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for the preparation of the consolidated financial statements of the Group for the Current Year and ensure that they are prepared in accordance with statutory requirements and applicable accounting standards. The Directors also ensure the timely publication of such consolidated financial statements.

The statement of the external auditor of the Company, Cheng & Cheng Limited, with regard to its reporting responsibilities on the Group's consolidated financial statements, is set out in the Independent Auditor's Report included in this annual report.

The Directors confirm that, to the best of their knowledge, having made an reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions which may cause the Group not to continue as a going concern.

CORPORATE GOVERNANCE REPORT

BUSINESS MODEL AND STRATEGY

The Group has the mission to excelling credit guarantee and investment business, assets management business, securities dealing and margin business, trading of party products business and trading of metal and minerals business whilst maintaining long term profitability and assets growth with adoption of flexible business model and strategy and prudential risk and capital management framework. The Board have played and will continue to play a proactive role in the Group's development of business model to preserve the culture of the Group in serving customers well with premium service quality; the Group's business strategic drive for business expansion and opportunities; and the Group's setting of strategic goals, priorities and initiatives undertaken to motivate staff to achieve business and financial targets. Details of the Group's Business Review and Financial Review in the year 2015 are set out in the "Management Discussion and Analysis" section of this annual report.

AUDITOR'S REMUNERATION

For the Current Year, the fees paid/payable to the Company's auditor in respect of audit and non-audit services provided by the Company's auditor to the Group were as follows:

	HK\$'000
Audit services	700
Non-audit services	—
	<hr/>
	700
	<hr/> <hr/>

APPOINTMENT AND RE-ELECTION OF DIRECTORS

The procedures and process of appointment, re-election and removal of Directors are laid down in the Company's Articles of Association. The Board as a whole is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of Directors, monitoring the appointment and succession planning of Directors and assessing the independence of Independent Non-executive Directors.

According to Article 130, one-third of the Directors for the time being, or if their number is not a multiple of three, then the number nearest to but not less than one-third shall retire from office by rotation at every Annual General Meeting provided that every Director shall be subject to retirement by rotation at least once every three years. A retiring Director shall be eligible for re-election. Mr. Tong Nai Kan and Mr. Zhao Tielu as Executive Directors, Dr. Cheung Wah Keung as Independent Non-Executive Director, shall retire from office at Annual General Meeting and shall offer themselves for re-election.

The Non-executive Director and the Independent Non-executive Directors were appointed for a fixed term and are subject to re-election in compliance with CG Code A.4.1.

CORPORATE GOVERNANCE REPORT

Board Diversity Policy

The Board has adopted a Board Diversity Policy in August 2013 which sets out the approach to achieve diversity on the Board.

The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance.

The Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. The Company will also take into consideration its own business model and specific needs from time to time in determining the optimum composition of the Board.

The Nomination Committee has set measurable objectives based on four focus areas: gender, age, working experience and ethnicity to implement the Board Diversity Policy. Such objectives will be reviewed from time to time to ensure their appropriateness and the progress made towards achieving those objectives will be ascertained. The Nomination Committee will review the Board Diversity Policy, as appropriate, to ensure its continued effectiveness from time to time.

Board Process

The Board held meetings from time to time whenever necessary. At least 14 days notice of regular Board meetings is given to all directors and they can include matters for discussion in the agenda as they think fit. The agenda accompanying Board papers are sent to all directors at least 3 days before the date of every Board meeting in order to allow sufficient time for the directors to review the documents.

Minutes of every Board meeting are circulated to all directors for their perusal and comments prior to confirmation of the minutes. The Board also ensures that it is supplied in a timely manner with all necessary information in a form and of a quality appropriate to enable it to discharge its duties.

Every Board member has full access to the advice and services of the company secretary with a view to ensuring that Board procedures, and all applicable rules and regulations are followed and they are also entitled to have full access to Board papers and related materials so that they are able to make an informed decision and to discharge their duties and responsibilities.

Professional Development

Each newly appointed Director receives induction on the first occasion of his/her appointment, so as to ensure that he/she has an appropriate understanding of the business and operations of the Company.

To assist directors' continuing professional development, the Company recommends directors to attend relevant seminars to develop and refresh their knowledge and skills. All directors also participate in continuous professional development programmes to develop and refresh their knowledge and skills in relation to their contribution to the Board. A record of the training received by the respective directors are kept and updated by the Company Secretary of the Company.

CORPORATE GOVERNANCE REPORT

The individual training record of each director received for the year ended December 31, 2015 is summarized below:

**Attending seminar(s)/
programme(s)/conference(s)/
reading material relevant to
the business or directors' duties**

Executive Directors

Tong Nai Kan	✓
Wong Kwong Sum (<i>appointed on March 9, 2015</i>)	✓
Zhao Tieliu	✓
Xie Li (<i>appointed as a non-executive director on July 24, 2015 and re-designed as an executive director with effect from October 26, 2015</i>)	✓
Leung Heung Ying (<i>appointed on June 9, 2015 and resigned on October 27, 2015</i>)	N/A
Lo Siu Leung (<i>resigned with effect from June 8, 2015</i>)	N/A

Non-executive Directors

Wang Edward Xu (<i>appointed on October 27, 2015</i>)	✓
Ko Ming Tung, Edward (<i>resigned with effect from July 24, 2015</i>)	N/A

Independent Non-executive Directors

Cheung Wah Keung (<i>Chairman</i>)	✓
Anthony Espina	✓
Ho Chun Chung, Patrick (<i>appointed on July 10, 2015</i>)	✓
Zhang Huadi (<i>appointed on July 10, 2015</i>)	✓
Cheng Wai Lam, James (<i>resigned with effect from July 10, 2015</i>)	N/A

All the Directors also understand the importance of continuous professional development and are committed to participating any suitable training to develop and refresh their knowledge and skills.

COMPANY SECRETARY

Mr. Chen Kwok Wang ("Mr. Chen") was appointed as the company secretary of the Company on October 9, 2014. The biographical details of Mr. Chen are set out under the section headed "Directors and Senior Management". His primary corporate contact at the Company was Mr. Tong Nai Kan. According to the Rule 3.29 of the Listing Rules, Mr. Chen has taken no less than 15 hours of relevant professional training during the financial year ended December 31, 2015.

CORPORATE GOVERNANCE REPORT

INTERNAL CONTROLS

The Board is responsible for the Group's system of internal controls and for reviewing its effectiveness. The Board requires management to establish and maintain sound and effective internal controls. Evaluation of the Group's internal controls is independently conducted by the management on an on-going basis.

The Board confirms that it has reviewed the effectiveness of the internal control system of the Company and its subsidiaries for the Current Year and that the Board considers such system to be sound and effective. The review covered all material controls, including financial, operational, compliance control and risk management functions.

Shareholders' Rights

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. An annual general meeting of the Company shall be held in each year and at the place as may be determined by the Board. Each general meeting, other than an Annual General Meeting, shall be called an Extraordinary General Meeting ("EGM").

— Right to convene Extraordinary General Meeting

Any two or more members or any one member of the Company which is a recognised clearing house (or its nominee(s)) holding at the date of the deposit of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company, shall at all times have the right, by written requisition sent to the Company's principal office as set out in the manner below, to require an EGM to be called by the Board for the transaction of any business specified in such requisition.

The written requisition must state the purposes of the meeting, signed by the requisitionist(s) and deposit it to the Board or the company secretary of the Company at the Company's principal place of business at Unit B, 35/F., No. 169 Electric Road, North Point, Hong Kong.

The request will be verified with the Company's branch share registrar in Hong Kong and upon their confirmation that the request is proper and in order, the company secretary of the Company will ask the Board to convene an EGM by serving sufficient notice in accordance with the statutory requirements to all the registered members. On the contrary, if the request has been verified is not in order, the shareholders will be advised of this outcome and accordingly, an EGM will not be convened as requested. If within twenty one days from the date of the deposit of the requisition the Board fails to proceed to convene such meeting to be held within a further 21 days, the requisitionist(s), may convene a meeting in the same manner within three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed by the Company to the requisitionist(s).

The notice period to be given to all the registered members for consideration of the proposal raised by the requisitionist(s) concerned at the EGM varies according to the nature of the proposal, as follows:

- At least 14 clear days' notice in writing (and not less than 10 clear business days) if the proposal constitutes an ordinary resolution of the Company;
- At least 21 clear days' notice in writing (and not less than 10 clear business days) if the proposal constitutes a special resolution of the Company in EGM.

CORPORATE GOVERNANCE REPORT

— 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 principal place of business of the Company in Hong Kong for the attention of the company secretary.

— Right to put forward proposals at general meetings

There are no provisions allowing shareholders to propose new resolutions at the general meetings under the Cayman Islands Companies Law (2011 Revision). However, shareholders are requested to follow Article 79 of the Company's Articles of Association for including a resolution at an EGM. The requirements and procedures are set out above. Pursuant to Article 116 of the Company's Articles of Association, no person shall, unless recommended by the Board, be eligible for election to the office of Director at any general meeting unless during the period, which shall be at least seven days, commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, there has been given to the Company Secretary notice in writing by a member of the Company (not being the person to be proposed), entitled to attend and vote at the meeting for which such notice is given, of his intention to propose such person for election and notice in writing signed by the person to be proposed of his willingness to be elected. The written notice must state that person's biographical details as required by Rule 13.51(2) of the Listing Rules. The procedures for shareholders of the Company to propose a person for election as director is posted on the Company's website.

Investor Relations

The Company has established a range of communication channels between itself and its shareholders, investors and other stakeholders. These include the annual general meeting, the annual and interim reports, notices, announcements and circulars and the Company's website at www.harmonics33.com.

Constitutional Documents

There was no change to the Company's Memorandum and Articles of Association during the year ended December 31, 2015. A copy of the latest amended and restated version of the Memorandum and Articles of Association is posted on the websites of the Company and the Stock Exchange.

On behalf of the Board

Tong Nai Kan

Executive director

Hong Kong

March 30, 2016

INDEPENDENT AUDITOR'S REPORT



CHENG & CHENG LIMITED

CERTIFIED PUBLIC ACCOUNTANTS

鄭 鄭 會 計 師 事 務 所 有 限 公 司

10/F. Allied Kajima Building,
138 Gloucester Road, Wanchai, Hong Kong

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF HARMONIC STRAIT FINANCIAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Harmonic Strait Financial Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 33 to 99, which comprise the consolidated and Company's statements of financial position as at December 31, 2015, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement 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 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 disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, 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.

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

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

INDEPENDENT AUDITOR'S REPORT

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at December 31, 2015 and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Cheng & Cheng Limited

Certified Public Accountants

Chan Shek Chi

Practising Certificate Number P05540

Hong Kong

March 30, 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended December 31, 2015

	Note	2015 HK\$'000	2014 HK\$'000
Continuing operations			
Revenue	3 & 31	67,360	130,365
Cost of sales		<u>(61,309)</u>	<u>(115,009)</u>
Gross profit		6,051	15,356
Other revenue and other net income	4	1,748	4,197
Operating expenses		<u>(36,876)</u>	<u>(23,329)</u>
Loss from operations		<u>(29,077)</u>	<u>(3,776)</u>
Finance costs			
On bank borrowings		(9)	(48)
Other loan advances		(21,032)	(50,311)
Notional interest		<u>(8,506)</u>	<u>(11,641)</u>
	5	(29,547)	(62,000)
Share of loss of an associate	29	<u>(3,428)</u>	–
Loss before impairment and taxation		(62,052)	(65,776)
Impairment loss on goodwill	14	(1,993)	–
Impairment loss on other receivables	27	–	(13,618)
Impairment loss on a trade receivable	16	<u>(715)</u>	–
Loss before taxation	6	(64,760)	(79,394)
Income tax expense	7	–	<u>(223)</u>
Loss from continuing operations for the year		(64,760)	(79,617)
Discontinued operations			
Profit from discontinued operations	8	–	<u>2,070</u>
Loss for the year		<u>(64,760)</u>	<u>(77,547)</u>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended December 31, 2015

	Note	2015 HK\$'000	2014 HK\$'000
Loss for the year		(64,760)	(77,547)
Other comprehensive loss for the year			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		<u>(5,105)</u>	<u>(2,284)</u>
Total comprehensive loss for the year		<u>(69,865)</u>	<u>(79,831)</u>
Loss for the year attributable to:			
Equity shareholders of the Company		<u>(64,182)</u>	(75,131)
Non-controlling interests		<u>(578)</u>	<u>(2,416)</u>
		<u>(64,760)</u>	<u>(77,547)</u>
Total comprehensive loss for the year attributable to:			
Equity shareholders of the Company		<u>(68,392)</u>	(78,199)
Non-controlling interests	26	<u>(1,473)</u>	<u>(1,632)</u>
		<u>(69,865)</u>	<u>(79,831)</u>
Dividends	9	N/A	N/A
Loss per share	10		
— Basic		<u>HK1.14 cents</u>	<u>HK3.27 cents</u>
— Diluted		<u>N/A</u>	<u>N/A</u>
Loss per share — continuing operations			
— Basic		<u>HK1.14 cents</u>	<u>HK3.46 cents</u>
— Diluted		<u>N/A</u>	<u>N/A</u>

The notes on pages 39 to 99 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2015

	Note	2015 HK\$'000	2014 HK\$'000
Non-current assets			
Property, plant and equipment	13	4,391	2,871
Goodwill	14	18,863	1,993
Interest in an associate	29	15,072	—
		<u>38,326</u>	<u>4,864</u>
Current assets			
Inventories	15	30,931	10,124
Trade receivables	16	8,579	18,537
Prepayments, deposits and other receivables	17	164,707	136,880
Tax recoverable		498	189
Cash and cash equivalents	18	116,760	55,143
		<u>321,475</u>	<u>220,873</u>
Total Assets		<u>359,801</u>	<u>225,737</u>
Capital and reserves			
Share capital	19	736,807	299,240
Reserves	20	(452,705)	(340,414)
Equity attributable to shareholders of the Company		284,102	(41,174)
Non-controlling interests	26	24,284	16,191
Total Equity		<u>308,386</u>	<u>(24,983)</u>
Non-current liabilities			
Deferred taxation	24	34	1,433
		<u>34</u>	<u>1,433</u>
Current liabilities			
Amount due to a director	33(c)	1,515	2,594
Trade payables	21	3,229	6,845
Accruals and other payables	22	46,637	145,229
Bank borrowings — secured	23	—	1,125
Convertible bond	25	—	93,494
		<u>51,381</u>	<u>249,287</u>
Total Equity and Liabilities		<u>359,801</u>	<u>225,737</u>
Net current assets/(liabilities)		270,094	(28,414)
Total assets less current liabilities		308,420	(23,550)

Approved and authorised for issue by the Board of Directors on March 30, 2016.

On behalf of the board

Wong Kwong Sum — Director

Tong Nai Kan — Director

The notes on pages 39 to 99 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2015

	Attributable to equity shareholders of the Company								Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Translation reserve HK\$'000	Capital reserve HK\$'000	Convertible bond reserve HK\$'000	Statutory reserve HK\$'000	Accumulated losses HK\$'000	Non- controlling interests HK\$'000	
At January 1, 2014	178,785	1,276,596	14,057	(15,000)	1,828,475	3,420	(3,319,929)	17,823	(15,773)
Reclassification of the equity portion of convertible bond reserve to share premium	-	591,087	-	-	(591,087)	-	-	-	-
Issue of new shares upon conversions of convertible bond	51,755	614,706	-	-	(666,461)	-	-	-	-
Issue of new shares through subscriptions	68,700	-	-	-	-	-	-	-	68,700
Deferred tax arising from conversions of convertible bond	-	-	-	-	1,921	-	-	-	1,921
Total comprehensive loss for the year	-	-	(3,068)	-	-	-	(75,131)	(1,632)	(79,831)
At December 31, 2014	<u>299,240</u>	<u>2,482,389</u>	<u>10,989</u>	<u>(15,000)</u>	<u>572,848</u>	<u>3,420</u>	<u>(3,395,060)</u>	<u>16,191</u>	<u>(24,983)</u>
At December 31, 2014 and January 1, 2015	299,240	2,482,389	10,989	(15,000)	572,848	3,420	(3,395,060)	16,191	(24,983)
Convertible bond redemption	-	-	-	-	(48,856)	-	48,856	-	-
Issuance of new shares upon conversions of convertible bond	40,800	484,591	-	-	(525,391)	-	-	-	-
Issue of new shares through placing	400,000	(4,403)	-	-	-	-	-	-	395,597
Repurchase	(3,233)	(95)	-	-	-	-	-	-	(3,328)
Deferred tax arising from conversions of convertible bond	-	-	-	-	1,399	-	-	-	1,399
Acquisition of subsidiaries	-	-	-	-	-	-	-	9,566	9,566
Total comprehensive loss for the year	-	-	(4,210)	-	-	-	(64,182)	(1,473)	(69,865)
At December 31, 2015	<u>736,807</u>	<u>2,962,482</u>	<u>6,779</u>	<u>(15,000)</u>	<u>-</u>	<u>3,420</u>	<u>(3,410,386)</u>	<u>24,284</u>	<u>308,386</u>

The notes on pages 39 to 99 form an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended December 31, 2015

	Note	2015 HK\$'000	2014 HK\$'000
Operating activities			
Loss before taxation		(64,760)	(77,324)
Profit from discontinued operations	8	–	(2,070)
		<u>(64,760)</u>	<u>(79,394)</u>
Loss before taxation from continuing operations for the year		(64,760)	(79,394)
Adjustments for:			
Interest income		(494)	(2,819)
Interest expenses on bank loan		9	48
Interest expenses on convertible bond		8,506	11,641
Interest expenses on loan advances		21,032	50,311
Share of loss of an associate		3,428	–
Depreciation		1,428	3,366
Loss on disposal of property, plant and equipment		63	73
Impairment loss on goodwill		1,993	–
Impairment loss on trade receivables		715	–
Impairment loss on other receivables		–	13,618
		<u>(28,080)</u>	<u>(3,156)</u>
Operating loss before changes in working capital		(28,080)	(3,156)
(Increase)/decrease in inventories		(20,807)	9,016
Decrease in trade receivables		9,243	10,205
Increase in prepayments, deposits and other receivables		(27,827)	(108,847)
(Decrease)/increase in amount due to a director		(1,079)	2,369
Decrease in trade payables		(3,616)	(1,760)
Increase in accruals and other payables		16,408	2,291
		<u>(55,758)</u>	<u>(89,882)</u>
Cash used in operations		(55,758)	(89,882)
Profits tax paid		(619)	–
Profits tax refund		310	437
		<u>(56,067)</u>	<u>(89,445)</u>
Net cash used in operating activities		(56,067)	(89,445)
Investing activities			
Purchase of property, plant and equipment		(3,011)	(317)
Interest received		494	2,819
Decrease in restricted cash		–	12,713
Investment in an associate		(18,500)	–
Acquisition of subsidiaries		(9,297)	–
Net proceeds from disposal of subsidiaries	8	–	3,005
		<u>(30,314)</u>	<u>18,220</u>
Net cash (used in)/generated from investing activities		(30,314)	18,220

CONSOLIDATED CASH FLOW STATEMENT

For the year ended December 31, 2015

	Note	2015 HK\$'000	2014 HK\$'000
Financing activities			
Interest paid		(21,041)	(73,048)
Repayment of bank borrowings		–	(3,436)
(Repayment of)/proceeds from in bank borrowings		(1,125)	1,125
Repayment of other loan		(115,000)	–
Repurchase of shares		(3,328)	–
Issuance of shares		395,597	68,700
Redemption of convertible bond		(102,000)	–
		<u>153,103</u>	<u>(6,659)</u>
Net cash generated from/(used in) financing activities		153,103	(6,659)
		<u>66,722</u>	<u>(77,884)</u>
Net increase/(decrease) in cash and cash equivalents		66,722	(77,884)
Cash and cash equivalents at beginning of year		55,143	135,311
Effect of exchange rate changes		(5,105)	(2,284)
		<u>(5,105)</u>	<u>(2,284)</u>
Cash and cash equivalents at end of year	18	<u>116,760</u>	<u>55,143</u>

The notes on pages 39 to 99 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

1. CORPORATE INFORMATION

General information

Harmonic Strait Financial Holdings Limited (the "Company") was incorporated and domiciled in the Cayman Islands under Companies Law (2004 Revision) of the Cayman Islands as an exempted company with limited liability on March 20, 2007. The Company's shares were listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange") on November 19, 2007.

The Company is an investment holding company. The Group is principally engaged in the credit guarantee and investment business in the People's Republic of China ("PRC"), the trading of party products business, trading of metal and mineral business and assets management business.

The address of its principal place of business in Hong Kong is Unit B, 35/F., No. 169 Electric Road, North Point, Hong Kong and the Company has been registered as a non-Hong Kong company under Part XI of the Hong Kong Companies Ordinance on September 4, 2007.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of Compliance

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

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

(b) Basis of Preparation of the Consolidated Financial Statements

The consolidated financial statements for the year ended December 31, 2015 comprise the Company and its subsidiaries have been prepared in accordance with HKFRSs and under the historical cost convention except where stated otherwise in the accounting policies set out below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

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

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

Judgements made by management in the application of HKFRSs that have a significant effect on the consolidated financial statements and major sources of estimation uncertainty are discussed in note 37.

(c) Amendments, New Standards and Interpretations issued and effective for the year ended December 31, 2015

In the current year, the Group has applied for the first time the following amendments (the “new HKFRSs”) issued by the HKICPA, which are relevant to and effective for the Group’s consolidated financial statements for the annual period beginning on January 1, 2015:

Amendments to HKFRSs	Annual improvements to HKFRSs 2010–2012 cycle
Amendments to HKFRSs	Annual improvements to HKFRSs 2011–2013 cycle

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

In addition, the Group has adopted the amendments to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (the “Listing Rules”) relating to the disclosure of financial information with reference to the Hong Kong Companies Ordinance (Cap. 622) during the current financial year. The main impact to the financial statements is on the presentation and disclosure of certain information in the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

(d) Possible impact of Amendments, New Standards and Interpretations issued but not yet effective for the year ended December 31, 2015.

The directors anticipate that all of the pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new or amended HKFRSs that are expected to have impact on the Group's accounting policies is provided below. Certain other new and amended HKFRSs have been issued but are not expected to have a material impact on the Group's consolidated financial statements.

HKFRS 9	Financial instruments ²
HKFRS 15	Revenue from contracts with customers ²
Amendments to HKFRS 11	Accounting for acquisitions of interests in joint operations ¹
Amendments to HKAS 1	Disclosure initiative ¹
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortisation ¹
Amendments to HKAS 27	Separate financial statements — Equity method in separate financial statements ¹
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture ³
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment entities: Applying the consolidation exception ¹
Amendments to HKFRSs	Annual improvements to HKFRSs 2012–2014 cycle ¹

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

² Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

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

(e) Business Combinations under Common Control

Business combinations under common control are accounted for in accordance with the merger accounting. In applying merger accounting, the combined financial information incorporates the consolidated financial statements items of the combining entities or business in which the common control combination occurs as if they had been combined from the date when the combining entities or business first came under the control of controlling party.

The net assets of the combining entities or businesses are combined using the existing book values prior to the common control combinations from the controlling parties' perspective. No account is recognised in respect of goodwill or excess acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The combined statement of comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of common control combination.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

The comparative amounts in the combined financial information are presented as if the entities or business had been combined at the end of the previous reporting period or when they first came under common control, whichever is shorter.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment indicator of an impairment of the asset transferred.

(f) Subsidiaries and Non-controlling Interests

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

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

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

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

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

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

In the Company's statement of financial position an investment in a subsidiary is stated at cost less any impairment losses (see note 2(l)) unless the investment is classified as held for sale.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

(g) Business combinations

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed 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. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

(h) Interest in an associate

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investment in an associate is accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the comprehensive income of the investee after the date of acquisition. The Group's investment in an associate includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to consolidated statement of profit or loss where appropriate.

The Group's share of post-acquisition comprehensive income is recognised in consolidated statement of profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in an associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to "share of profit/(loss) of an associate" in consolidated statement of profit or loss and other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associate. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(i) Goodwill

Goodwill represents the excess of:

- (i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over
- (ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

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

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

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

(j) Property, Plant and Equipment

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

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

Leasehold improvement	the shorter of lease-term or 4–5 years
Plant and machinery	2–5 years
Furniture, fixtures and equipment	4–5 years
Moulds	5 years
Motor vehicles	3–5 years

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

(k) Leased Assets

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

(i) Classification of assets leased to the Group

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

(ii) Operating lease charges

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

(l) Impairment of Assets

(i) Impairment of investment in debt and equity securities and other receivables

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

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial re-organisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

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

- For investments in associates accounted for under the equity method in the consolidated financial statements (see note 2(h)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 1(n)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 2(l)(ii).
- For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.
- For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

(ii) Impairment of other assets

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

- property, plant and equipment (other than properties carried at revalued amounts);
- investment in subsidiaries in the Company's statement of financial position (except for those classified as held for sale or included in a disposal group that is classified as held for sale); and
- goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

— Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— Recognition of impairment losses

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

— Reversals of impairment losses

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

(m) Inventories

Inventories are stated at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprise all costs of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(n) Loans and Receivables

Loan and receivables, including investment-loan and receivables and trade and other receivables, are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment losses for bad and doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment losses for bad and doubtful debts.

(o) Convertible Bond

Convertible bond that can be converted to equity share capital at the option of the holders, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component. At initial recognition, the liability component of the convertible bond is measured as the present value of the future interest and principal payments, discounted at the market interest rate for similar liabilities that do not have a conversion option. The remaining proceeds are allocated to the conversion option as equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method, until extinguished on conversion or maturity.

The equity component is recognised in equity, net of any tax effects. When the bond is converted, the relevant equity component and the carrying amount of the liability component at the time of conversion are transferred to share capital and share premium for the shares issued. When the bond is redeemed, the relevant equity component is transferred to retained profits or accumulated losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

(p) Interest-bearing Borrowings

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

(q) Trade and Other Payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(r) Cash and Cash Equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(s) Employee Benefits

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

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

(ii) Termination benefits

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

(t) Income Tax

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

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

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

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

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

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

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

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(u) Financial Guarantees Issued, Provisions and Contingent Liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e., the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

(ii) Other provisions and contingent liabilities

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

(v) Revenue Recognition

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

(i) *Credit guarantee service and investment income*

Credit guarantee service and investment income consist of guarantee fee and related service income are recognised when the service is rendered or the related risks and rewards of ownership is transferred.

(ii) *Sale of goods*

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts. Any compensation from the cancel of contracts are recognised when it is received.

(iii) *Interest income*

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

(iv) *Commission income*

Commission income for broking business is recorded as income on a trade date basis.

(v) *Hotel accommodation service*

Hotel accommodation service is recognised when the service is rendered.

(vi) *Dividend income*

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

(vii) Other income not stated above is recognised whenever received or receivable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

(w) Foreign Currencies

The Group's consolidated financial statements are presented in Hong Kong dollars, which is also the parent company's functional currency. For each entity the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation and has elected to recycle the gain or loss that arises from using this method.

(i) Transactions and balances

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

(ii) Group companies

On consolidation, the assets and liabilities of foreign operations are translated into Hong Kong dollars at the rate of exchange prevailing at the reporting date and their income statements are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

(x) Borrowing Costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

(y) Related Parties

- (a) A person, or a close member of that person's family, is related to the Group if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or the Group's parent.
- (b) An entity is related to the Group if any of the following conditions applies:
 - (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the group or to the group's parent.

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

(z) 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 most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

(aa) Discontinued operations

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

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

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

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

3. REVENUE

Revenue represents credit guarantee service and investment income, net amounts received and receivable for goods sold with any compensations less sales returns and discounts. The amount of each significant category of revenue recognised in revenue during the year is as follows:

	2015 HK\$'000	2014 HK\$'000
Continuing operations		
Credit guarantee service and investment income	3,751	3,540
Sales of goods — party product	61,036	98,889
Sales of goods — metal and minerals	2,573	27,936
	<u>67,360</u>	<u>130,365</u>
Discontinued operations		
Insurance brokerage commission income	—	7,657
Provision of hotel accommodation service	—	10,896
	<u>—</u>	<u>18,553</u>
Total	<u><u>67,360</u></u>	<u><u>148,918</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

4. OTHER REVENUE AND OTHER NET INCOME

	2015 HK\$'000	2014 HK\$'000
Other revenue		
Total interest income on financial assets not at fair value through profit or loss	494	2,819
Sundry income	1,017	1,297
Net realized gain on financial assets available for sale	382	–
	<u>1,893</u>	<u>4,116</u>
Other net (expenses)/income		
Net exchange (loss)/gain	(145)	81
	<u>1,748</u>	<u>4,197</u>

5. FINANCE COSTS

	2015 HK\$'000	2014 HK\$'000
Continuing operations		
Interest expenses on bank borrowings wholly repayable within five years	9	48
Interest expenses on loan advances	21,032	50,311
Imputed interest expenses on convertible bond	8,506	11,641
	<u>29,547</u>	<u>62,000</u>
Total interest expenses on financial liabilities not at fair value through profit or loss	<u>29,547</u>	<u>62,000</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

6. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging/(crediting) the following:

	2015 HK\$'000	2014 HK\$'000
Continuing operations		
Auditor's remuneration	700	900
Cost of inventories included in cost of sales	57,154	87,514
Depreciation	1,428	1,310
Loss on disposal of property, plant and equipment	63	73
Staff costs:		
— Salaries, wages and other benefits (including directors' emoluments)	14,020	11,458
— Contributions to defined contribution retirement plans	1,296	1,020
Operating lease charges on rented premises	8,594	5,191
Decrease in provision for guarantee contracts	–	(198)
Net exchange loss/(gain)	145	(81)
Impairment loss on other receivables	–	13,618
Impairment loss on trade receivables	715	–
Impairment loss on goodwill	1,993	–
Gain on disposal of subsidiaries	–	3,480

7. INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

- (a) The amount of taxation for the continuing operations charged to the consolidated statement of profit or loss and other comprehensive income represents:

	2015 HK\$'000	2014 HK\$'000
Hong Kong Profits Tax		
Provision for the year	–	280
Deferred tax		
Reversal of temporary differences	–	(57)
	<u>–</u>	<u>223</u>

Hong Kong Profits Tax has been provided for at the rate of 16.5% (2014: 16.5%) on the estimated assessable profits for the year. Taxation of subsidiaries in PRC and overseas are charged at the appropriate current rates of taxation ruling in the relevant countries.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

(b) Reconciliation between actual tax expense and notional tax on loss before taxation at the applicable tax rates:

	2015	2014
	HK\$'000	HK\$'000
Loss before taxation	(64,760)	(79,394)
Notional tax on loss before taxation, calculated at the applicable tax rate 16.5% (2014: 16.5%)	(10,686)	(13,100)
Effect of different tax rate in other country	(430)	(111)
Tax effect of income not subject to taxation	(306)	(1)
Tax effect of expenses not deductible for taxation purposes	8,842	13,177
Tax effect of prior year's tax losses utilized in this year	–	(5)
Unused tax losses not recognised	2,683	762
Tax effect of origination and reversal of temporary differences	(103)	(499)
	<hr/>	<hr/>
Actual tax expense	<u>–</u>	<u>223</u>

8. DISCONTINUED OPERATIONS

During the year ended December 31, 2014 the Group disposed of its hotel business segment and financial planning services business segment. No operation was discontinued during the year ended December 31, 2015.

The results of discontinued operations

	2014
	HK\$'000
Revenue	18,734
Expenses	<u>(20,144)</u>
Result from discontinued operations	(1,410)
Income tax credit	<u>–</u>
Result from discontinued operations, net of tax	(1,410)
Gain on disposal of subsidiaries	<u>3,480</u>
Profit for the year from discontinued operations	<u><u>2,070</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

Effect of disposal on the financial position of the Group

	2014 HK\$'000
Property, plant and equipment	2,327
Deferred taxation	6,359
Prepayments, deposits and other receivables	4,487
Cash and cash equivalents	10,095
Trade payables	(1,111)
Accruals and other payables	(9,433)
Bank borrowings — secured	(1,517)
Tax liabilities	(177)
	<hr/>
Net assets	11,030
	<hr/> <hr/>
Consideration received, satisfied in cash	13,100
Cash and cash equivalents disposed of	(10,095)
	<hr/>
Net cash inflow	3,005
	<hr/> <hr/>

Cash flows from discontinued operations

	2014 HK\$'000
Net cash used in operating activities	(175)
Net cash used in financial activities	(632)
Net cash generated from investing activities	3,005
	<hr/>
	2,198
	<hr/> <hr/>

9. DIVIDENDS

The Board of the Company did not recommend any final dividend for the year ended December 31, 2015. No dividend was paid during the year (2014: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

10. LOSS PER SHARE

(a) Basic loss per share

Basic loss per share is calculated by dividing the loss attributable to equity shareholders of the Company by the weighted average number of ordinary shares in issue during the year.

	2015	2014
	HK\$'000	HK\$'000
Loss attributable to equity shareholders		
— continuing operations	(64,182)	(77,201)
Profit attributable to equity shareholders		
— discontinued operations	—	2,070
	<u>—</u>	<u>2,070</u>
Loss attributable to equity shareholders	<u>(64,182)</u>	<u>(75,131)</u>
	2015	2014
	'000 shares	'000 shares
Weighted average number of ordinary shares		
At the beginning of the year	2,992,400	1,787,850
Effect of conversion of convertible bond	263,825	172,614
Effect of repurchase	(13,374)	—
Effect of issuance of share through subscriptions	2,378,082	338,630
	<u>2,378,082</u>	<u>338,630</u>
At the end of the year	<u>5,620,933</u>	<u>2,299,094</u>

Total ordinary shares outstanding at December 31, 2015 was 7,368,072,000 shares (2014: 2,992,400,000 shares).

The Group does not have earnings per share for discontinued operations for the year since there is no discontinued operations (2014: HK0.09 cents).

(b) Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company's only dilutive potential ordinary shares are the convertible bond issued in 2010. The convertible bond is assumed to have been converted into ordinary shares, and the net loss is adjusted to eliminate the interest expenses. Since the impact of conversion of convertible bond on earnings per share is anti-dilutive, diluted earnings per share was not presented in both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

11. RETIREMENT BENEFITS COSTS

The Group has implemented a provident fund scheme for its staff in Hong Kong in compliance with the requirements of the Mandatory Provident Fund Schemes Ordinance (the "MPF Ordinance") effective from December 1, 2000. The Group contributed according to the minimum requirements of the MPF Ordinance and the contributions are charged to the consolidated statement of profit or loss and other comprehensive income.

The employees of the Group's subsidiaries that operated in the PRC are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute pension, based on a certain percentage of their payroll costs, to the pension schemes. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

12. DIRECTORS' REMUNERATION AND INDIVIDUALS WITH HIGHEST PAY

- (a) Directors' remuneration disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies Ordinance (Disclosure of Information about Benefits of Directors Regulation) is shown as follows:

	For the year ended December 31, 2015				Total HK\$'000
	Fees HK\$'000	Basic salaries, allowance and other benefits HK\$'000	Discretionary Bonus HK\$'000	Contributions to retirement scheme HK\$'000	
Executive Directors					
Tong Nai Kan	120	-	-	6	126
Zhao Tieliu	172	444	-	-	616
Wong Kwong Sum (appointed on March 9, 2015)	374	-	-	15	389
Xie Li (appointed on July 24, 2015) (note 1)	618	-	-	-	618
Lo Siu Leung (resigned with effect from June 8, 2015) (note 2)	25	410	1,580	15	2,030
Leung Heung Ying (appointed on June 9, 2015 and resigned with effect from October 27, 2015)	920	-	-	2	922
Non-executive Directors					
Dr Wang Edward Xu (appointed on October 27, 2015)	43	-	-	-	43
Ko Ming Tung, Edward (resigned with effect from July 24, 2015)	84	-	-	-	84
Independent Non-executive Directors					
Cheung Wah Keung (Chairman)	174	-	-	-	174
Anthony Espina	174	-	-	-	174
Ho Chun Chung, Patrick (appointed on July 10, 2015)	86	-	-	-	86
Zhang Huadi (appointed on July 10, 2015)	86	-	-	-	86
Cheng Wai Lam, James (resigned with effect from July 10, 2015)	126	-	-	-	126
	<u>3,002</u>	<u>854</u>	<u>1,580</u>	<u>38</u>	<u>5,474</u>

Notes:

- (1) Mr Xie Li was appointed as non-executive director on July 24, 2015 and re-designated from a non-executive director to an executive director with effect from October 27, 2015.
- (2) Mr Lo Siu Leung received a salary of HK\$1,023,000 and contributions to retirement scheme of HK\$16,000 as the general manager of trading of party product business after his resignation as the director of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

	For the year ended December 31, 2014				Total HK\$'000
	Fees HK\$'000	Basic salaries, allowance and other benefits HK\$'000	Discretionary Bonus HK\$'000	Contributions to retirement scheme HK\$'000	
Executive Directors					
Lo Siu Leung	150	674	–	26	850
Tong Nai Kan	120	–	–	6	126
Zhao Tieliu	150	401	–	–	551
Gao Hong (<i>appointed on October 9, 2014 and removed on November 23, 2014</i>)	22	–	–	–	22
Wong Kwong Sum (<i>appointed on March 9, 2015</i>)	–	–	–	–	–
Non-executive Directors					
Ko Ming Tung, Edward	150	–	–	–	150
Lee Kam Wah (<i>resigned with effect from February 14, 2014</i>)	30	–	–	–	30
Independent Non-executive Directors					
Cheung Wah Keung (<i>Chairman</i>)	174	–	–	–	174
Anthony Espina	174	–	–	–	174
Cheng Wai Lam, James	240	–	–	–	240
	1,210	1,075	–	32	2,317

There was no arrangement under which a director agreed to waive any remuneration during the year (2014: Nil).

As at December 31, 2015, no share option has been granted and held by the directors under the Company's share option scheme (2014: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

(b) Individuals with highest emoluments

Of the five individuals with the highest paid in the Group, four (2014: two) were directors of the Company whose emoluments are disclosed in note 12(a) above. The emoluments of the remaining one (2014: three) individual was as follows:

	2015 HK\$'000	2014 HK\$'000
Salaries and other benefits	1,230	2,656
Contributions to defined contribution retirement plans	18	26
	<u>1,248</u>	<u>2,682</u>

Their emoluments were within the following bands:

	2015 Number of employees	2014 Number of employees
Below HK\$1,000,000	–	3
HK\$1,000,001 to HK\$1,500,000	<u>1</u>	<u>–</u>

During both years, no inducement payment or compensation for loss of office was paid to the five highest paid individuals.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvement HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and equipment HK\$'000	Moulds HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost						
At January 1, 2014	26,087	19,393	6,336	1,475	1,812	55,103
Additions	192	46	76	3	–	317
Disposal	(23,293)	(2,845)	(3,459)	–	(1,149)	(30,746)
At December 31, 2014 and January 1, 2015	<u>2,986</u>	<u>16,594</u>	<u>2,953</u>	<u>1,478</u>	<u>663</u>	<u>24,674</u>
Additions	1,053	325	569	7	1,057	3,011
Disposal	(1,011)	(14,751)	(1,914)	(1,127)	–	(18,803)
At December 31, 2015	<u>3,028</u>	<u>2,168</u>	<u>1,608</u>	<u>358</u>	<u>1,720</u>	<u>8,882</u>
Accumulated depreciation						
At January 1, 2014	21,116	18,200	5,450	1,234	783	46,783
Charge for the year	2,355	453	271	94	193	3,366
Written back on disposal	(21,390)	(2,796)	(3,350)	–	(810)	(28,346)
At December 31, 2014 and January 1, 2015	<u>2,081</u>	<u>15,857</u>	<u>2,371</u>	<u>1,328</u>	<u>166</u>	<u>21,803</u>
Charge for the year	629	378	84	69	268	1,428
Written back on disposal	(1,009)	(14,718)	(1,900)	(1,113)	–	(18,740)
At December 31, 2015	<u>1,701</u>	<u>1,517</u>	<u>555</u>	<u>284</u>	<u>434</u>	<u>4,491</u>
Net book values						
At December 31, 2015	<u><u>1,327</u></u>	<u><u>651</u></u>	<u><u>1,053</u></u>	<u><u>74</u></u>	<u><u>1,286</u></u>	<u><u>4,391</u></u>
At December 31, 2014	<u><u>905</u></u>	<u><u>737</u></u>	<u><u>582</u></u>	<u><u>150</u></u>	<u><u>497</u></u>	<u><u>2,871</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

14. GOODWILL

	2015	2014
	HK\$'000	HK\$'000
At the beginning of the year	1,993	1,993
Impairment during the year	(1,993)	–
Acquisition of a subsidiary	18,863	–
	<u>18,863</u>	<u>–</u>
At the end of the year	<u>18,863</u>	<u>1,993</u>

All goodwill arose as a result of acquisition of businesses.

Impairment tests for cash-generating units containing goodwill

For the purposes of impairment tests, goodwill has been allocated to the following cash generating units (“CGU”). The carrying amount of goodwill as at the end of the reporting period is allocated as follows:

	2015	2014
	HK\$'000	HK\$'000
Credit guarantee business and investment business	–	1,993
Assets management business	18,863	–
	<u>18,863</u>	<u>–</u>

Credit guarantee business and investment business

The key assumptions for credit guarantee business used, include: there will be no major change in the existing political, legal and economic conditions in the locations in which Market Season’s Group is operating; there will be no major change in the current taxation law in the locations in which the business are operating, that the rates of tax payable by Market Season’s Group regarding its business operations remain unchanged and that all applicable laws and regulations will be complied by Market Season’s Group; the interest rates and exchange rates will not differ materially from those presently prevailing; Market Season’s Group is free from any unsettled litigations; Market Season’s Group shall have no legal impediment to obtain or renew all necessary permits and approvals to carry out its business; Market Season’s Group shall secure and retain competent management, key personnel, marketing and technical staff to carry out and support its existing and planned businesses; the operating assets, management system and trading platform of Market Season’s Group are in a good working condition and can perform efficiently accordingly to the purposes for which they were designed and built; the business forecast of Market Season’s Group revealed is based on reasonable grounds, reflecting estimates which have been arrived at after due and careful consideration and the availability of finance will be in accordance with business plan and projection and other assumptions, etc. Based on the impairment tests performed, impairment loss of HK\$1,993,000 is recognised for the year (2014: Nil).

	2015	2014
Gross margin	N/A	N/A
Growth rate	N/A	N/A
Discount rate	12%	12%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

Assets management business

The key assumptions for assets management business used, include: there will be no major change in the existing political, legal and economic conditions, social security insurance policies and its administrative systems in the PRC in which 上海驂駟投資管理有限公司 is being operated; the interest rates and exchange rates will not differ materially from those presently prevailing; the availability of finance will not be a constraint on the forecast growth of 上海驂駟投資管理有限公司 operations in accordance with the business plan and the projection; 上海驂駟投資管理有限公司 have obtained all necessary permits, licenses, qualification certificates and approvals to carry out the business operations in the PRC and shall have no legal and administrative impediment in obtaining or renewing the same upon its expiry; the production facilities, systems and the technology utilized by 上海驂駟投資管理有限公司 in carrying out its existing businesses do not infringe any relevant regulations and law and intelligent property rights of third parties; 上海驂駟投資管理有限公司 is free and clear of any interest bearing loan, off balance sheet debt, lien, charge, option, pre-emptive rights or other encumbrances or rights whatsoever; 上海驂駟投資管理有限公司 shall secure and retain competent management, key personnel, marketing and technical staff to carry out and support its existing and planned business operations; and the estimated fair value does not include consideration of any extraordinary financing or income guarantees, special tax considerations or any other typical benefits which may influence the ordinary business enterprise values of the 上海驂駟投資管理有限公司. The business forecast of 上海驂駟投資管理有限公司 revealed is based on reasonable grounds, reflecting estimates which have been arrived at after due and careful consideration and the availability of finance will be in accordance with business plan and projection and other assumptions, etc. Based on the impairment tests performed, no impairment loss is recognised for the year.

The recoverable amount of the cash generating unit of asset management business is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a seven-year period. Cash flows beyond the seven-year period are extrapolated using an estimated weighted average growth rate of 0%, which assume that the business would not have significant growth. The growth rates used do not exceed the long-term average growth rates for the business in which the cash generating unit operates. The cash flows are discounted using a discount rate of 23.6%. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

15. INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	2015	2014
	HK\$'000	HK\$'000
Raw materials	3,964	5,760
Work-in-progress	2,051	2,325
Finished goods	24,916	2,039
	<u>30,931</u>	<u>10,124</u>

(b) The analysis of the amount of inventories recognised as an expense is as follows:

	2015	2014
	HK\$'000	HK\$'000
Carrying amount of inventories sold	<u>57,154</u>	<u>87,514</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

16. TRADE RECEIVABLES

Customers are usually offered a credit period of up to 90 days. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management.

(a) An ageing analysis of trade receivables is as follows:

	2015	2014
	HK\$'000	HK\$'000
Within 30 days	5,915	9,681
31 to 60 days	1,818	4,018
61 to 90 days	764	976
Over 90 days	82	3,862
	<u>8,579</u>	<u>18,537</u>

Trade receivables included HK\$81,519 (2014: HK\$3,862,594) which were past due at December 31, 2015. Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

(b) Impairment losses on trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly.

For the year ended December 31, 2015, a trade receivable in amount of HK\$715,000 of the credit guarantee service and investment business was uncollectible and written off (2014: Nil).

(c) Trade receivables denominated in other currencies

Included in the trade receivables are the following amounts denominated in currencies other than the functional currency:

	2015	2014
	'000	'000
	US\$170	US\$63
	<u>RMB373</u>	<u>RMB1,854</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

17. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2015 HK\$'000	2014 HK\$'000
Trade deposits and other receivables (Note)	138,326	134,912
Prepayments	22,316	82
Rental, utility and sundry deposits	3,794	1,490
Staff advances	271	396
	<u>164,707</u>	<u>136,880</u>

Note: The amount includes trade deposits HK\$52,350,000 (2014: HK\$25,800,000) for purchase of metal and minerals product, entrusted loan HK\$78,602,000 (2014: HK\$75,960,000) and no advance to a related company for the year (2014: HK\$31,493,000).

The carrying amounts of prepayments, deposit and other receivables at the end of the reporting period approximated their fair value. All of the prepayments, trade deposits and other receivables are expected to be recovered, or recognized as expenses within one year.

Included in prepayments, deposits and other receivables are the following amounts denominated in currencies other than the functional currency.

	2015 '000	2014 '000
	<u>RMB1,274</u>	<u>–</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

18. CASH AND CASH EQUIVALENTS

	2015 HK\$'000	2014 HK\$'000
Cash and bank balances	<u>116,760</u>	<u>55,143</u>
Cash and cash equivalents	<u>116,760</u>	<u>55,143</u>

Cash and cash equivalents in the consolidated cash flow statements as at December 31, 2015 and 2014 were HK\$116,760,000 and HK\$55,143,000 respectively.

Cash and cash equivalents include short-term bank deposit, carrying interest at prevailing market rates.

Included in cash and cash equivalents are the following amounts denominated in currencies other than the functional currency:

	2015 '000	2014 '000
	US\$385	US\$519
	RMB2,031	RMB2,056
	<u>HK\$20,438</u>	<u>–</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

19. SHARE CAPITAL

	Number of shares '000	Amount HK\$'000
Ordinary shares of HK\$0.1 each		
Authorized:		
As at January 1, 2014 and December 31, 2014	5,000,000	500,000
Increase during the year	<u>5,000,000</u>	<u>500,000</u>
As at December 31, 2015	10,000,000	1,000,000
Issued and fully paid:		
As at December 31, 2013 and January 1, 2014	1,787,850	178,785
Issue of new shares upon conversion of convertible bond	517,550	51,755
Issue of new shares through subscriptions	<u>687,000</u>	<u>68,700</u>
As at December 31, 2014 and January 1, 2015	2,992,400	299,240
Issue of new shares upon conversion of convertible bond (note b)	408,000	40,800
Issue of new shares through placing (note d)	4,000,000	400,000
Repurchase during the year (note e)	<u>(32,328)</u>	<u>(3,233)</u>
As at December 31, 2015	<u><u>7,368,072</u></u>	<u><u>736,807</u></u>

- (a) The Company has a share option scheme, under which the Company may grant options to any employee or director to subscribe for shares in the Company, up to a maximum of 10% of the issued share capital of the Company (absolute maximum number of share option: 737,640,000 shares). No share option was granted during the year and there was no outstanding share option as at December 31, 2015.
- (b) HK\$510,000,000 convertible bonds of the Company were converted into 408,000,000 shares during the year ended December 31, 2015.
- (c) The authorized share capital of the Company increased from HK\$500,000,000 to HK\$1,000,000,000 by the creation of an additional 5,000,000,000 shares and the placing of shares were approved by shareholders at the extraordinary general meeting on April 21, 2015.
- (d) On February 23, 2015, the Company entered into a placing agreement with a placing agent to place up to 4,000,000,000 placing shares at the placing price of HK\$0.1 per placing share, a discount of approximately 13.79% to the closing price of HK\$0.116 per Share as quoted on the Stock Exchange on February 18, 2015. On May 29, 2015, 4,000,000,000 placing shares were placed to not less than six places at HK\$0.1 per placing shares.
- (e) In July 2015, 32,328,000 shares were repurchased on the Stock Exchange of Hong Kong Limited, in aggregate amount of HK\$3.3 million at the price per share between HK\$0.097 and HK\$0.110, and cancelled in August 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

20. RESERVES

The Group

	Note	Share premium HK\$'000	Translation reserve HK\$'000	Capital reserve HK\$'000	Convertible bond reserve HK\$'000	Statutory reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At January 1, 2014		1,276,596	14,057	(15,000)	1,828,475	3,420	(3,319,929)	(212,381)
Reclassification of the equity portion of convertible bond reserve to share premium	a	591,087	-	-	(591,087)	-	-	-
Issue of new shares upon conversions of convertible bond		614,706	-	-	(666,461)	-	-	(51,755)
Deferred tax arising from conversions of convertible bond		-	-	-	1,921	-	-	1,921
Disposal of subsidiaries		-	(1,848)	-	-	-	-	(1,848)
Total comprehensive loss for the year		-	(1,220)	-	-	-	(75,131)	(76,351)
At December 31, 2014 and at January 1, 2015		2,482,389	10,989	(15,000)	572,848	3,420	(3,395,060)	(340,414)
Convertible bond redemption		-	-	-	(48,856)	-	48,856	-
Issuance of new shares upon conversion of convertible bonds		484,591	-	-	(525,391)	-	-	(40,800)
Issuance of new shares through placing		(4,403)	-	-	-	-	-	(4,403)
Repurchase		(95)	-	-	-	-	-	(95)
Deferred tax arising from conversions of convertible bond	24	-	-	-	1,399	-	-	1,399
Total comprehensive loss for the period		-	(4,210)	-	-	-	(64,182)	(68,392)
At December 31, 2015		<u>2,962,482</u>	<u>6,779</u>	<u>(15,000)</u>	<u>-</u>	<u>3,420</u>	<u>(3,410,386)</u>	<u>(452,705)</u>

Note a: The reclassification from equity portion to share premium was the result from convertible bonds converted in previous years, those conversions did not affect the liability portion, and the reclassification was made between the convertible bond reserves and share premium within the equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

The Company

	Share premium HK\$'000	Contributed surplus HK\$'000	Convertible bond reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At January 1, 2014	1,276,596	31,971	1,828,475	(3,304,389)	(167,347)
Issue of new shares upon conversions of convertible bond	1,205,793	–	(1,257,548)	–	(51,755)
Deferred tax arising from conversions of convertible bond	–	–	1,921	–	1,921
Total comprehensive loss for the year	–	–	–	(95,332)	(95,332)
At December 31, 2014 and January 1, 2015	2,482,389	31,971	572,848	(3,399,721)	(312,513)
Convertible bond redemption	–	–	(48,856)	48,856	–
Issuance cost of new shares upon conversion of convertible bonds	484,591	–	(525,391)	–	(40,800)
Issuance cost of new shares through placing	(4,403)	–	–	–	(4,403)
Repurchase	(95)	–	–	–	(95)
Deferred tax arising from conversions of convertible bond	–	–	1,399	–	1,399
Total comprehensive loss for the period	–	–	–	(24,635)	(24,635)
At December 31, 2015	<u>2,962,482</u>	<u>31,971</u>	<u>–</u>	<u>(3,375,500)</u>	<u>(381,047)</u>

(i) Share premium

The application of the share premium account is governed by the Companies Law of the Cayman Islands. Under the Companies Law of the Cayman Islands, the funds in share premium account are distributable to shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

(ii) Translation reserve

Translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operation.

(iii) Capital reserve

Capital reserve of the Group represents the difference between the nominal values of the ordinary shares issued by the Company and the share capital of Silver Pattern Limited acquired through the share swap pursuant to the Reorganisation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

(iv) Contributed surplus

Contributed surplus represents the excess of the fair value of the shares of Silver Pattern Limited determined on the basis of the consolidated net assets of Silver Pattern Limited at the due of the Reorganisation over the normal value of the shares issued by the Company in exchange thereof.

(v) Convertible bond reserve

The convertible bond reserve represents the unexercised equity component of the convertible bond issued by the Company recognised in accordance with the accounting policy adopted for convertible bond.

(vi) Statutory reserve

The Company's subsidiaries incorporated in the PRC are required to make appropriations to statutory reserves from their profit for the year after offsetting accumulated losses carried forward from prior years as determined under the PRC accounting regulations and before distribution to equity holders. The percentages to be appropriated to such statutory reserve are determined according to relevant regulations in the PRC. Enterprises in Mainland China are required to transfer at least 10% of their profit after taxation to the statutory surplus reserve until the balance of the reserve is equal to 50% of their registered capital.

(vii) Distributability of reserves

At December 31, 2015, no reserves were available for distribution to equity shareholders of the Company (2014: Nil).

21. TRADE PAYABLES

The ageing analysis of trade payables is as follows:

	2015 HK\$'000	2014 HK\$'000
0 to 30 days	1,671	3,420
31 to 60 days	1,157	2,926
61 to 90 days	113	344
Over 90 days	288	155
	<u>3,229</u>	<u>6,845</u>

The trade payables are non-interest bearing and are normally settled on 90-day terms. The carrying amounts of the trade payables at the end of the reporting period approximated their fair values.

Included in trade payables are the following amounts denominated in a currency other than the functional currency:

	2015 '000	2014 '000
	<u>RMB572</u>	<u>RMB1,319</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

22. ACCRUALS AND OTHER PAYABLES

	2015 HK\$'000	2014 HK\$'000
Interest payables	–	90
Accrued salaries and bonuses	6,732	6,939
Trade deposits received	35,764	11
Accrued expenses	4,141	7,656
Other short-term loans	–	130,533
	<u>46,637</u>	<u>145,229</u>

The short term loan borne interest at 3% per month. The entire loan and interest accrued were fully settled during the year.

The carrying amounts of accruals and other payables at the end of the reporting period approximated their fair values.

Included in accruals and other payables are the following amounts denominated in a currency other than the functional currency.

	2015 '000	2014 '000
	<u>RMB1,719</u>	<u>–</u>

23. BANK BORROWINGS — SECURED

The analysis of the carrying amount of bank borrowings is as follows:

	2015 HK\$'000	2014 HK\$'000
Current liabilities		
Portion of bank borrowings due for repayment within one year	<u>–</u>	<u>1,125</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

24. DEFERRED TAXATION IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Deferred tax liabilities/(assets) recognised:

The component of deferred tax liabilities/(assets) recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Depreciation allowance in excess of the related depreciation HK\$'000	Unused tax losses HK\$'000	Convertible bond HK\$'000	Total HK\$'000
At January 1, 2014	37	(6,305)	3,320	(2,948)
Credited to reserve	–	–	(1,921)	(1,921)
Charged to gain on disposal of subsidiaries	69	6,290	–	6,359
Credited to profit or loss	(54)	(3)	–	(57)
	<u>52</u>	<u>(18)</u>	<u>1,399</u>	<u>1,433</u>
At December 31, 2014	52	(18)	1,399	1,433
Credited to reserve	–	–	(1,399)	(1,399)
	<u>52</u>	<u>(18)</u>	<u>–</u>	<u>34</u>
At December 31, 2015	<u>52</u>	<u>(18)</u>	<u>–</u>	<u>34</u>
			2015 HK\$'000	2014 HK\$'000
Deferred tax assets recognised			<u>18</u>	<u>18</u>
Deferred tax liabilities recognised			<u>52</u>	<u>1,451</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

25. CONVERTIBLE BOND

On August 27, 2010, the Company issued convertible bond with an aggregated principal amount of HK\$3,243,750,000 with a term of five years as consideration for the acquisition of 90% beneficial interest in Harmonic Strait Financing Guarantee Co., Limited (和協海峽融資擔保有限公司). The bond is unsecured and carry zero coupon interest rate. The bond is convertible into ordinary shares of the Company at a conversion price of HK\$1.25 per conversion share at any time during the period commencing from the date of issue of convertible bond.

At the initial recognition on August 27, 2010 which was the issue date of the convertible bond, the fair value of the embedded derivatives portion of the convertible bond were determined by an independent professional valuer, Asset Appraisal Limited, using the binominal options pricing model; the liability component of the convertible bond at the issue date is the residual amount after recognising the fair value of the embedded derivatives and subsequently carried at amortised cost using an effective interest rate of 14% per annum.

	Liability portion HK\$'000
At January 1, 2014	81,853
Imputed interest amortised	<u>11,641</u>
At December 31, 2014	93,494
Imputed interest amortised	8,506
Redemption	<u>(102,000)</u>
At December 31, 2015	<u><u>–</u></u>

26. NON-CONTROLLING INTERESTS

	2015 HK\$'000	2014 HK\$'000
At the beginning of the reporting period	16,191	17,823
Acquisition of subsidiaries	9,566	–
Total comprehensive loss for the year	<u>(1,473)</u>	<u>(1,632)</u>
At the end of the reporting period	<u>24,284</u>	<u>16,191</u>

27. IMPAIRMENT LOSS ON OTHER RECEIVABLES

There is no impairment on other receivables for the year (2014: HK\$13,618,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

28. INVESTMENT IN SUBSIDIARIES

Investment in subsidiaries represents investments in unlisted shares at cost.

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of establishment/ incorporation and operation	Particulars of issued and paid up capital	Group's effective interest	Principal activities
<i>Directly held</i>				
Silver Pattern Limited	British Virgin Islands	US\$1	100%	Investment holdings
Market Season Limited	British Virgin Islands	US\$1	100%	Investment holdings
Harmonic Strait Group Limited	Hong Kong	HK\$1	100%	Trading of metal and minerals
Asiagoal Holdings Limited	Hong Kong	HK\$1	100%	Investment holdings
<i>Indirectly held</i>				
Harmonic Strait Export Limited	Hong Kong	HK\$1	100%	Trading of party products
Hong Kong New Smart Energy Group Limited	Hong Kong	HK\$1,000,000	100%	Investment holdings
Green Link Holdings Limited	Hong Kong	HK\$1	100%	Investment holdings
和協海峽融資擔保有限公司#	PRC	US\$20,000,000	90%	Provision of credit service and conduct investment business
深圳薩尼威國際貿易有限公司	PRC	RMB25,090,000	90%	General trading
Harmonic Strait (HK) Limited	Hong Kong	HK\$1	100%	Investment holdings
滙金協和投資諮詢（深圳）有限公司	PRC	HK\$30,000,000	100%	Investment holdings

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

Name of company	Place of establishment/ incorporation and operation	Particulars of issued and paid up capital	Group's effective interest	Principal activities
亞投滙金（北京）資產管理 有限公司	PRC	Nil	100%	Investment holdings
上海驃駒投資管理有限公司	PRC	RMB500,000	51%	Investment holdings

This subsidiary is registered as a sino-foreign joint venture limited liability company incorporated in PRC.

Material partly-owned subsidiary

The following table lists out the information relating to 和協海峽融資擔保有限公司, a subsidiary of the group which has material non-controlling interest (NCI). The summarised financial information presented below represents the amounts before any inter-company elimination.

	2015 HK\$'000	2014 HK\$'000
NCI percentage (note a)	10%	10%
Current assets	124,421	166,318
Non-current assets	30,094	436
Current liabilities	(4,447)	(4,843)
Non-current liabilities	–	–
Net assets	150,068	161,911
Carrying amount of NCI	15,007	16,191
Revenue	3,751	3,540
Loss for the year	(3,288)	(14,873)
Total comprehensive loss	(3,288)	(14,873)
Loss allocated to NCI	(329)	(1,487)
Dividend paid to NCI	–	–
Cash flows generated from/(used in) operating activities	29,043	(87,274)
Cash flows (used in)/generated from investing activities	(29,311)	15,527
Cash flows generated from financing activities	–	–

Note a: The proportion of voting rights held by the material non-controlling interest is 40%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

The following tables list out the information relating to 深圳薩尼威國際貿易有限公司, a subsidiary of the group which has material non-controlling interest (NCI). The summarised financial information presented below represents the amounts before any inter-company elimination.

	2015 HK\$'000
NCI percentage	10%
Current assets	64,747
Non-current assets	8
Current liabilities	(35,885)
Non-current liabilities	–
Net assets	28,870
Carrying amount of NCI	1
Revenue	–
Loss for the year	(598)
Total comprehensive loss	(598)
Loss allocated to NCI	(60)
Dividend paid to NCI	–
Cash flows used in operating activities	(563)
Cash flows generated from investing activities	–
Cash flows generated from financing activities	29,311

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

The following table lists out the information relating to 上海驂駟投資管理有限公司, the subsidiary of the group which has material non-controlling interest (NCI). The summarised financial information presented below represents the amounts before any inter-company elimination.

	2015 HK\$'000
NCI percentage	49%
Current assets	350
Non-current assets	26
Current liabilities	(2)
Non-current liabilities	–
Net assets	374
Carrying amount of NCI	9,276
Revenue	–
Loss for the year	(187)
Total comprehensive income	(187)
Loss allocated to NCI	(91)
Cash flows used in operating activities	(331)
Cash flows used in investing activities	(26)
Cash flows generated from financing activities	596

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

29. INTEREST IN AN ASSOCIATE

The following list contains the associates which is unlisted corporate entity which quoted market price is not available:

Name of associate	Place of incorporation and business	Particulars of issued and paid up capital	<u>Proportion of ownership interest</u>	Principal activity
			Group's effective interest held indirectly	
Power Team International (HK) Limited	Incorporated in Hong Kong	46,250,000 ordinary shares	40%	Investment holdings

The above associate is acquired during the year.

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

	<u>Power Team International (HK) Limited</u>
	2015
	\$'000
Gross amounts of the associate	
Current assets	7,443
Non-current assets	30,800
Current liabilities	(564)
Equity	37,679
Revenue	–
Loss for the year	(8,571)
Total comprehensive loss	(8,571)
Reconciled to the group's interests in the associates	
Gross amounts of net assets of the associate	37,679
Group's effective interest	40%
Group's share of net assets of the associate	<u>15,072</u>
Carrying amount in the consolidated financial statements	<u><u>15,072</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

30. ACQUISITION OF A SUBSIDIARY

On November 3, 2015, for the purpose of development of assets management related business, the Group acquired 51% equity interests in 上海驂駟投資管理有限公司 from a third party for a consideration of HK\$10,000,000, which was satisfied by the cash. 上海驂駟投資管理有限公司 is engaged in the provision of internet financial platform in the PRC related to the asset management product.

The acquisition has been accounted for by business combination using the purchase method. The effect of the acquisition is summarised as follows:

Consideration transferred

	HK\$'000
Consideration paid by cash	<u>10,000</u>

Assets acquired and liabilities recognised at the date of acquisition

	HK\$'000
Bank balance and cash	<u>596</u>

Goodwill arising on acquisition

	HK\$'000
Consideration attributable to acquisition	10,000
Net assets acquired	(596)
Non-controlling interests	<u>9,459</u>
Goodwill arising on acquisition	<u>18,863</u>

Net cash inflow on acquisition of subsidiaries

	HK\$'000
Consideration paid in cash	(10,000)
Bank balances and cash acquired	<u>596</u>
Cash outflow on acquisition of subsidiaries	<u>(9,404)</u>

Impact of acquisitions on the results of the Group

Included in the loss for the year is loss of HK\$384,394 attributable to the businesses undertaken by 上海驂駟投資管理有限公司. There's no revenue recognised for the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

Had these business combinations been effected at January 1, 2015, the loss for the year from continuing operations would have been HK\$384,394 which is equal to the loss for the year as 上海驃駒投資管理有限公司, the vendor had absorbed all the operating losses of it.

31. SEGMENT REPORTING

(a) Segment Revenues and Results

The disclosure and allocation basis among operating segments were varied from previous year because the segment of asset management business was considered to be significant in future, the comparatives are therefore consistently presented in this regard.

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

Year ended December 31, 2015

	Continuing operations				Sub-total HK\$'000	Discontinued operations HK\$'000	Total HK\$'000
	Credit guarantee and investment business HK\$'000	Trading of party products HK\$'000	Trading of metal and minerals HK\$'000	Assets Management HK\$'000			
Revenue							
External sales	<u>3,751</u>	<u>61,036</u>	<u>2,573</u>	<u>-</u>	<u>67,360</u>	<u>-</u>	<u>67,360</u>
Capital expenditure of property, plant and equipment	<u>-</u>	<u>1,526</u>	<u>-</u>	<u>21</u>	<u>1,547</u>	<u>-</u>	<u>1,547</u>
Depreciation	<u>138</u>	<u>1,022</u>	<u>-</u>	<u>-</u>	<u>1,160</u>	<u>-</u>	<u>1,160</u>
Result							
Segment results	<u>(3,050)</u>	<u>(1,777)</u>	<u>(2,812)</u>	<u>(1,888)</u>	<u>(9,527)</u>	<u>-</u>	<u>(9,527)</u>
Interest revenue					494	-	494
Other income					1,254	-	1,254
Unallocated corporate expenses					(21,298)	-	(21,298)
Interest expenses					(29,547)	-	(29,547)
Impairment loss on goodwill					(1,993)	-	(1,993)
Impairment loss on trade receivable					(715)	-	(715)
Share the loss of an associate					(3,428)	-	(3,428)
Loss before taxation					<u>(64,760)</u>	<u>-</u>	<u>(64,760)</u>
Income tax					<u>-</u>	<u>-</u>	<u>-</u>
Loss for the year					<u>(64,760)</u>	<u>-</u>	<u>(64,760)</u>

Three customers amounted to HK\$22,451,000, HK\$9,484,000 and HK\$6,892,000 respectively from trading of the party products business which contributed over 10% of the total sales of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

Year ended December 31, 2014 (restated)

	Continuing operations						Total HK\$'000
	Credit guarantee and investment business HK\$'000	Trading of party products HK\$'000	Trading of metal and minerals HK\$'000	Asset Management HK\$'000	Sub-total HK\$'000	Discontinued operations HK\$'000	
Revenue							
External sales	<u>3,540</u>	<u>98,889</u>	<u>27,936</u>	<u>–</u>	<u>130,365</u>	<u>18,553</u>	<u>148,918</u>
Capital expenditure of property, plant and equipment	<u>–</u>	<u>83</u>	<u>–</u>	<u>–</u>	<u>83</u>	<u>234</u>	<u>317</u>
Depreciation	<u>143</u>	<u>936</u>	<u>230</u>	<u>–</u>	<u>1,309</u>	<u>2,057</u>	<u>3,366</u>
Result							
Segment results	<u>(4,399)</u>	<u>3,297</u>	<u>(1,035)</u>	<u>–</u>	(2,137)	(861)	(2,998)
Interest revenue					2,819	1	2,820
Other income					1,378	180	1,558
Unallocated corporate expenses					(5,836)	(685)	(6,521)
Interest expenses					(62,000)	(45)	(62,045)
Impairment loss on goodwill					–	–	–
Impairment loss on trade receivable					–	–	–
Impairment loss on other receivables					(13,618)	–	(13,618)
Gain on disposal of subsidiaries					–	3,480	3,480
Loss before taxation					(79,394)	2,070	(77,324)
Income tax					(223)	–	(223)
Loss for the year					<u>(79,617)</u>	<u>2,070</u>	<u>(77,547)</u>

Two customers amounted to HK\$38,067,000 and HK\$23,917,000 respectively from trading of the party product business, and one customer amounted to HK\$27,936,000 from trading of metal and mineral's trading business contributed over 10% of the total sales of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

Geographic information

Revenue

The following table sets out information about the geographical location of the group's revenue from external customers. The geographical location of customers is based on the location at which the services were provided or the goods delivered.

	2015	2014
	HK\$'000	HK\$'000
Continuing operations		
Hong Kong	61,036	98,889
Mainland China	6,324	31,476
	<u>67,360</u>	<u>130,365</u>
Discontinued operations		
Hong Kong	–	7,657
Mainland China	–	10,896
	<u>–</u>	<u>18,553</u>
Total	<u>67,360</u>	<u>148,918</u>

Specified non-current assets

The following table sets out information about the geographical location of the group's property, plant and equipment, goodwill and interests in an associate ("specified non-current assets"). The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment, the location of the operation to which they are allocated, in the case of goodwill, and the location of operations, in the case of interests in an associate.

	2015	2014
	HK\$'000	HK\$'000
Continuing operations		
Hong Kong	19,110	2,435
Mainland China	19,216	2,429
	<u>38,326</u>	<u>4,864</u>
Total	<u>38,326</u>	<u>4,864</u>

The accounting policies of the operating segments are the same as the accounting policies of the Group. Segment profit represents the profit earned by each segment without allocation of administrative expenses, other income, other gains and losses (except gain on disposal of a subsidiary), and finance cost. This is the measure reported to the chief operating decision maker for the purposes of resources allocation and performance assessment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

(b) Segment Assets and Liabilities

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

Year ended December 31, 2015

	Credit guarantee and investment business HK\$'000	Trading of party products HK\$'000	Trading of metal and minerals HK\$'000	Assets Management HK\$'000	Total HK\$'000
ASSETS					
Segment assets	67,777	17,702	92,250	1,343	179,787
Bank balances and cash (included restricted cash)					116,760
Unallocated corporate assets					<u>63,254</u>
Consolidated total assets					<u><u>359,801</u></u>
LIABILITIES					
Segment liabilities	-	3,229	-	-	3,229
Bank borrowings					-
Unallocated corporate liabilities					<u>48,186</u>
Consolidated total liabilities					<u><u>51,415</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

Year ended December 31, 2014 (restated)

	Credit guarantee and investment business HK\$'000	Trading of party products HK\$'000	Trading of metal and minerals HK\$'000	Assets Management HK\$'000	Total HK\$'000
ASSETS					
Segment assets	77,398	30,516	25,842	–	133,756
Bank balances and cash (included restricted cash)					55,143
Unallocated corporate assets					<u>36,838</u>
Consolidated total assets					<u><u>225,737</u></u>
LIABILITIES					
Segment liabilities	4,843	14,563	160	–	19,566
Bank borrowings					1,125
Unallocated corporate liabilities					<u>230,029</u>
Consolidated total liabilities					<u><u>250,720</u></u>

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

- all assets are allocated to operating segments other than certain plant and equipment, prepaid lease payments, other receivables, bank balances and cash; and
- all liabilities are allocated to operating segments other than certain other payables and bank borrowings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

32. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Note	2015 HK\$'000	2014 HK\$'000
Non-current assets			
Investment in subsidiaries	28	<u>46,971</u>	<u>48,574</u>
Current assets			
Prepayments, deposits and other receivables		5,046	60
Amounts due from subsidiaries	30	305,457	36,689
Cash and cash equivalents		<u>3</u>	<u>291</u>
		310,506	<u>37,040</u>
Total Assets		<u>357,477</u>	<u>85,614</u>
Capital and reserves			
Share capital	19	736,807	299,240
Reserves	20	(381,047)	(312,513)
		355,760	<u>(13,273)</u>
Non-current liabilities			
Deferred taxation		<u>–</u>	<u>1,399</u>
		<u>–</u>	<u>1,399</u>
Current liabilities			
Accruals and other payables		1,717	3,994
Convertible bond		<u>–</u>	<u>93,494</u>
		1,717	<u>97,488</u>
Total Equity and Liabilities		<u>357,477</u>	<u>85,614</u>
Net current assets/(liabilities)		308,789	(60,448)
Total assets less current liabilities		355,760	(11,874)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

33. RELATED PARTY TRANSACTIONS

During the year, the Group had the following significant transactions with related parties:

(a) There was no related party transactions included in the consolidated statement of profit or loss and other comprehensive income (2014: Nil) during the year.

(b) **Compensation of key management of the Group:**

	2015	2014
	HK\$'000	HK\$'000
Salaries, allowance and other benefits	531	2,587
Contributions to defined contribution retirement plans	21	39
	<u>552</u>	<u>2,626</u>

Note 1: The key management referred to those mentioned in the Directors and senior management section of this report.

Note 2: Further details of post-employment benefits and directors' and employees' emoluments are included in note 11 to the consolidated financial statements. Total remuneration is included in "staff costs" (see note 6).

(c) **Financing arrangements**

	2015	2014
	HK\$'000	HK\$'000
Advanced to a related company	–	31,493
Amount due to a director	<u>1,515</u>	<u>2,594</u>

a The advance to a related company is included in "Prepayments, deposits and other receivables" (note 17).

The related company has the common directors with the subsidiaries of the Group after the Group acquired the 55% of the ownership of the related company. As at the end of the reporting period, the related company was not treated as a subsidiary of the Group because the Group had not obtained control of the subsidiary, and the transfer of the ownership documents was not completed. The amount as shown in above was then presented as the current account with the related company. The amount is unsecured, interest free and repayable on demand.

b The amount is unsecured, interest-free and repayable on demand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

34. COMMITMENTS

(a) Capital Commitments

As at December 31, 2015, the Group had HK\$6.1 million capital commitments (2014: Nil) as it had entered into a sale and purchase agreement to acquire a license corporation regulated by SFC with initial consideration of HK\$9.5 million.

(b) Operating Lease Commitments

The Group leases office premises under operating lease arrangements. At the end of each reporting period, the Group had future aggregate minimum lease payment under non-cancellable operating leases arrangements as follows:

	2015 HK\$'000	2014 HK\$'000
Within one year	16,754	1,946
In the second to fifth year, inclusive	18,247	969
	<u>35,001</u>	<u>2,915</u>

35. FINANCIAL GUARANTEES AND CONTINGENT LIABILITIES

At the end of the reporting period Harmonic Strait Financing Guarantee Co., Ltd ("Harmonic Strait") had not provided guarantees to its customers (2014: Nil) in return of service income as its ordinary business.

At December 31, 2015, there is no bank loan drawn down by the Group (2014: HK\$1.1 million).

As at December 31, 2015, except for those disclosed above, the Board was not aware of any possible material contingent liabilities.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(a) Financial risk factors

The Group's major financial instruments include, cash and cash equivalents, trade and other receivables amount due to directors, trade and bills payable, other payables, bank borrowings and convertible bond. Details of the financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include credit risk, liquidity risk, interest rate risk and currency risk. The Group does not hold or issue derivative financial instruments either for hedging or trading purposes. The policies on how to mitigate these risks are set out as below.

The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. 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 December 31, 2015

(i) *Credit risk*

Credit risk arises from the possibility that the counterparty to transaction is unwilling or unable to fulfill its obligation thereby incurring financial loss to the Group.

— Trade and other receivables

As at December 31, 2015, the maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position.

In respect of trade and other receivables, in order to minimise risk, management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. Credit evaluations of customers' financial position and condition are performed on all customers periodically. In addition, credit evaluations are performed on all customers requiring credit over a certain amount. These receivables are usually due within 90 days from the date of billing. Debtors with overdue balances, which will be reviewed on a case-by-case basis, are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collaterals from customers.

In respect of trade receivables, the Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk. At December 31, 2015, the Group has a certain concentration of credit risk as approximately equals to 41.6% (2014: 32.1%) and 85.7% (2014: 76.4%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

— Deposits with banks

The Group mitigates its exposure to credit risk by placing deposits with the financial institutions with established credit rating. Given the high credit ratings of the banks, management does not expect any counterparty to fail to meet its obligations.

— Financial guarantee

It represents financing guarantee to customers under the financial guarantee business, individual credit evaluations are performed on all customers. These evaluations focus on the customer's financial background and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

(ii) *Liquidity risk*

Liquidity risk is the risk of non-availability of funds to meet all contractual financial commitments as they fall due.

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

The following liquidity risk tables set out the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on current rates at the end of the reporting period) and the earliest date the Group is required to pay.

Specifically, for term loans which contain a repayment on demand clause which can be exercised at the bank's sole discretion, the analysis shows the cash outflow based on the earliest period in which the entity can be required to pay, that is if the lenders were to invoke their unconditional rights to call the loans with immediate effect. The maturity analysis for other bank borrowings is prepared based on the scheduled repayment dates.

	As at December 31, 2015					
	Within 1 year or on demand HK\$'000	More than 1 year but less than 2 years HK\$'000	More than 2 years but less than 5 years HK\$'000	More than 5 years HK\$'000	Total undiscounted cash flows HK\$'000	Total carrying amount HK\$'000
Amount due to directors	1,515	-	-	-	1,515	1,515
Trade and bill payable	3,229	-	-	-	3,229	3,229
Accruals and other payables	46,637	-	-	-	46,637	46,637
Bank borrowings subject to a repayment on demand clause	-	-	-	-	-	-
Convertible bond	-	-	-	-	-	-
	<u>51,381</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>51,381</u>	<u>51,381</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

	As at December 31, 2014					
	Within	More than	More than		Total	Total
	1 year or	1 year but	2 years but	More than	undiscounted	carrying
	on demand	less than	less than	5 years	cash flows	amount
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amount due to directors	2,594	-	-	-	2,594	2,594
Trade and bill payable	6,845	-	-	-	6,845	6,845
Accruals and other payables	145,229	-	-	-	145,229	145,229
Bank borrowings subject to a repayment on demand clause	1,134	-	-	-	1,134	1,125
Convertible bond	102,000	-	-	-	102,000	93,494
	<u>257,802</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>257,802</u>	<u>249,287</u>

The following table summaries the maturity analysis of term loans with a repayment on demand clause based on agreed scheduled repayments set out in the loan agreements. The amounts include interest payments computed using contractual rates. As a result, these amounts were greater than the amounts disclosed in the "on demand" time band in the maturity analysis. Taking into account the Group's financial position, the directors do not consider that it is probable that the bank will exercise its discretion to demand immediate repayment. The directors believe that such term loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

	Term loans subject to a repayment on demand clause based on scheduled repayments					
	Within	More than	More than		Total	Total
	1 year or	1 year but	2 years but	More than	undiscounted	carrying
	on demand	less than	less than	5 years	cash flows	amount
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
December 31, 2015	-	-	-	-	-	-
December 31, 2014	1,134	-	-	-	1,134	1,125

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

(iii) Interest rate risk

The Group's interest rate risk arises primarily from cash and cash equivalents, loan advances and bank borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk and issued at fixed rates expose the Group to fair value interest rate risk. The Group currently does not have any interest rate hedging policy in relation to fair value and cash flow interest rate risks. The directors monitor the Group's exposure on ongoing basis and will consider hedging the interest rate should the need arise.

(1) Interest rate profile

The effective interest rate of bank loans is disclosed in note 25. The interest rates and terms of repayment of the other short term loans is disclosed in notes 24.

(2) Sensitivity analysis

At December 31, 2015, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's loss after tax and accumulated losses by approximately HK\$1,167,000 (2014: HK\$387,000). Other components of consolidated equity would not be affected (2014: Nil) in response to the general increase/decrease in interest rates.

The sensitivity analysis above indicates the instantaneous change in the Group's loss after tax (and accumulated losses) and other components of consolidated equity that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, the impact on the Group's loss after tax (and accumulated losses) and other components of consolidated equity is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis for 2014.

(iv) Currency risk

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily United States dollars and Renminbi.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

(1) Exposure to currency risk

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. The Group is mainly exposed to the fluctuation of United States dollars and Renminbi.

	December 31, 2015	
	US\$'000	RMB'000
Cash and cash equivalents	385	48,285
Trade and other receivables	131	130,425
Trade and other payables	–	(32,879)
	<hr/>	<hr/>
Overall exposure arising from recognised assets and liabilities	<u>516</u>	<u>145,831</u>
	December 31, 2014	
	US\$'000	RMB'000
Cash and cash equivalents	143	40,074
Trade and other receivables	63	2,010
Trade and other payables	–	(1,319)
	<hr/>	<hr/>
Overall exposure arising from recognised assets and liabilities	<u>206</u>	<u>40,765</u>

Management closely monitors currency risk position to ensure that the net exposure is kept at an acceptable level.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

(2) Sensitivity analysis

The following table indicates the instantaneous change in the Group's loss after tax (and accumulated losses) and other components of consolidated equity that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies.

	December 31, 2015		December 31, 2014	
	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and accumulated losses HK\$'000	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and accumulated losses HK\$'000
Renminbi	5%	9,232	5%	2,027
	(5%)	(9,232)	(5%)	(2,027)
USD	5%	26	5%	10
	(5%)	(26)	(5%)	(10)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' (loss)/profit after tax and equity measured in the respective functional currencies, translated into Hong Kong dollars at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including intercompany payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2014.

(v) Fair values of financial instruments carried at other than fair value

The fair values of cash and cash equivalents, bank deposits, trade and other receivables, trade and bills payable and accruals and other payables are not materially different from their carrying amounts because of the immediate or short term maturity of these financial instruments. The carrying amount of bank borrowings and overdrafts approximated its fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

(b) Capital risk management

The primary objective of the Group's capital risk management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholders value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives or policies during the year.

The Group monitors capital on the basis of the debt-to-equity ratio, which is calculated as net debt divided by total equity. Net debt is calculated as interest-bearing bank borrowings and overdrafts less cash and cash equivalents. Total equity represents equity attributable to the equity shareholders of the Group.

Another subsidiary of the Group operated in PRC is subject to the capital requirements under 《融資性擔保公司暫行管理規定》. The subsidiary is required to maintain a minimum paid up capital of RMB50,000,000.

(c) Estimation of fair values

The fair values of interest-bearing bank borrowings are estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

37. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

(a) Key sources of estimation uncertainty

In the process of applying the Group's accounting policies which are described in note 2, management has made certain key assumptions concerning the future, and other key sources of estimated uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts and liabilities within the next financial year, as discussed below.

(i) *Impairment of property, plant and equipment*

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset, which requires significant judgement relating to level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

(ii) *Impairment of receivables*

The Group maintains impairment allowance for doubtful accounts based on periodic evaluation of the recoverability of the trade and other receivables. The estimates are based on the ageing of the trade and other receivables and the historical write-off experience, net of recoveries. If the financial condition of the debtors were to deteriorate, additional impairment allowance may be required.

(iii) *Estimated impairment of goodwill*

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. If the carrying amount exceeds the estimated value in use of the cash generating unit, additional impairment allowance may be required.

(iv) *Estimated net realisable value of inventories*

The Group's management writes down slow-moving or obsolete inventories based on an assessment of the net realisable value of the inventories. Inventories will be written down where events or changes in circumstances indicates that the net realisable value is less than cost. The determination of net realisable value requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will have an impact on the carrying value of the inventories and revision on the amount of inventories written down in the period in which such estimate has been changed is required to be made.

(b) Critical accounting judgements in applying the Group's accounting policies

In determining the carrying amounts of some assets and liabilities, the Group makes assumptions for the effects of uncertain future events on those assets and liabilities at the end of the reporting period. These estimates involve assumptions about such items as cash flows and discount rates used. The Group's estimates and assumptions are based on historical experience and expectations of future events and are reviewed periodically. In addition to assumptions and estimations of future events, judgements are also made during the process of applying the Group's accounting policies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

38. EVENTS AFTER THE REPORTING PERIOD

(i) Discloseable transaction in relation to the acquisition of Treasure Securities Limited

A wholly owned subsidiary of the Company, Gold Collection Enterprises Limited (the "Purchaser"), entered into an agreement with the vendors on January 15, 2016, pursuant to which the Group has conditionally agreed to acquire and the vendors have conditionally agreed to sell the Sale Shares, representing the entire issued share capital of the Treasure Securities Limited, a licensed corporation to carry out Type 1 (Dealing in Securities) regulated activity under the SFO and is an exchange participant of the Stock Exchange, at the Consideration of HK\$27,200,000 subjected to the terms and conditions of the Agreement, which will be satisfied by cash. Details of the transaction would be referred to the announcement dated January 15, 2016. The transaction is not yet completed up to the date of this report.

(ii) Subscription of new shares and convertible bonds

In relation to proposed subscription stated in the circular dated 8 January 2016, all conditions precedent to the proposed subscription under the Subscription Agreement have been fulfilled and the subscription was completed on February 18, 2016. Pursuant to the subscription agreement, (i) 1,000,000,000 subscription shares have been allotted and issued to the Subscriber (or its nominee(s)) at the Subscription Price of HK\$0.10 per subscription share and (ii) the convertible bonds in the principal amount of HK\$100,000,000 have been issued to the subscriber (or its nominee(s)). Details of the subscription would be referred to the announcement dated 18 February 2016.

(iii) Memorandum of Understanding in respect of a proposed acquisition

- (a) On February 5, 2016, the Company entered into the memorandum of understanding with an independent third party in relation to the possible acquisition of a company which carries on the business of designs, development and implementation of mobile instant lottery system, and distribution of the mobile game-based lottery products in China. Details of the proposed acquisition would be referred to the announcement dated February 5, 2016.
- (b) On March 23, 2016, the Company entered into another memorandum of understanding with a vendor, pursuant to which the Company intended to purchase and the vendor intended to sell the total issued shares of a target company, which is incorporated in Hong Kong and is committed to creating a worldwide financial settlement network targeting at global markets, especially countries along the "one belt, one road" routes, to provide international settlement services for global trade and spending. Details of the proposed acquisition would be referred to the announcement dated March 23, 2016.

FINANCIAL SUMMARY

The financial results and the assets and liabilities of the Group for the last five years are summarised as follows:

	Year ended December 31, 2015 HK\$'000	Year ended December 31, 2014 HK\$'000	Year ended December 31, 2013 HK\$'000 (Restated)	Year ended December 31, 2012 HK\$'000	Year ended December 31, 2011 HK\$'000
Results					
Turnover	<u>67,360</u>	<u>130,365</u>	<u>144,829</u>	<u>270,296</u>	<u>588,103</u>
Loss before taxation	<u>(64,760)</u>	<u>(79,394)</u>	<u>(95,956)</u>	<u>(2,966,579)</u>	<u>(255,366)</u>
Income tax (expenses)/credit	<u>—</u>	<u>(223)</u>	<u>8</u>	<u>(9,799)</u>	<u>(1,383)</u>
Loss for the year from continuing operations	<u>(64,760)</u>	<u>(79,617)</u>	<u>(95,948)</u>	<u>(2,976,378)</u>	<u>(256,749)</u>
Discontinued operation — Profit/(Loss) from discontinued operations	<u>—</u>	<u>2,070</u>	<u>(1,477)</u>	<u>—</u>	<u>—</u>
Loss for the year	<u>(64,760)</u>	<u>(77,547)</u>	<u>(97,425)</u>	<u>(2,976,378)</u>	<u>(256,749)</u>
Attributable to:					
— Equity shareholders of the Company	<u>(64,182)</u>	<u>(75,131)</u>	<u>(96,663)</u>	<u>(2,981,612)</u>	<u>(255,745)</u>
— Non-controlling interest	<u>(578)</u>	<u>(2,416)</u>	<u>(762)</u>	<u>5,234</u>	<u>(1,004)</u>
	<u>(64,760)</u>	<u>(77,547)</u>	<u>(97,425)</u>	<u>(2,976,378)</u>	<u>(256,749)</u>
	As at December 31, 2015 HK\$'000	As at December 31, 2014 HK\$'000	As at December 31, 2013 HK\$'000	As at December 31, 2012 HK\$'000	As at December 31, 2011 HK\$'000
Assets and liabilities					
Total assets	<u>359,801</u>	<u>225,737</u>	<u>255,305</u>	<u>325,658</u>	<u>3,284,541</u>
Total liabilities	<u>(51,415)</u>	<u>(250,720)</u>	<u>(271,078)</u>	<u>(245,451)</u>	<u>(331,205)</u>
Total equity	<u>308,386</u>	<u>(24,983)</u>	<u>(15,773)</u>	<u>80,207</u>	<u>2,953,336</u>