# PING AN SECURITIES GROUP (HOLDINGS) LIMITED
# 平 安 證 券 集 團 ( 控 股 ) 有 限 公 司

(Carrying on business in Hong Kong as PAN Securities Group Limited)
(Incorporated in Bermuda with limited liability)
(Stock Code: 00231)

Annual Report
2016

This report, in both English and Chinese versions, is available on the Company's website at http://www.pingansecgp.com (the "Company Website").

Shareholders who have chosen or have been deemed consented to receive the corporate communications of the Company (the "Corporate Communications") via the Company Website and who for any reason have difficulty in receiving or gaining access to this report posted on the Company Website will promptly upon request be sent this report in printed form free of charge.

Shareholders may at any time change their choice of the means of receipt (either in printed form or via the Company Website) and/or language(s) (either English only or Chinese only or both languages) of Corporate Communications.

Shareholders may send their request to receive this report in printed form, and/or to change their choice of the means of receipt and/or language(s) of Corporate Communications by notice in writing to the Company's Hong Kong Share Registrar, Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong or by sending an email to the Hong Kong Share Registrar of the Company at is-ecom@hk.tricorglobal.com.

# Contents

# Corporate Information

## BOARD OF DIRECTORS

**Executive Directors:**

Mrs. Nijssen Victoria
Mr. Cheung Kam Fai

**Independent Non-executive Directors:**

Dr. Dong Ansheng
Mr. Wong Yee Shuen, Wilson
Mr. Tsang Wah Kwong

## AUDIT COMMITTEE

Mr. Tsang Wah Kwong *(Chairman)*
Dr. Dong Ansheng
Mr. Wong Yee Shuen, Wilson

## REMUNERATION COMMITTEE

Dr. Dong Ansheng *(Chairman)*
Mr. Wong Yee Shuen, Wilson
Mr. Tsang Wah Kwong
Mrs. Nijssen Victoria

## NOMINATION COMMITTEE

Dr. Dong Ansheng *(Chairman)*
Mr. Wong Yee Shuen, Wilson
Mr. Tsang Wah Kwong
Mrs. Nijssen Victoria

## AUTHORISED REPRESENTATIVES

Mr. Cheung Kam Fai
Mr. Chan Kwan Pak

## COMPANY SECRETARY

Mr. Chan Kwan Pak

## AUDITORS

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

## PRINCIPAL BANKERS

Bank of Communications Co. Ltd.
(Hong Kong Branch)
Bank of China

## PRINCIPAL REGISTRARS AND TRANSFER OFFICES

MUFG Fund Services Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM08
Bermuda

## HONG KONG BRANCH REGISTRAR AND TRANSFER OFFICE

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

## REGISTERED OFFICE

The Belvedere Building
69 Pitts Bay Road
Pembroke HM08
Bermuda

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Suite 3005, 30/F, West Tower
Shun Tak Centre
168–200 Connaught Road Central
Hong Kong

## WEBSITE

www.pingansecgp.com

## STOCK CODE

00231

# Executive Director's Statement

On behalf of the board of directors (the "Directors") of Ping An Securities Group (Holdings) Limited (the "Company") and its subsidiaries (together the "Group"), I am pleased to present to the shareholders of the Company the annual report of the Group for the year ended 31 December 2016.

## RESULTS

For the year ended 31 December 2016, the Group recorded a turnover of HK$50,479,000, whereas the turnover for the year ended 31 December 2015 was HK$50,465,000. The Group's audited consolidated loss for the current year was HK$7,231,000, representing a decrease of approximately 97% in loss when compared with the loss of HK$232,007,000 for the last year.

## BUSINESS REVIEW

For the year ended 31 December 2016, the Company's principal activity continued to be investment holding, whilst its subsidiaries were mainly engaged in the business of property leasing and development, trading of goods in mainland China, provision of securities brokerage, securities underwriting and placements and financial advisory services. For the year ended 31 December 2016, the Group recorded a turnover of HK$28,246,000 from its financial services sector (2015: HK$17,173,000), representing an increase of approximately 64% when compared with the year 2015. The Group also recorded a total turnover of HK$22,233,000 (2015: HK$33,292,000) from its property leasing and trading of goods sectors, representing a decrease of approximately 33% when compared with the year 2015.

The Group's audited consolidated loss for the year amounted to HK$7,231,000, representing a decrease of approximately 97% in loss when compared with the loss of HK$232,007,000 for the year of 2015. The improvement was mainly attributable to (i) a sharp decrease in loss arising from changes in fair value of investment properties of HK$59,722,000; (ii) a significant increase in the net gain on fair value changes of derivative instruments of HK$226,567,000 as compared to the net gain of HK$61,646,000 for year 2015; and (iii) the net gain on disposal of subsidiaries of HK$59,010,000 during 2016.

During the year, our Chongqing arcade Shenghui Plaza (the "Plaza") recorded rental income amounting to HK$18,078,000 (2015: HK$22,760,000), representing a decrease of approximately 21%. The supermarket in the Plaza recorded a revenue amounting to HK$4,155,000 (2015: HK$10,532,000), representing a decrease of approximately 61%. These decreases were due to the disposal of the investing holding company of the Plaza, the Plaza and the supermarket ceased to be the assets of the Group from 18 August 2016.

In view of the uncertain future prospects of the commercial property market of the PRC as a result of the growing popularity of online shopping, the Company entered into disposal agreements in April 2016 to dispose of the Plaza and an office premises in Hong Kong. The disposals were completed on 18 August 2016. The total liabilities and interest expenses of the Group have been substantially reduced since then.

The Group's land in Foshan City, Guangdong Province, the PRC, another flagship property development project, is being developed into a complex of shops, offices and hotel (including some serviced apartments) with a total gross floor area of approximately 198,000 square metres. It is expected that leasing of some serviced apartments with approximately 18,000–19,000 square metres will commence in mid-2017.

Another line of our principal business, Ping An Securities Limited ("PASL"), which provides a wide range of financial services including the provision of securities brokerage, securities underwriting and placements and financial advisory services in Hong Kong, started to account for a bigger share of the contribution to the Group in the year under review. However, the performance of PASL was less satisfactory than expected during the year due to the decrease in pre-IPO related transactions when compared with 2015.

## FINANCIAL REVIEW

### Revenue and earnings

During the year under review, the Plaza, which was disposed of upon the completion of the disposal of the investing holding company of the Plaza on 18 August 2016, recorded rental income amounting to HK$18,078,000 (2015: HK$22,760,000), representing a decrease of approximately 21%. The supermarket set up in the Plaza providing international goods and groceries, also disposed of upon the disposal of the Plaza on 18 August 2016, recorded a turnover amounting to HK$4,155,000 (2015: HK$10,532,000), representing a decrease of approximately 61%. PASL recorded a turnover amounting to HK$28,246,000 (2015: HK$17,173,000) comprising commission and brokerage income and underwriting income, representing an increase of approximately 65%.

For the year under review and before the completion of the disposal of the investing holding company of the Plaza, part of the Plaza in Chongqing was disposed of and a gain on disposal of HK$4,420,000 (2015: gain of HK$18,430,000) was recorded. On the other hand, the Plaza also recorded a loss from change in fair value of HK$111,015,000 (2015: loss of HK$372,659,000).

The investment property under development located in Foshan City recorded a gain from change in fair value of HK$4,260,000 at the end of 2016 (2015: gain of HK$206,182,000).

During the year under review, as the joint venture had waived the amount advanced to the Group amounting to HK$49,475,000, the Group recognized the amount waived as other income. As a result of the above waiver, the Group had to share the loss of the joint venture amounting to HK$47,090,000 during 2016 (2015: share of loss of HK$2,000).

Moreover, the Group also recorded a net gain from change in fair value of HK$226,567,000 on financial assets at fair value through profit or loss, derivative financial assets, derivative financial liabilities and contingent consideration during 2016 (2015: net gain of HK$61,646,000).

Besides, the Group recorded interest income of HK$23,483,000 (2015: HK$6,083,000) which was mainly attributable to the interest income earned from the fixed-rate loan receivables of RMB300,000,000. The loan receivables were derecognized upon the completion of the disposal of the investing holding company of the Plaza on 18 August 2016.

# Executive Director's Statement

For the year under review, cost of sales included cost of goods sold of the supermarket amounting to HK$3,487,000 (2015: HK$8,932,000).

The increase in finance cost of HK$51,358,000 as compared to 2015 was mainly attributable to the increase in interest expenses incurred on the promissory notes and convertible notes during 2016. As most of the convertible notes and promissory notes were issued in the second half of 2015, more interest expenses were incurred in 2016 as compared to 2015.

### Liquidity, financial resources, charge on assets and gearing

As at 31 December 2016, the Group's current assets and current liabilities were HK$294,334,000 and HK$464,325,000 respectively. Please refer to note 3 to the financial statements for details of the measures that the management has taken and/or will take to improve the liquidity and cashflows of the Group.

As at 31 December 2016, no assets of the Group were charged.

The Group's gearing ratio as at 31 December 2016 was 31%, which is calculated on the Group's total liabilities divided by its total assets.

## PROSPECTS AND OUTLOOK

Looking forward, after the onset of the Shenzhen-Hong Kong Stock Connect scheme in December 2016 and the easing of investment of more mainland China funds in Hong Kong, the capital market of mainland China is more open to international investors. We are confident that Hong Kong, as a major international financial centre close to the China market, will play an important role in this regard and be benefitted from it. With the improving market sentiment and investment appetite in 2017, the Group will be ready to capture the opportunity that the next market upturn will bring.

## APPRECIATION

The Directors would like to express our sincere gratitude to the management of the Group and all the staff for their hard work and dedication, as well as our shareholders, business partners, bankers and auditors for their support to the Group throughout the year.

**Nijssen Victoria**
*Executive Director*

Hong Kong, 23 March 2017

# Management Discussion and Analysis

## CAPITAL COMMITMENTS

As at 31 December 2016, capital commitments contracted but not provided for were approximately HK$721,260,000.

## CONTINGENT LIABILITIES

As at 31 December 2016, the Group had no contingent liabilities.

## FOREIGN EXCHANGE RISK

The Group's operations are principally in the PRC and Hong Kong and all assets and liabilities were denominated either in Renminbi or Hong Kong dollars. The Directors consider that the Group does not have any material exposure to fluctuations in exchange. Therefore, no hedging measures have been taken at present.

## EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2016, the Group had a total of approximately 60 employees (2015: approximately 200), who were remunerated according to nature of the job and market trend, as well as individual qualifications and performance. The Group has participated in the Mandatory Provident Fund Scheme. On the job training was provided to its staff from time to time.

## CONNECTED TRANSACTION

On 27 April 2016, the Company and Season Trade Limited entered into two disposal agreements (the "Disposal Agreements"), pursuant to which the Company had conditionally agreed to sell and Season Trade Limited under each Disposal Agreement had conditionally agreed to purchase the entire issued share capital in Quick Silver Global Enterprises Limited and Fortune House Worldwide Holdings Limited for a total consideration of HK$828,000,000.

Season Trade Limited, is wholly owned by Mr. Liang Zhenye, the son of Mr. Liang Wenguan who is a substantial Shareholder of the Company.

The above transactions was completed on 18 August 2016.

# Biographical Details of Directors

## EXECUTIVE DIRECTORS

**Mrs. Nijssen Victoria**, aged 31, was appointed as non-executive Director on 11 August 2009 and has been re-designated as an executive Director since 8 August 2013. Mrs. Nijssen holds a Bachelor of Science degree in economics and political science from the University of Oregon, the United States. She is experienced in the commercial real estate sector in China. Mrs. Nijssen is the daughter of Mr. Liang Wenguan, a substantial shareholder of the Company.

**Mr. Cheung Kam Fai**, aged 44, has been an executive Director since 23 January 2016 and additionally appointed as the managing director of the Company with effect from 17 August 2016. Mr. Cheung was the managing director of a finance company's China subsidiary before this appointment, responsible for promoting the company's business in China. He has over 16 years of experience in the securities sector and has extensive social networks in the field.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Dr. Dong Ansheng**, aged 65, has been an independent non-executive Director since 6 January 2006. Dr. Dong holds a Bachelor of Laws degree from the Political and Law Sciences School of Chinese Northwestern College (西北政法學院); and Master and Doctoral degrees in laws from the Law School of the Renmin University, China (中國人民大學). Dr. Dong is well versed in various areas of law and has been a lecturer in mainland China, Hong Kong, Taiwan and Finland as well as a China legal consultant to a number of companies in their listing exercise in mainland China and Hong Kong.

Dr. Dong is serving as an independent non-executive director of Wasu Media Holding Co. Ltd. (Stock code: 000156, Shenzhen Stock Exchange), Shanghai New Huang Pu Real Estate Co. Ltd. (Stock code: 600638, Shanghai Stock Exchange), Beijing North Star Company Limited (Stock code: 601588, Shanghai Stock Exchange and Stock code: 588, SEHK) and Beijing Wangfujing Department Store (Group) Limited (Stock code: 600859, Shanghai Stock Exchange). Dr. Dong had served as an independent non-executive director of BOE Technology Group Company, Limited (Stock code: 000725, Shenzhen Stock Exchange), Sichuan Western Resources Company, Limited (Stock code: 600139, Shanghai Stock Exchange), Beijing Capital International Airport Corporation Limited (Stock code: 694, SEHK) and Zhongjin Gold Company, Limited (Stock code: 600489, Shanghai Stock Exchange).

**Mr. Wong Yee Shuen, Wilson**, aged 50, has been appointed as an independent non-executive Director since 17 November 2015, Mr. Wong holds a master of commerce degree, specializing in banking and finance from the University of New South Wales. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and member of Australia CPA and Australian Institute of Banking and Finance. With more than 20 years of experience in PricewaterhouseCoopers and Ernst and Young, Mr. Wong specializes in the area of auditing banks and listed companies.

Mr. Wong is serving as an independent non-executive director of China Pipe Group Limited (stock code: 380), a company listed on the Main Board of the Stock Exchange) and he is the chief financial officer of China Animation Characters Company Limited (Stock code: 1566, a company listed on the Main Board of Stock Exchange). Mr. Wong served as an independent non-executive director of PanAsialum Holdings Company Limited (Stock code: 2078, a company listed on the Main Board of Stock Exchange) from January 2013 to July 2014.

# Biographical Details of Directors

**Mr. Tsang Wah Kwong**, aged 64, has been an independent non-executive Director since 16 February 2016. Mr. Tsang holds a bachelor degree in business administration from the Chinese University of Hong Kong. He is a fellow member of the Hong Kong Institute of Certified Public Accountants, a member of the Chinese Institute of Certified Public Accountants and a fellow member of the Chartered Association of Certified Accountants.

Mr. Tsang was a former partner of PricewaterhouseCoopers in Hong Kong and China, where he worked from July 1978 to June 2011, and has over 30 years of experience in auditing and providing support for initial public offerings and acquisition transactions. Mr. Tsang is currently an independent non-executive director of a number of listed companies, namely China Merchants China Direct Investments Limited (SEHK Stock code: 133), Sihuan Pharmaceutical Holdings Group Limited (SEHK Stock code: 460), TK Group (Holdings) Limited (SEHK Stock code: 2283), and China Animation Characters Company Limited (SEHK Stock code: 1566). Mr. Tsang is also a director of PGG Wrightson Limited (a company listed on the New Zealand Stock Exchange) and an independent director of Agria Corporation (a company formerly listed on the New York Stock Exchange). Mr. Tsang was an independent non-executive director of PanAsialum Holdings Company Limited (SEHK Stock code: 2078) from January 2013 to January 2016.

# Corporate Governance Report

The Company is committed to maintaining the highest standards of corporate governance that properly protect and promote the interests of all shareholders at all times. The Board believes that good corporate governance practices are the cornerstones for a successful business.

## CODE OF CORPORATE GOVERNANCE PRACTICE

The Board regularly reviews the Group's corporate governance guidelines and practices. During the year, the Company has applied the principles and complied with all the relevant code provisions prescribed in the Corporate Governance Code ("Code Provisions") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the SEHK (the "Listing Rules") except deviation from the following Code Provisions:

(1) Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer ("CEO") should be separated and should not be performed by the same person. The Company has no chairman and CEO. Decisions of the Company are made collectively by the executive Directors. The Board believes that the present arrangement enables the Company to make and implement decisions promptly, and thus achieve the Company's objectives efficiently and effectively in response to the changing environment.

(2) Under Code Provision A.4.1, non-executive directors should be appointed for a specific term and subject to re-election. None of the independent non-executive Directors are appointed for a specific term but all of them would be subject to retirement by rotation in accordance with the Company's Bye-laws.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") as contained in Appendix 10 to the Listing Rules. The Company has made specific enquiry to all Directors regarding any non-compliance with the Model Code during the year and they all confirmed that they have fully complied with the required standard set out in the Model Code.

## BOARD OF DIRECTORS

The Board is responsible for the leadership and control of the Company and oversees the Group's business, strategic decisions and performances. The senior management was delegated the authority and responsibilities by the Board of the day-to-day management and operations of the Group. Approval has to be obtained from the Board prior to any significant transactions entered into by the senior management.

All Directors have full and timely access to all relevant information in relation to the Company as well as the advice and services of the company secretary, if and when required, with a view ensuring that the Board procedures and all applicable rules and regulations are followed.

There are established procedures for Directors to seek independent professional advice for them to discharge their duties and responsibilities, where appropriate at the Company's expenses.

The Board currently comprises two executive Directors, being Mrs. Nijssen Victoria and Mr. Cheung Kam Fai and three independent non-executive Directors, being Dr. Dong Ansheng, Mr. Wong Yee Shuen, Wilson and Mr. Tsang Wah Kwong.

The Code Provisions require regular meetings of the Board be held at least four times a year at approximately quarterly intervals. Such Board meetings involve the active participation, either in person or by telephone conference.

During the year under review, 11 board meetings and 3 general meetings were held during the year of 2016. The individual attendance record is as follows:

| Director | Board Meetings attended/ Eligible to attend | General Meetings attended/ Eligible to attend |
|---|---|---|
| **Executive Directors** | | |
| Mr. Zhang Guodong *(Note 1)* | 11/11 | 3/3 |
| Mrs. Nijssen Victoria | 11/11 | 2/3 |
| Mr. Cheung Kam Fai *(Note 2)* | 10/10 | 2/2 |
| **Non-executive Director** | | |
| Mr. William Keith Jacobsen *(Note 3)* | 7/10 | 1/2 |
| **Independent Non-executive Directors** | | |
| Dr. Dong Ansheng | 11/11 | 0/3 |
| Mr. Wong Yee Shuen, Wilson | 10/10 | 2/2 |
| Mr. Tsang Wah Kwong *(Note 4)* | 7/7 | 1/2 |

*Notes:*

1. Mr. Zhang Guodong resigned on 12 January 2017.

2. Mr. Cheung Kam Fai was appointed on 23 January 2016.

3. Mr. William Keith Jacobsen resigned on 30 September 2016.

4. Mr. Tsang Wah Kwong was appointed on 16 February 2016.

Mrs. Nijssen Victoria is the daughter of Mr. Liang Wenguan, a substantial Shareholder of the Company. Save as disclosed above, the other Board members have no financial, business, family or other material/ relevant relationships with each other.

The biographical details of the Directors are set out in the section "Biographical Details of Directors" of this Annual Report.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

In the year under review, the Company has no Chairman. In additional, the Company has no Chief Executive Officer. However, the Board considers that the structure does not impair the management of the Group. Decisions of the Company are made collectively by the executive Directors to execute strategies set by the Board and assume daily management of the Group and report back to the Board on a regular basis.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has three independent non-executive Directors, representing more than one-third of the Board and at least one of whom has appropriate professional qualifications, or accounting or related financial management expertise.

The functions of independent non-executive Directors are primarily to bring an independent judgement on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conducts at board meetings.

## CONFIRMATION OF INDEPENDENCE

The Company has received written annual confirmation from each independent non-executive Director of his independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive Directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

## DIRECTORS' AND OFFICERS' LIABILITY INSURANCE AND INDEMNITY

The Company has arranged appropriate liability insurance to indemnify its Directors and officers in respect of legal actions against the Directors and officers. Throughout the year under review, no claim had been made against the Directors and the officers of the Company.

## APPOINTMENT AND RE-ELECTION OF DIRECTORS

Appointment of any new Director is considered upon recommendation by the Nomination Committee and approved by the Board by taking into account criteria such as expertise, experience, integrity and commitment of a candidate as well as the diversity policy of the Company.

In accordance with the Bye-laws of the Company ("Bye-laws"), all Directors are subject to retirement by rotation and re-election at annual general meetings ("AGMs") of the Company. New Directors appointed by the Board are required to retire and submit themselves for re-election at the first general meeting immediately following their appointments. Further, at each AGM, one-third of the Directors, or if their number is not a multiple of three, then the number nearest to but not exceeding one-third, are required to retire from office.

## DIRECTORS' CONTINUOUS PROFESSIONAL DEVELOPMENT

The Company provides regular updates on the business development of the Group. The Directors are regularly provided information on the latest development regarding the Listing Rules and other applicable statutory requirements to ensure compliance and upkeep of good corporate governance practices. All Directors have participated in appropriate continuous professional development and refreshed their knowledge and skills during the year for ensuring that their contribution to the Board remains informed and relevant and be kept abreast of the ever changing business environment. Such professional development was undergone either by way of attending briefings, conference, courses, forum and seminars, or through teaching, self-reading and participating in business-related researches which are relevant to the business of the Group or Directors' duties.

## AUDIT COMMITTEE

The Audit Committee comprises all three independent non-executive Directors and is chaired by Mr. Tsang Wah Kwong (commenced from 16 February 2016), who has appropriate professional qualifications and experience as required by the Listing Rules. The Audit Committee's terms of reference are in conformity with the requirements of the Code Provisions. The primary duties of the Audit Committee include the following:

(a) monitoring and ensuring a proper relationship with the Company's external auditor;

(b) review of the Group's interim and annual reports and compliance with accounting standards, the Listing Rules, and legal requirements before submission to the Board; and

(c) oversight of the Company's financial reporting process and risk management and internal control systems.

The Audit Committee has reviewed the audited financial statements of the Group for the year ended 31 December 2016 and recommended the same to the Board for its approval. With effect from 1 January 2016, the Audit Committee has extended its functions to oversee the Group's risk management system.

During the year under review, the Audit Committee held two meetings, to review the Group's interim and final financial statements, to meet and discuss with the external auditor about audit findings, and discuss with the management about appointment of the external auditor. The attendance records are as follows:

| **Committee Member** | **Number of attendance** |
|---|---|
| Dr. Dong Ansheng | 1/2 |
| Mr. Wong Yee Shuen, Wilson | 2/2 |
| Mr. Tsang Wah Kwong *(Note)* | 2/2 |

*Note:*

Mr. Tsang Wah Kwong became a member of Audit Committee on 16 February 2016.

## REMUNERATION COMMITTEE

The Remuneration Committee comprises all three independent non-executive Directors and Mrs. Nijssen Victoria, an executive Director and is chaired by Dr. Dong Ansheng.

The primary duties of the Remuneration Committee are to make recommendations to the Board on the Group's policy and structure for the Directors and senior management remuneration, make recommendations on the remuneration packages of individual Director and ensure that no Director or any of his/her associates is involved in deciding his/her own remuneration. The terms of reference of the Remuneration Committee are in conformity with the requirements of the Code Provisions.

During the year under review, the Remuneration Committee held four meetings to review the remuneration package of the Directors and senior management. The attendance records are as follows:

| **Committee Member** | **Number of attendance** |
|---|---|
| Dr. Dong Ansheng | 3/4 |
| Mr. Wong Yee Shuen, Wilson | 4/4 |
| Mr. Tsang Wah Kwong *(Note)* | 2/2 |
| Mrs. Nijssen Victoria | 4/4 |

*Note:*

Mr. Tsang Wah Kwong became a member of Remuneration Committee on 16 February 2016.

## NOMINATION COMMITTEE

The Nomination Committee comprises all three independent non-executive Directors and Mrs. Nijssen Victoria, an executive Director, and is chaired by Dr. Dong Ansheng.

The primary duties of the Nomination Committee are to review the size, structure, composition and diversity of the Board, identify suitably qualified individuals for appointment to the Board, assess the independence of independent non-executive Directors and make recommendations to the Board on the election or re-election of the Directors and succession planning for the Directors. The terms of reference of the Nomination Committee are in conformity with the requirements of the Code Provisions.

The Nomination Committee held four meetings during the year to nominate candidates to the Board and review the composition of the Board and the suitability of the Directors proposed for re-election at the AGM. The attendance records are as follows:

| Committee Member | Number of attendance |
|---|---|
| Dr. Dong Ansheng | 3/4 |
| Mr. Wong Yee Shuen, Wilson | 4/4 |
| Mr. Tsang Wah Kwong *(Note)* | 2/2 |
| Mrs. Nijssen Victoria | 4/4 |

*Note:*

Mr. Tsang Wah Kwong became a member of Remuneration Committee on 16 February 2016.

## COMPANY SECRETARY

Mr. Chan Kwan Pak is the Company Secretary of the Company. He is an external service provider and was appointed by the Board. Mr. Chan supports the Board by ensuring good information flow within the Board and that Board policy and procedures are followed. He also advises the Board on corporate governance matters and facilitates induction and professional development of the Directors. Mr. Chan reports directly to the Board. All the Directors have access to the advice and services of the Company Secretary at any time in relation to their duties and operation of the Board. The Company Secretary participated in no less than 15 hours of relevant professional training during the year.

## RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges that it is its duty to monitor the risk management and internal control systems of the Group on an ongoing basis and review their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

During the Year, the Board, through the Audit Committee, conducted an annual review of both design and implementation effectiveness of the risk management and internal control systems of the Group, covering all material controls, including financial, operational and compliance controls, with a view to ensuring that resources, staff qualifications and experience, training programmes and budget of the Group's accounting, internal audit and financial reporting functions are adequate. In this respect, the Audit Committee communicates any material issues to the Board.

During the Year, the Group appointed Baker Tilly Hong Kong Risk Assurance Limited ("Baker Tilly") to:

- assist in identifying and assessing the risks of the Group through a series of workshops and interviews; and
- independently perform internal control review and assess effectiveness of the Group's risk management and internal control systems.

The results of the independent review and assessment were reported to the Audit Committee and the Board. Moreover, improvements in internal control and risk management measures as recommended by Baker Tilly to enhance the risk management and internal control systems of the Group and mitigate risks of the Group were adopted by the Board. Based on the findings and recommendations of Baker Tilly as well as the comments of the Audit Committee, the Board considered the internal control and risk management systems effective and adequate.

The Group has established internal control procedures for the handling and dissemination of inside information in order to comply with Chapter 13 of the Listing Rules as well as Part XIVA of the Securities and Futures Ordinance. The internal control mechanism includes information flow and reporting processes, confidentiality arrangements, disclosure procedures, and staff training arrangements, etc.

### Our Enterprise Risk Management Framework

The Group established its enterprise risk management framework in 2016. While the Board has the overall responsibility to ensure that sound and effective internal controls are maintained, management is responsible for designing and implementing an internal control system to manage all kinds of risks faced by the Group.

Through the risk identification and assessment processes, risks are identified, assessed, prioritized and allocated treatments. Our risk management framework follows the COSO Enterprise Risk Management – Integrated Framework, which allows the Board and management to manage the risks of the Group effectively. The Board receives regular reports through the Audit Committee that oversights risk management and internal audit functions.

### Principal Risks

In the Year of 2016, the following principal risks of the Group were identified and classified into strategic risks, operational risks, financial risks and compliance risks.

| **Risk Areas** | **Principal Risks** |
|---|---|
| Strategic Risks | Corporate strategy misalignment; risk on delay in handling client complaints |
| Operational Risks | Unauthorized access to customers' information; leak of customers' information; intentional misreporting of positions; risk on staff independence; risk on flow of confidential and price sensitive information between corporate finance activities and other business activities |
| Financial Risks | Liquidity risk; concentration risk |
| Compliance Risks | Inadequate monitoring of customer status and transactions; risk of non-compliance of IRD regulations; risk of misconduct of staff; risk of under-disclosure of continuing connected transactions; risk of non-compliance of anti-money laundering, combating financing of terrorism |

### Our Risk Control Mechanism

The Group adopts a "three lines of defence" corporate governance structure with operational management and controls performed by operations management, coupled with risk management monitoring carried out by the finance and compliance team and independent internal audit outsourced to and conducted by Baker Tilly. The Group maintains a risk register to keep track of all identified major risks of the Group. The risk register provides the Board, the Audit Committee, and management with a profile of its major risks and records management's action taken to mitigate the relevant risks. Each risk is evaluated at least annually based on its likelihood of occurrence and potential impact upon the Group. The risk register is updated by management as the risk owners with addition of new risks and/or removal of existing risks, if applicable, at least annually, after the annual risk evaluation has been performed. This review process can ensure that the Group proactively manages the risks faced by it in the sense that all risk owners have access to the risk register and are aware of and alert to those risks in their area of responsibility so that they can take follow-up action in an efficient manner.

Our risk management activities are performed by management on an ongoing process. The effectiveness of our risk management framework will be evaluated at least annually, and periodic management meeting is held to update the progress of risk monitoring efforts. Management is committed to ensure that risk management forms part of the daily business operation processes in order to align risk management with corporate goals in an effective manner.

The Company will continue to engage external independent professionals to review the Group's system of internal controls and risk management annually and further enhance the Group's internal control and risk management systems as appropriate.

There is currently no internal audit function within the Group. The directors have reviewed the need for an internal audit function and are of the view that in light of the size, nature and complexity of the business of the Group, it would be more cost effective to appoint external independent professionals to perform internal audit function for the Group in order to meet its needs. Nevertheless, the directors will continue to review at least annually the need for an internal audit function.

## AUDITOR'S REMUNERATION

Total auditor's remuneration in relation to statutory audit work of the Group for the year ended 31 December 2016 amounted to HK$1,200,000 (2015: HK$1,000,000). HK$522,000 was incurred for non-audit services provided by the auditor for the Group during the year (2015: Nil).

The responsibilities of the auditor with respect to financial reporting are set out in the section of "Independent Auditor's Report" on pages 33 to 38.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors are responsible for overseeing the preparation of accounts for each financial period with a view to ensuring such accounts give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. The Company's accounts are prepared in accordance with all relevant statutory requirements and applicable accounting standards. The Directors are responsible for ensuring that appropriate accounting policies are selected and applied consistently, and that judgments and estimates made are prudent and reasonable.

## COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Board has established a shareholders' communication policy to maintain an on-going dialogue with its shareholders and investors in a timely, open and transparent manner. The Board reviews the policy on a regular basis to ensure effective communication between the Company and its shareholders and investors.

The Board communicates with its shareholders and investors through various channels. The Board members meet and communicate with shareholders and investors at AGMs and other general meetings. Corporate communications (such as interim and annual reports, notices, circulars and announcements) are sent to shareholders in a timely manner and are available on the websites of the Company and the SEHK.

## SHAREHOLDERS' RIGHTS

### Procedures for Nomination of a Director

A notice in writing of the intention to propose a person for election as a director of the Company and a notice in writing by that person of his willingness to be elected together with his/her particulars (such as qualifications and experience) and information as required to be disclosed under Rule 13.51(2) of the Rules Governing the Listing of Securities on the SEHK shall be lodged at the Company's head office and principal place of business (Suite 3005, 30/F, West Tower, Shun Tak Centre, 168–200 Connaught Road Central, Hong Kong). The period for lodgment of the notices required will commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than 7 days prior to the date of such general meeting, and the minimum length of the period during which such notices to the Company may be given will be at least 7 days.

### Shareholders to convene a Special General Meeting

Special general meetings shall be convened on the requisition of one or more shareholders of the Company holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board of Directors or the Secretary of the Company (Suite 3005, 30/F, West Tower, Shun Tak Centre, 168–200 Connaught Road Central, Hong Kong) for the purpose of requiring a special general meeting to be called by the Board for the transaction of any business specified in such requisition.

If within 21 days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may convene such meeting, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company. Such meeting shall be held within 3 months after the deposit of such requisition.

# Environmental, Social and Governance Report

This environmental, social and governance ("ESG") report emphasizes the balance between business needs, social demand and environmental concerns. The integration of sustainability into our business strategy as well as daily operations is a must. To deal with issues effectively, the understanding and interaction with our employees, consumers and stakeholders are of the highest priority. We believe that the thoughtful management of ESG issues is an essential part of long-term success in a rapidly changing world. With careful and better understanding of ESG risks and opportunities, the Group will be better positioned in diminishing and recycling waste, allocating resources, even though increased regulation is expected to pose greater challenges. In addition, we believe that our expertise, capital, capabilities, and ownership model can be part of the solution to some of the challenges that communities around the world are already facing, such as the need for waste management and develop an effective workforce. We believe the key to success is to make informed decisions by thoroughly and carefully considering ESG issues.

Finally, the following sustainability strategy is applied to all the work streams:

1. To contribute to environmental sustainability

2. To attract and retain employees

3. To engage with stakeholders

4. To support our employees

5. To sustain local communities

6. To strengthen community relations

7. To grow supplier commitment

## Report Scope and Boundary

We fully understand that the ESG policy will have a long-lasting impact on our future development, and our operations and strategies will also influence our society, environment and each stakeholder. Therefore, this report will provide explanation on how the Group contributes to the sustainable development in the financial year.

Apart from focusing on our organizational values, strategy and core competency that contribute to our sustainable development, we also consider the ESG challenges reported by our competitors as well as communicated with our stakeholders. This allows us to identify potential sustainability issues that might be significant to the Group.

# Environmental, Social and Governance Report

For this year, the material ESG issues are those which have or may have a significant impact on:

- securities industry;
- the global securities market;
- the environment or society now or in the future;
- our financial performance or operations; or
- our stakeholders' assessments, decisions and actions.

In preparing this report, we used selected global, local and industry standards or best practices including the Hong Kong Stock Exchange's ESG Reporting Guide and applicable accounting and financial reporting standards in Hong Kong. Financial data is extracted from or calculated based on the Company's audited annual accounts for the year ended 31 December 2016.

For details in relation to our financial performance and corporate governance, please visit our website http://www.pingansecgp.com and our annual reports. We also treasure your feedback and comments on our sustainability performance, please send your feedback and other sustainability enquires to our email at info@pingansecgp.com.

## OUR STAKEHOLDERS

The Group is searching for every opportunity to understand and engage our stakeholder to ensure improvement can be implemented to our products and services. We strongly believe that our stakeholders play a crucial role in sustaining the success of our business.

| Stakeholders | Possible concerned issues | Communication and responses |
|---|---|---|
| **HKEx** | Compliance with the Listing Rules, timely and accurate announcements | Meetings, training, roadshows, workshops, programmes, website updates and announcements |
| **Government** | Compliance with applicable laws and regulations, preventing crimes and tax evasion | Interaction and visits, government inspections, tax returns and other information |
| **Investors** | Corporate governance system, business strategies and performance, investment returns | Organizing and participating in seminars, interviews, shareholders' meetings, financial reports or operation reports for investors, media and analysts |
| **Media & public** | Corporate governance, environmental protection, human rights | Issue of newsletters on the Company's web site |
| **Customers** | Service quality, delivery times, reasonable prices, service value, personal data protection | After-sales services |
| **Employees** | Rights and benefits, employee compensation, training and development, work hours, working environment | Conducting union activities, trainings, interviews for employees, internal memos, employee suggestion boxes |
| **Community** | Community environment, employment and community development, social welfare | Developing community activities, employee voluntary activities and community welfare subsidies and donations |

## ENVIRONMENTAL

### Overview

We know that the quality of environmental management is very important to our long-term success. Our commitments are to the environmental sustainability encompasses each of our business units. Our priority is to protect the environment and our target is to minimize environmental impact by adopting world's leading practices in our activities.

We strive to continuously improve and create value for our stakeholders and ensure that the concept of environmental sustainability is integrated into every part of our daily business operations by complying with all environmental protection policies, practices and laws.

We actively maintain a balance between sustainable corporate development and environmental protection. To ensure the balance is achieved, the Group is monitoring any changes regarding the environment that could have influence on our company. We are striving to work towards operating in a 'green' office by improving energy efficiency, addressing waste management, supporting environmental education, in order to minimize the negative impact on the environment.

# Environmental, Social and Governance Report

### Use of key resources

The Group complies with policies in the efficient use of resources, including energy and water.

### Energy Efficiency

Our aim is to reduce energy consumption in our offices. We fully understand the importance of conserving energy and reducing greenhouse gas emission, thus, we have already established a "Green Office" policy.

We encourage our employees to save energy and resources in their day-to-day operations. As one of the measures we are posting energy saving reminders next to the light switches, copiers, and other conspicuous areas. We support the indoor temperature savings programme while maintaining the average indoor temperature of the office at 24 to 26 degrees Celsius to reduce air conditioning power consumption. We encourage our employees to turn off the power when any electrical appliance (e.g. air conditioners, lights, machines, etc.) is not in use. If a computer will be idle for a long time, it should be powered off instead of being left in the standby mode. Furthermore, we use low power consumption lighting instead of using traditional light bulbs in order to saving energy. Finally, a person who is the last to leave the office should ensure that all power supplies that are not used are turned off.

### Water Saving

Manual taps are installed for using water at pantry in our office. Water saving reminders are posted near the taps to encourage to water saving.

### Reduction of printing and paper usage

We encourage our staff to work more effectively in a paperless environment. To avoid unnecessary wastage and promote effective usage of paper, we are trying to use e-versions instead of hardcopies as far as practicable. If printing is nevertheless necessary, then the best option is to make double-sided printing and copying. If printing was done on one side we will collect and reuse the papers for printings and copying for internal documents. The recycling paper box is placed next to the copier, which makes it easy for our employees to collect and re-use the papers. Other default settings such as the adoption of economic mode, black and white output colour, selection of bypass for reuse recycled paper are also encouraged in our office. Besides, containers of ink cartridges and toner of printers and copiers are recycled by the suppliers.

### Battery Recycling

In addition to electronic and water saving, and reduction of printing, and paper usage, we also have the recycling of single-use batteries or rechargeable batteries. We understand our devices may unavoidably contain batteries, thus, we have place a battery recycling box for collecting them. Collected batteries will be delivered to public recycling bin regularly.

### Environmental Education

We believe that the most effective way to achieve and sustain environmental excellence is through increasing environmental awareness among our employees. We provide the guidelines and policies, so that our employees have a good knowledge in green developments and operations. Furthermore, we also advocate planting in the office. In addition to having it as a decoration in the office, it helps to relax workplace stress.

### Compliance and Grievance

During the year, no non-compliance incidents or grievances were found in relation to environmental aspect that have a significant impact on us.

## SOCIAL

### Our People

The key to success is a strong and well organized team, which is a pool of qualified experienced talents. Without their continued commitment and contribution, we will not be able to operate or serve our customers. It is therefore our top priority to make sure that our employees work in a fair, safe, healthy and happy working environment that facilitates their personal growth and career development. We focus on assisting our staff in achieving their career goal and self-development. We provide trainings, seminars and encouraging our staff to grow together.

### Occupational Health and Safety

We focus on our efforts in providing a safe working environment for our employees as well as caring for the overall wellbeing of our employees. In relation to employment and labour practices, we focuses on employment, health and safety, training and development.

### The health and safety of our employees are the highest priority for us.

Guideline of Office Safety and Health Information is posted on conspicuous area to let our employees know that the workplace is safe.

We also have first aid box in case of any injury. Furthermore, in any event if any of our employees is injured during their work, we have put an injury claim procedure in place to cover their medical costs. During 2016, there was no instance of injury in our office.

### Employee Remuneration and Benefits

The individuality and diversity that every employee brings to the business and seek to create a positive working environment wherever we operate are very important for us.

Our employees' remuneration is benchmarked against market rates. Performance assessment is carried out to measure employees' overall achievement of goals and performance. We believe that we can improve our performance and productivity with a comprehensive performance appraisal system, as well as a performance-oriented corporate culture.

We also offer a wide variety of paid leave including maternity, compassionate and study leave. Besides, we also provide free newspapers and magazines for staff to read in their free time.

### Training and Development

We believe, that the staff is the greatest asset of the Group and by investing in employees with training will promote job satisfaction, increase motivation and lower staff turnover. We provide continuous professional development ("CPD") courses to our Directors and senior management, and our staff are motivated to take CPD courses, work-related courses and seminars by education allowance.

### Work-life balance

To ensure that our employees have a balanced and healthy lifestyle, we provide activities, such as annual dinner and employees travelling programme, for our employees every year to enhance their loyalty to the Group and the unity of our employees.

### Equal Employment Opportunities

We are dedicated to promote equal opportunities for all of our employees in different areas, such as recruitment, compensation and benefits, training and promotion, and any allowance. We believe that each individual has his/her unique strengths that can add value to the Company and society in general. All employees are assessed based on their ability, performance and contribution to the Group. Employment contracts are strictly subject to the relevant laws and regulations. During the reporting period, there was no discriminatory act reported or complaint received in relation to equal opportunity, transfer, promotion, recruitment, termination, severance, holidays, benefits or training.

# Environmental, Social and Governance Report

### Human Rights

Respecting human rights has been an integral part of our approach to sustainability. We fully comply with labour laws or other relevant legislations that prohibit child labour and forced labour. We want to be sure that all our employees understand harassment and discrimination are not tolerated in the Group. We do not employ any person below the age of eighteen at our workplace. Our employees' rest time is well respected and the employees enjoy paid holidays, and overtime compensation hours and pays in line with the local laws and regulations. We are committed to provide a working environment where all employees are treated equally. All employees are assessed based on their ability, performance and contribution, irrespective of their nationality, race, religion, gender, age or family status. During 2016, we did not identify any breach in legislation related to these areas.

### Communication channel

We have our internal staff complaint procedures to ensure proper channels are in place for employees to file complaints. If an employee would like to lodge a complaint, he/she can report direct to his/her department head, if the results are not satisfactory, further complaints can be lodged to a Director.

We encourage our employees to provide feedback and suggestions. Employees can file a complaint or accusation against senior management.

### Anti-corruption

To promote a good and ethical business culture, we have a Corruption Prevention Guide and Toolkit on Directors' Ethics on the prevention of corruption, fraud, bribery, extortion, money laundering and any malpractice or unethical practices. Our employees are encouraged to report any suspected cases of corruption to their department heads. We promise to keep the identity of whistleblowers confidential. We are committed to thoroughly investigate each enquiry, feedback and complaint and have it resolved fairly, in sufficient time and in the strictest confidence. In the financial year 2016, no significant corruption case was reported.

### Customer Privacy Protection

Our customers are our priority, and our dedication to serving them involves protecting their data and ensuring their legal right to privacy. To ensure that we comply with the requirements of the Personal Data (Privacy) Ordinance, our employees are required to follow the Ordinance in handling the sensitive privacy information and data access.

Notice on Personal Data is attached in the client's agreement to ensure that our customers understand the purpose of collecting their personal information and those we are committed to abide by the Personal Data (Privacy) Ordinance. Our customers' personal information is maintained with care and can only be accessed by authorized persons for authorised purposes. We also engage external professionals in IT sector to do regularly checks and maintain our computer system to ensure that we have a sufficient protection of all our customers' personal information.

# Report of the Directors

The Directors herein present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2016.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of the principal subsidiaries and joint venture are set out in detail in notes 45 and 22, respectively, to the financial statements.

## SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to results by principal activity and geographical area of operations for the year ended 31 December 2016 is set out in note 7 to the financial statements.

## RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2016 and the state of affairs of the Group at that date are set out in the financial statements on pages 39 to 126.

The Directors do not recommend the payment of any dividends in respect of the year ended 31 December 2016 (2015: Nil).

## BUSINESS REVIEW

A review of the business of the Group during the year and a discussion on the Group's future business development are provided in the Executive Director's Statement on pages 4 to 6 of this Annual Report. Description of the financial risk management objectives and policies of the Group can be found in Note 6 to the financial statements. An analysis of the Group's performance during the year using financial key performance indicators are provided in the Executive Director's Statement on pages 4 to 6 of this Annual Report. The Group's environmental policies, relationships with its key stakeholders and compliance with relevant laws and regulations which have a significant impact on the Group are contained in the Corporate Governance Report are discussed below.

### Environmental Policy and Performance

The Group commits to the principle and practice of recycling and reducing. To help conserve the environment, it implements green office practices such as re-deployment of idle office furniture as far as possible, encourage use of recycled paper for printing and copying, double-sided printing and copying, setting up recycling bins, reduce energy consumption by switching off idle lightings, air conditioning and electrical appliances.

The Group will review its environmental practices from time to time and consider implementing further eco-friendly measures, sustainability targets and practices in the operation of the Group's businesses to embrace the principles of reducing, recycling and reusing, and further minimizing our already low impact on the natural environment.

### Compliance with Relevant Laws and Regulations

For the year ended 31 December 2016, compliance procedures were in place to ensure adherence to applicable laws, rules and regulations, in particular those have significant impact on the Group. The Company encourages its employees to understand, comply with and keep themselves abreast of the laws, rules and regulations applicable to their positions and the operation of the businesses of the Group. The Company has employed suitable personnel and engaged professional advisers as and when appropriate to provide legal advice on the applicability, existence or interpretation of any laws, rules and regulations.

**Relationships with key stakeholders**

The Group's success lies also on the support from key stakeholders, including but not limited employees, customers, bankers, service providers and shareholders.

*Employees*

The Group treasures our employees as the most important and valuable assets of the Group. The objective of the Group's human resources management is to reward and recognise our employees by providing a competitive remuneration package, appropriate incentives, and opportunities within the Group for career advancement.

*Customers*

The Group is committed to provide excellent services to our customers with a view to maintaining steady business and asset growth as well as long term profitability.

*Bankers*

To order to ensure adequate market penetration and access, the Group has maintained excellent relationship with our bankers and has been soliciting funds from our bankers as and when necessary.

*Service Providers*

The Group's good relationships with its key service providers are important in provision of effective and efficient services to our customers and meeting business challenges. The key service providers comprise system and equipment vendors, external consultants which provide professional services, and other business partners which provide value-added services to the Group.

*Shareholders*

One of the corporate goals of the Group is to enhance corporate value to our shareholders. Description of the shareholders' rights and our investor relations can be found in the section of "Corporate Governance Report" on pages 10 to 17 of this annual report.

## SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and of the assets and liabilities of the Group for the last five financial years ended 31 December 2016, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 127. The summary is not part of the audited financial statements.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group are set out in note 16 to the financial statements.

## INVESTMENT PROPERTIES

Details of movements in the investment properties of the Group are set out in note 17 to the financial statements.

## SHARE CAPITAL

Details of the Company's share capital are set out in note 40 to the financial statements.

## RESERVES

Details of movements in the reserves of the Company and of the Group are set out in note 47 to the financial statements and on page 43 respectively.

## DISTRIBUTABLE RESERVES

At 31 December 2016 the Company did not have any reserves available for distribution to equity shareholders of the Company.

## MAJOR CUSTOMERS AND SUPPLIERS

During the year, sales to the Group's five largest customers accounted for more than 30% of the total sales for the year, and the purchases attributable of the five largest suppliers accounted for less than 30% of the Group's total purchases. Information about major customers are set out in note 7 to the financial statements.

## DIRECTORS

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

***Executive Directors***

| | |
|---|---|
| Mr. Zhang Guodong | *(Resigned on 12 January 2017)* |
| Mrs. Nijssen Victoria | |
| Mr. Cheung Kam Fai | *(Appointed on 23 January 2016)* |

***Non-executive Directors***

| | |
|---|---|
| Mr. William Keith Jacobsen | *(Resigned on 30 September 2016)* |

***Independent Non-executive Directors***

| | |
|---|---|
| Dr. Dong Ansheng | |
| Mr. Wong Yee Shuen, Wilson | |
| Mr. Tsang Wah Kwong | *(Appointed on 16 February 2016)* |

At the forthcoming annual general meeting ("AGM"), Mr. Cheung Kam Fai, and Mr. Wong Yee Shuen, Wilson shall retire by rotation in accordance with Bye-law 109(A) of the bye-laws of the Company. Dr. Dong Ansheng as an independent non-executive Director shall be subject to shareholders' approval every year in accordance with the code provision of the Listing Rules since his term of service has been over nine years. All of them being eligible, will offer themselves for re-election thereat.

## CHANGES IN DIRECTORS' INFORMATION

Pursuant to Rule 13.51B of the Listing Rules, the changes in Directors' information during the year under review and up to the date of this report are as follows:

(1) Ms. Liang Huixin has changed her name to Mrs. Nijssen Victoria with effect from 14 March 2016.

## DIRECTORS' SERVICE AGREEMENTS

Mrs. Nijssen Victoria and Mr. Cheung Kam Fai have each entered into a service agreement with the Company for an initial term of three years commencing on 8 August 2016 and 23 January 2016 respectively and the agreements shall be renewed automatically thereafter unless terminated in accordance with the terms of the agreements.

None of the independent non-executive Directors have entered into a service agreement with the Company. They have no specific term of office but shall be subject to retirement by rotation and be eligible for re-election at the AGMs of the Company pursuant to the Bye-laws.

No Director proposed for re-election at the forthcoming AGM has a service agreement with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

At no time during the year or at the end of the year has been/was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Company's 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 TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

There has been no transaction, arrangement or contract of significance to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party and in which a Director of the Company or an entity connected with the Director is or was materially interested, either directly or indirectly, subsisting during or at the end of the year.

## EQUITY-LINKED AGREEMENTS

Other than the share option scheme of the Company as disclosed below, no equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the year or subsisted at the end of the year.

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 31 December 2016, none of the Directors were interested in any business apart from the Group's businesses which competed or was likely to compete, either directly or indirectly, with the business of the Group.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

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

As at 31 December 2016, the interests of the Directors and chief executives of the Company or their associates had any interest or short position in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the SEHK pursuant to the Model Code.

### Long position in shares and underlying shares

| Name of Director | Nature of interests | Description of securities | Number of underlying shares | Approximate% of interests |
|---|---|---|---|---|
| Mr. Cheung Kam Fai | Beneficial owner | Shares | 2,932,000,000 (L) | 15.52% |
| | Beneficial owner | Convertible Bonds | 425,000,000 (L) | 2.25% |
| Mr. Wong Yee Shuen, Wilson | Beneficial owner | Convertible Bonds | 6,134,969 (L) | 0.03% |

(L) denotes long position

## INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2016, the interests of substantial shareholders (other than the Directors or chief executives) in the Shares or the underlying shares of the Company which were required to be notified to the Company pursuant to Part XV of the SFO, or which were required to be recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

### Interest in Shares:

| Name of substantial shareholder | Nature of interests | Number or attributable number of shares held or short positions | Approximate percentage or attributable percentage of shareholding |
|---|---|---|---|
| Mr. Liang Wenguan ("Mr. Liang") | Personal | 2,958,949,292 (L) | 15.66% |
| | Interests of controlled corporation (Note) | 1,020,549,171 (L) | 5.40% |
| Total | | 3,979,498,463 (L) | 21.06% |

(L) denotes long position

Note: The Shares were held by Madex International Company Limited, a company which is 100% owned by Mr. Liang.

Save as disclosed above, as at 31 December 2016, there was no other person (other than the Directors or chief executives of the Company) who had any interest or short position in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions 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, or as otherwise notified to the Company and the SEHK.

## SHARE OPTION SCHEME

At the AGM held on 23 June 2011, the terms of the share option scheme (the "Scheme") was adopted by providing incentive to eligible participants to work better for the interests of the Group, under which the Board may, at its discretion, offer to grant an option to any full-time or part-time employee and directors of the Company or any of its subsidiaries and service providers of the Group (collectively the "Grantees").

The maximum number of shares in respect of which options may be granted under the Scheme must not in aggregate exceed 10% of the total number of shares in issue on the date of adoption of the Scheme (as refreshed on 29 May 2014), being 1,184,264,739 shares. The total number of shares which may fall to be issued upon exercise of the share options granted under the Scheme to each Grantee in any 12-month period up to the date of grant shall not exceed 1% of the shares in issue as at the date of grant.

Any grant of options to a director, chief executive or substantial shareholder of the Company or any of their respective associates is required to be approved by the independent non-executive Directors. If the Board proposed to grant options to a substantial shareholder or any independent non-executive Director or their respective associates which will result in the number of shares to be issued upon exercise of the options granted and to be granted to such person in the 12-month period up to and including the date of such grant, representing in aggregate over 0.1% of the shares in issue on the date of grant and having an aggregate value in excess of HK$5 million, based on the closing price of the shares at the date of each grant, such further grant of options will be subjected to the shareholders' approval in general meeting.

The offer of a grant of share options may be accepted within 28 days from the offer date or within such other period of time as may be determined by the Board. Upon acceptance of the options, the Grantee shall pay HK$1.00 to the Company by way of consideration for the grant.

The subscription price of a share in respect of any option granted under the Scheme shall be priced as the Board in its absolute discretion shall determine, but must be at least the higher of (i) the closing price of the Company's shares as quoted on the SEHK on the date of grant; (ii) the average closing price of the Company's shares as quoted on the SEHK for the five consecutive business days immediately preceding the date of grant; and (iii) the nominal value of a share of the Company.

The period during which an option may be exercise will be determined by the Board in its absolute discretion. An option may be exercised in accordance with the terms of the Scheme at any time after the date upon which the option is deemed to be granted and accepted and prior to the expiry of 10 years from that date. The shares to be allotted upon the exercise of an option will not carry voting rights until the completion of the registration of the Grantee.

No share option under the Scheme were granted or exercised during the year nor remained outstanding as at 31 December 2016.

## MAJOR DISPOSAL DURING THE YEAR

On 27 April 2016, the Company and Season Trade Limited entered into two disposal agreements (the "Disposal Agreements"), pursuant to which the Company has conditionally agreed to sell and Season Trade Limited under each Disposal Agreement has conditionally agreed to purchase the entire issued share capital in Quick Silver Global Enterprises Limited and Fortune House Worldwide Holdings Limited for a total consideration of HK$828,000,000 (the "Disposals").

Completion of the Disposals took place on 18 August 2016. Reference is made to the announcement dated 28 April 2016 and the circular dated 6 July 2016 of the Company.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

## PERMITTED INDEMNITY

Pursuant to the Bye-laws, subject to the applicable laws and regulations, every Director shall be indemnified and secured harmless out of the assets and profits of the Company against all actions, costs, charges, losses, damages and expenses which they or any of them may incur or sustain in or about the execution of their duty in their offices. Such permitted indemnity provision has been in force throughout the Year. The Company has arranged appropriate directors' and officers' liability insurance coverage for the directors and officers of the Group.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

There was no purchase, sale or redemption of listed securities of the Company by the Company or any of its subsidiaries during the year.

## EVENTS AFTER THE REPORTING PERIOD

Details of the significant events after the reporting period of the Group are set out in note 48 to the financial statements.

## MANAGEMENT CONTRACTS

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

## CONTINUING CONNECTED TRANSACTION/RELATED PARTY TRANSACTIONS

Set out below are the details of the continuing connected transactions of the Company as required to be reported under the Listing Rules, but exempted from the independent shareholders' approval requirement:

(1) On 26 January 2016, New China IQ Limited ("NCIQ"), a wholly-owned subsidiary of the Company (as tenant), (NCIQ were disposed to Season Trade Limited on 18 August 2016), entered into a tenancy agreement (the "Tenancy Agreement") with Ms. Mai Shunxing (as landlord), the mother of Mrs. Nijssen Victoria (an executive Director) and the spouse of Mr. Liang Wenguan (a substantial shareholder of the Company), pursuant to which NCIQ rented from Ms. Ms. Mak Shunxing a residential premises as staff quarter for a term of two years from 1 January 2016 to 31 December 2017 at a monthly rental of HK$50,000.

Details of the transaction are provided in note 41 to the financial statements.

(2) On 27 June 2016, the Company entered into a loan agreement with Mr. Cheung Kam Fai, an executive Director and a substantial shareholder of the Company, pursuant to which Mr. Cheung Kam Fai provided financial assistance to the Company of HK$20 million in the form of an unsecured loan, interest-bearing at 1% per annum and repayable on demand.

Details of the transaction are provided in note 41 to the financial statements.

(3) On 1 November 2016, Winford Asia Pacific Limited ("Winford"), a wholly-owned subsidiary of the Company (as tenant) entered into a tenancy agreement with NCIQ (as landlord), pursuant to which Winford rented from NCIQ an office premises for a term of two years and four months from 1 September 2016 to 31 December 2018 at a monthly rental of HK$140,000.

Details of the transaction are provided in note 41 to the financial statements.

The aforesaid continuing connected transactions have been reviewed by the independent non-executive Directors. The independent non-executive Directors were satisfied that the aforesaid continuing connected transaction was entered into (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms or better; and (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

In accordance with Rule 14A.56 of the Listing Rules, the Board engaged the independent auditor of the Company to report on the Group's continuing connected transaction in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The independent auditor of the Company has issued its unqualified letter containing its following findings and conclusions in respect of the continuing connected transactions as mentioned above in accordance with Rule 14A.56 of the Listing Rules.

Nothing has come to the independent auditor's attention that the disclosed continuing connected transactions:

(i) have not received the approval of the Company's Board of Directors;

(ii) were not in accordance with the pricing policies of the Company if the transactions involve provision of goods or services by the Group;

(iii) have not been entered into in accordance with the relevant agreements governing the transactions; and

(iv) have exceeded the annual cap as set by the Company.

A copy of the auditor's report has been provided by the Company to the Stock Exchange.

The Company has confirmed that it has complied with the necessary requirements in respect of the aforesaid continuing connected transaction in accordance with Chapter 14A of the Listing Rules.

## CONTINGENT LIABILITIES

As at 31 December 2016, the Group had no contingent liabilities.

## PUBLIC FLOAT

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

## AUDIT COMMITTEE

The Audit Committee has reviewed and approved the Group's annual results for the year ended 31 December 2016 in conjunction with the Company's external auditor prior to the approval of the annual results by the Board. Information on the work of the Audit Committee and its composition are set out in the Corporate Governance Report on pages 10 to 17.

## AUDITOR

The consolidated financial statements of the Group for the year ended 31 December 2016 have been audited by CHENG & CHENG LIMITED ("CHENG & CHENG"). CHENG & CHENG will retire at the conclusion of the forthcoming AGM and, being eligible, offer itself for re-appointment at the forthcoming AGM. A resolution for re-appointment of CHENG & CHENG as auditor of the Company will be proposed at the forthcoming AGM.

ON BEHALF OF THE BOARD

**Nijssen Victoria**
*Executive Director*

Hong Kong, 23 March 2017

# 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

**TO THE SHAREHOLDERS OF PING AN SECURITIES GROUP (HOLDINGS) LIMITED**
*(Incorporated in Bermuda with limited liability)*

## OPINION

We have audited the consolidated financial statements of PING AN SECURITIES GROUP (HOLDINGS) LIMITED ("the Company") and its subsidiaries ("the Group") set out on pages 39 to 126, which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code") and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### Goodwill valuation and impairment

Refer to note 18 and 19 in the consolidated financial statements

**The key audit matter**

As at 31 December 2016, the Group had goodwill amounting to HK$725,330,000.

The management of the Company had performed impairment assessment and concluded that there was no impairment loss for these goodwill for the year ended 31 December 2016. The estimation of the recoverable amounts of the asset based on the higher of the value in use and fair value less costs of disposal, required significant judgements to be made by the management and involved high level of estimation uncertainty and hence had been identified by us as key audit matter.

**How the matter was addressed in the audit**

Our audit procedures included an assessment of management's estimates of the recoverable amounts of the goodwill which was determined by the directors of the Company based on the fair value less costs of disposal of cash generating unit to which the goodwill was allocated. We inquired and challenged the key assumptions made by the management which were used as key inputs in the valuations, in particular the applicable price earning ratio, price to book value ratio and the price to revenue ratio used in the valuation of the CGU. We also checked the sensitivity analysis of the key assumptions performed by the management of the Company.

### Valuation of investment properties under development

Refer to note 17 in the consolidated financial statements

**The key audit matter**

As at 31 December 2016, the Group owned an investment property under development located in Foshan City, the PRC, with the fair value estimated by the management of the Company of HK$605,000,000. The Company had engaged an independent valuer to determine the fair value. Details are set out in note 17 to the consolidated financial statements.

Given that the valuation was significant to the Group and that the fair value estimate itself is subjective, we have identified the valuation of the property as one of the key audit matters.

**How the matter was addressed in the audit**

We reviewed the valuation report prepared by the independent valuer engaged by the Company. We discussed with the management of the Company and the valuer the appropriateness of the valuation approach and key assumptions being used in determining the fair value of the property as at 31 December 2016.

We performed site visits to the property accompanied by the management of the Company to assess the stage of completion of and the existence of the property.

We evaluated the valuer's competence, capabilities and objectivity.

## Disposal of subsidiaries

Refer to note 39 in the consolidated financial statements

| The key audit matter | How the matter was addressed in the audit |
|---|---|
| As mentioned in note 39 to the consolidated financial statements, the Group had disposed certain subsidiaries during the year ended 31 December 2016 to a purchaser that was wholly-owned by a son of the substantial shareholder of the Company, with the consideration being the purchaser agreed to settle the Promissory Notes issued by the Company with the aggregate principal amount of HK$828,000,000. As a result of the disposal, a gain after tax of HK$59,010,000 was recognised for the year ended 31 December 2016. The management of the Company estimated the gain with reference to the fair value of the promissory notes and contingent consideration derecognised at the date of disposal.<br><br>Given the significant judgement involved in estimating the fair value of the promissory notes at the date of disposal and the related income tax expense (that would be subject to the interpretation of the tax regulations in the PRC) as well as the nature of the transaction being a related party transaction, we have identified these matters arising from the disposal as one of the key audit matters. | We obtained the management account approved by the directors of the Company of the related subsidiaries from 1 January 2016 up to the date of disposal. We then performed the appropriate and necessary audit procedures of the management account of the subsidiaries.<br><br>We checked the related documents as to whether the subsidiaries had been disposed of during the year ended 31 December 2016. We checked with the document for the discharge of promissory note as at the completion date of disposal.<br><br>We assessed the fair value of the promissory notes by discussing with the management of the Company and the independent valuer engaged by the Company the appropriateness of the methodologies and assumptions used in determining the fair value of the promissory notes at the date of disposal. |

## INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors of the company are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## RESPONSIBILITIES OF THE DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**CHENG & CHENG LIMITED**
*Certified Public Accountants*
Yeung Chun Yue, David
Practising Certificate Number: P05595

Hong Kong

23 March 2017

# Consolidated Statement of Profit or Loss

For the year ended 31 December 2016

| | Notes | **2016 HK$'000** | 2015 HK$'000 |
|---|---|---|---|
| Revenue | 7 & 8 | **50,479** | 50,465 |
| Cost of sales | | **(7,245)** | (20,199) |
| Gross profit | | **43,234** | 30,266 |
| Other income | 8 | **90,256** | 9,918 |
| Distribution costs | | **(4,418)** | (6,730) |
| Administrative expenses | | **(97,579)** | (100,827) |
| Finance costs | 9 | **(169,845)** | (118,487) |
| Gains on disposal of investment property | | **4,420** | 18,430 |
| Gain on disposal of intangible asset | | **4,234** | – |
| Gain from changes in fair value of investment properties under development | 17 | **4,260** | 206,182 |
| Loss from changes in fair value of investment properties | 17 | **(111,015)** | (372,659) |
| Fair value change on financial assets at fair value through profit or loss | | **18,730** | (10) |
| Fair value change on derivative financial assets | 32 | **–** | (18) |
| Fair value change on derivative financial liabilities | 32 | **111,585** | 4,409 |
| Fair value change on contingent consideration | 35 | **96,252** | 57,265 |
| Loss on extinguishment of promissory notes | 34 | **(34,963)** | – |
| Losses on disposal of property, plant and equipment | | **–** | (122) |
| Impairment losses on inventories | | **(419)** | (1,144) |
| Share of result of a joint venture | 22 | **(47,090)** | (2) |
| Gain on disposal of subsidiaries, net | 39 | **59,010** | – |
| Loss before tax | | **(33,348)** | (273,529) |
| Income tax credit | 10 | **26,117** | 41,522 |
| Loss for the year | 11 | **(7,231)** | (232,007) |
| Loss for the year attributable to: | | | |
| – Owners of the Company | | **(7,231)** | (232,007) |
| Loss per share | 15 | | |
| – Basic and diluted (HK cents) | | **(0.04 cents)** | (1.57 cents) |

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016

| | Notes | **2016 HK$'000** | 2015 HK$'000 |
|---|---|---|---|
| Loss for the year | | **(7,231)** | (232,007) |
| Other comprehensive expense | | | |
| Items that may be reclassified subsequently to profit or loss: | | | |
| – Exchange differences arising on translation of financial statements of foreign operations | | **(77,571)** | (76,737) |
| – Reclassification adjustment on translation reserve released on disposal of subsidiaries | 39 | **(886)** | – |
| Other comprehensive expense for the year | | **(78,457)** | (76,737) |
| Total comprehensive expense for the year | | **(85,688)** | (308,744) |
| Total comprehensive expense for the year attributable to: | | | |
| – Owners of the Company | | **(85,688)** | (308,744) |

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

# Consolidated Statement of Financial Position

As at 31 December 2016

| | Notes | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 16 | **2,179** | 35,663 |
| Investment properties | 17 | **605,000** | 2,389,000 |
| Goodwill | 18 | **725,330** | 725,330 |
| Intangible assets | 20 | **342,794** | 391,194 |
| Available-for-sale investments | 21 | **–** | – |
| Interest in a joint venture | 22 | **–** | 47,090 |
| Other deposits | 23 | **248** | 273 |
| Financial assets at fair value through profit or loss | 26 | **63,700** | – |
| Prepayment for development of investment properties | 27 | **253,006** | 271,736 |
| | | **1,992,257** | 3,860,286 |
| **CURRENT ASSETS** | | | |
| Inventories | 24 | **–** | 7,053 |
| Loan receivables | 25 | **–** | 354,191 |
| Financial assets at fair value through profit or loss | 26 | **116** | 102 |
| Trade and other receivables | 27 | **36,537** | 125,184 |
| Pledged bank balances | 28 | **–** | 23,613 |
| Bank balances and cash – trust accounts | 28 | **192,104** | 144,643 |
| Bank balances and cash – general accounts | 28 | **65,577** | 213,214 |
| | | **294,334** | 868,000 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 29 | **267,218** | 378,549 |
| Borrowings – current portion | 30 | **29,806** | 16,155 |
| Tax liabilities | | **3,380** | 12,668 |
| Amount due to a related party | 31(a) | **–** | 1,533 |
| Amount due to a shareholder | 31(b) | **69** | 75,711 |
| Amount due to a joint venture | 31(c) | **–** | 49,475 |
| Derivative financial liabilities | 32 | **11,289** | 125,041 |
| Convertible notes – current portion | 32 | **152,563** | – |
| | | **464,325** | 659,132 |
| **NET CURRENT (LIABILITIES)/ASSETS** | | **(169,991)** | 208,868 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **1,822,266** | 4,069,154 |

# Consolidated Statement of Financial Position

As at 31 December 2016

| | Notes | **2016 HK$'000** | 2015 HK$'000 |
|---|---|---|---|
| **CAPITAL AND RESERVES** | | | |
| Share capital | 40 | **944,752** | 927,973 |
| Reserves | | **640,651** | 691,308 |
| **TOTAL EQUITY** | | **1,585,403** | 1,619,281 |
| **NON-CURRENT LIABILITIES** | | | |
| Borrowings – non-current portion | 30 | **68,225** | 1,196,670 |
| Deferred tax liabilities | 33 | **104,043** | 212,673 |
| Convertible notes – non-current portion | 32 | **64,595** | 201,859 |
| Promissory notes | 34 | **–** | 636,019 |
| Provision for contingent consideration | 35 | **–** | 202,652 |
| | | **236,863** | 2,449,873 |
| **TOTAL EQUITY AND NON-CURRENT LIABILITIES** | | **1,822,266** | 4,069,154 |

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

The consolidated financial statements on pages 39 to 126 were approved and authorised for issue by the board of directors on 23 March 2017 and are signed on its behalf by:

**Cheung Kam Fai**
*Director*

**Nijssen Victoria**
*Director*

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

| | Attributable to owners of the Company | | | | | |
|---|---|---|---|---|---|---|
| | Share capital HK$'000 | Share premium HK$'000 | Capital redemption reserve HK$'000 | Translation reserve HK$'000 | Accumulated losses HK$'000 | Total HK$'000 |
| At 1 January 2015 | 661,253 | 1,084,365 | 52 | 72,452 | (865,524) | 952,598 |
| Loss for the year | – | – | – | – | (232,007) | (232,007) |
| Other comprehensive expense for the year | – | – | – | (76,737) | – | (76,737) |
| Total comprehensive expense for the year | – | – | – | (76,737) | (232,007) | (308,744) |
| Issue of shares | 205,670 | 541,814 | – | – | – | 747,484 |
| Share issuance costs | – | (500) | – | – | – | (500) |
| Repurchases of shares | (888) | (1,834) | – | – | – | (2,722) |
| Conversion of convertible notes into shares (note 32) | 61,938 | 169,227 | – | – | – | 231,165 |
| At 31 December 2015 and 1 January 2016 | 927,973 | 1,793,072 | 52 | (4,285) | (1,097,531) | 1,619,281 |
| Loss for the year | – | – | – | – | (7,231) | (7,231) |
| Other comprehensive expense for the year | – | – | – | (78,457) | – | (78,457) |
| Total comprehensive expense for the year | – | – | – | (78,457) | (7,231) | (85,688) |
| Conversion of convertible notes into shares (note 32) | 16,779 | 35,031 | – | – | – | 51,810 |
| At 31 December 2016 | 944,752 | 1,828,103 | 52 | (82,742) | (1,104,762) | 1,585,403 |

# Consolidated Statement of Cash Flows

For the year ended 31 December 2016

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Loss before tax | **(33,348)** | (273,529) |
| Adjustments for: | | |
| Depreciation for property, plant and equipment | **2,386** | 2,390 |
| Amortisation of intangible assets | **19,669** | 8,027 |
| Gain on disposals of subsidiaries, net | **(59,010)** | – |
| Losses on disposal of property, plant and equipment | **–** | 122 |
| Gains on disposal of intangible asset | **(4,234)** | – |
| Gains on trading of listed securities | **–** | (2,800) |
| Gains on disposal of investment properties | **(4,420)** | (18,430) |
| Losses from changes in fair value of investment properties | **111,015** | 372,659 |
| Gains from changes in fair value of investment properties under development | **(4,260)** | (206,182) |
| Fair value change of financial assets at fair value through profit or loss | **(18,730)** | 10 |
| Fair value change on derivative financial assets | **–** | 18 |
| Fair value change on derivative financial liabilities | **(111,585)** | (4,409) |
| Fair value change on contingent consideration | **(96,252)** | (57,265) |
| Loss on extinguishment of promissory note | **34,963** | – |
| Impairment losses on inventories | **419** | 1,144 |
| Finance costs | **169,845** | 118,487 |
| Interest income | **(28,978)** | (6,799) |
| Share of result of a joint venture | **47,090** | 2 |
| Waives of amount due to a joint venture | **(49,475)** | – |
| **Operating cash flows before movements in working capital** | **(24,905)** | (66,555) |
| Increase in inventories | **(1,853)** | (8,197) |
| (Increase) decrease in bank balances and cash – trust account | **(47,461)** | 67,239 |
| Decrease in other deposit | **25** | – |
| (Increase) decrease in trade and other receivables | **(102,974)** | 41,731 |
| Increase (decrease) in trade and other payables | **53,267** | (239,486) |
| **Cash used in operation** | **(123,901)** | (205,268) |
| Interest paid | **(44,864)** | (68,711) |
| Tax paid | **(12,848)** | – |
| Net cash used in operating activities | **(181,613)** | (273,979) |

# Consolidated Statement of Cash Flows

For the year ended 31 December 2016

| | Notes | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|---|
| **INVESTING ACTIVITIES** | | | |
| Net cash outflows arising on disposals of subsidiaries | 39 | **(26,449)** | – |
| Additions of investment properties | | **(10,667)** | (152,047) |
| Interest received | | **28,978** | 6,799 |
| Decrease in pledged bank balances | | **23,143** | 134,118 |
| Purchase of property, plant and equipment | | **(1,479)** | (4,895) |
| Loan receivables, advance to a third party | | **–** | (354,191) |
| Purchase of financial assets at fair value through profit or loss | | **(45,481)** | (19,997) |
| Proceeds from disposal of financial assets at fair value through profit or loss | | **497** | 22,798 |
| Proceeds from disposal of property, plant and equipment | | **–** | 336 |
| Proceeds from disposal of investment properties | | **13,638** | 40,524 |
| Deposit paid for development of investment properties under development | 27(e) | **–** | (271,736) |
| Payment for available for sale investment | | **(34,714)** | – |
| Proceeds from disposal of intangible asset | | **32,296** | – |
| Repayment from a third party | | **–** | 154,243 |
| Net cash inflow on acquisition of subsidiaries | | **–** | 17,950 |
| **Net cash used in investing activities** | | **(20,238)** | (426,098) |
| **FINANCING ACTIVITIES** | | | |
| New borrowings raised | | **81,894** | 1,188,903 |
| Repayments of borrowings | | **(2,089)** | (878,085) |
| Repayment to a joint venture | | **–** | (1) |
| Repayment to a related party | | **(2,510)** | – |
| Net proceeds from the issuance of convertible notes | | **–** | 343,060 |
| Repayment to a shareholder | | **(21,809)** | (12,825) |
| Proceeds from issues of new shares | | **–** | 99,984 |
| Repurchase of shares | | **–** | (2,722) |
| Payment of shares issuance costs | | **–** | (500) |
| **Net cash generated from financing activities** | | **55,486** | 737,814 |
| **Net (decrease) increase in cash and cash equivalents** | | **(146,365)** | 37,737 |
| **Cash and cash equivalents at 1 January** | | **213,214** | 149,576 |
| **Effect of foreign exchange rate changes** | | **(1,272)** | 25,901 |
| **Cash and cash equivalents at 31 December** represented by bank balances and cash – general accounts | | **65,577** | 213,214 |

## 1. GENERAL

Ping An Securities Group (Holdings) Limited (the "Company") was incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda. The Company's shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the Corporate Information of the annual report.

The consolidated financial statements are presented in Hong Kong dollars ("HK$"). Other than those subsidiaries established in the PRC whose functional currency is Renminbi ("RMB"), the functional currency of the Company and its subsidiaries is HK$. The directors of the Company consider that it is more appropriate to present the consolidated financial statements in HK$ as the shares of the Company are listed on the Stock Exchange.

The Company is an investment holding company. The principal activities of the principal subsidiaries are set out in note 45.

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

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

| | |
|---|---|
| Amendments to HKFRS 11 | Accounting for acquisitions of interests in joint operations |
| Amendments to HKAS 1 | Disclosure initiative |
| Amendments to HKAS 16 and HKAS 38 | Clarification of acceptable methods of depreciation and and amortisation |
| Amendments to HKAS 16 and HKAS 41 | Agriculture: Bearer plants |
| Amendments to HKFRS 10, HKFRS 12 and HKAS 28 | Investment entities: Applying the consolidation exception |
| Amendments to HKFRSs | Annual improvements to HKFRSs 2012-2014 cycle |

The application of the 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.

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

| | |
|---|---|
| HKFRS 9 | Financial instruments[1] |
| HKFRS 15 | Revenue from contracts with customers[1] |
| HKFRS 16 | Lease[2] |
| Amendments to HKFRS 2 | Classification and Measurement of Share-based Payment Transaction[1] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or contribution of assets between an investor and its associate or joint venture[3] |
| Amendments to HKAS 7 | Disclosure Initiative[4] |
| Amendments to HKAS 12 | Recognition of Deferred Tax Assets for Unrealised Losses[4] |

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

[1] Effective for annual periods beginning on or after 1 January 2018.

[2] Effective for annual periods beginning on or after 1 January 2019.

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

[4] Effective for annual periods beginning on or after 1 January 2017.

### HKFRS 9 Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities and impairment requirements for financial assets.

Key requirements of HKFRS 9:

- all recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

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

- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

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

### For entities with available-for-sale investments and financial assets at amortised cost

Based on the Group's financial instruments and risk management policies as at 31 December 2016, application of HKFRS 9 in the future may have a material impact on the classification and measurement of the Group's financial assets. The Group's available-for-sale investments, including those currently stated at cost less impairment, will either be measured as fair value through profit or loss or be designated as FVTOCI (subject to fulfillment of the designation criteria). In addition, the expected credit loss model may result in early provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised cost.

### For entities with financial liabilities designated at fair value through profit or loss

The change in fair value of the Group's convertible notes designated at fair value through profit or loss that is attributable to changes in credit risk could be presented in other comprehensive income. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 9 until the Group performs a detailed review.

### HKFRS 16 LEASES

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 Leases and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Under the HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

Under HKAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2016, the Group as lessee has non-cancellable operating lease commitments of approximately HK$1,526,000 as disclosed in note 43.

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

### Amendments to HKAS 7 Disclosure Initiative

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities including both changes arising from cash flows and non-cash changes. Specially, the amendments require the following changes in liabilities arising from financing activities to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

The amendments apply prospectively for annual periods beginning on or after 1 January 2017 with earlier application permitted. The application of the amendments will result in additional disclosures on the Group's financing activities, specifically reconciliation between the opening and closing balances in the consolidated statement of financial position for liabilities arising from financing activities will be provided on application.

The directors of the Company do not anticipate that the application of the other new and revised HKFRSs will have a material impact on the Group's consolidated financial statements.

## 3. SIGNIFICANT ACCOUNTING POLICIES

### STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with HKFRSs issued by HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance (Cap. 622).

### BASIS OF PREPARATION

In preparing the consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group in light of the fact that the Group incurred a net loss of HK$7,231,000 during the year ended 31 December 2016 and as of that date, the Group's current liabilities exceeded its current assets by approximately HK$169,991,000.

In order to improve the Group's financial position, to provide liquidity and cashflows and to sustain the Group as a going concern, the management has taken and/or will take the following measures:

(a) The Group is taking measures to tighten cost controls over various operating costs and expenses with the aim to attain profitable and positive cash flow operations;

(b) The Group entered into the New CB Subscription Agreement with Topsource (see note 48). The Group has agreed to issue, the New Convertible Bonds for aggregate principal amount of HK$200 million.

The directors of the Company consider that, upon completion of the New CB Subscription, the Group will have sufficient cash resources to satisfy its future working capital and other financing requirements. Accordingly, the directors of the Company consider that it is appropriate to prepare the consolidated financial statements on a going concern basis. Based on the facts and circumstances as made available thereto, the New CB Subscription has been completed on 27 February 2017.

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

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

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

### BASIS OF PREPARATION *(continued)*

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

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

The principal accounting policies are set out below.

### BASIS OF CONSOLIDATION

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

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

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

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

### BASIS OF CONSOLIDATION *(continued)*

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

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

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

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

### CHANGES IN THE GROUP'S OWNERSHIP INTERESTS IN EXISTING SUBSIDIARIES

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

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

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

### BUSINESS COMBINATIONS

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

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

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12, Income taxes and HKAS 19, Employee benefits respectively;

- liabilities or equity instruments related to shared-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2, Share-based payment at the acquisition date (see the accounting policy below); and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5, Non-current assets held for sale and discontinued operations are measured in accordance with that standard.

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

### GOODWILL

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

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

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

### GOODWILL *(continued)*

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

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

### INVESTMENTS IN A JOINT VENTURE

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results, assets and liabilities of joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is or the portion so classified is accounted for in accordance with HKFRS 5, Non-current assets held for sale and discontinued operations. Any retained portion of an investment in a joint venture that has not been classified as held for sales shall be accounted for using the equity method. Under the equity method, investments in joint ventures are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of joint ventures. When the Group's share of losses of joint ventures equals or exceeds the Group's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint ventures.

An investment in a joint venture is accounted for using the equity method from the date on which the investee becomes a joint venture. On acquisition of the investment in joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

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

### INVESTMENTS IN A JOINT VENTURE *(continued)*

The requirements of HKAS 39, Financial instruments: Recognition and measurement are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36, Impairment of assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its joint venture of the Group (such as a sale or contribution of assets), profits or losses resulting from the transactions with the joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the joint venture that are not related to the Group.

### REVENUE RECOGNITION

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

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

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

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

Royalty income is recognised on an accrual basis in accordance with the terms of the relevant agreement.

Commission and brokerage income is recorded as income when the trades are executed. Underwriting fee and commission income for securities listed in the Stock Exchange of Hong Kong Limited is recognised when services are rendered.

Divided income from listed investments is recognised when the shareholders' rights to receive payment have been established.

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

### REVENUE RECOGNITION *(continued)*

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

The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy for leasing below.

### PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment including leasehold land and buildings held for use in the production or supply of goods or services, or for administrative purposes are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and accumulated impairment losses, if any.

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

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

### INVESTMENT PROPERTIES

Investment properties are properties held to earn rentals and/or for capital appreciation (including properties under redevelopment for such purposes).

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

Construction costs incurred for investment properties under development are capitalised as part of the carrying amount of the investment properties under development.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the item is derecognised.

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

### INTANGIBLE ASSETS

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

Subsequent to initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below). Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

### IMPAIRMENT LOSSES ON ASSETS, INCLUDING INVESTMENT IN A JOINT VENTURE

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

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

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

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

### LEASING

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

*The Group as lessor*

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

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

### LEASING *(continued)*

*The Group as lessee*

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis over the lease term.

*Leasehold land for own use*

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

### FOREIGN CURRENCIES

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

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss for the period in which they arise except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the Group's interests.. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

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

### FOREIGN CURRENCIES *(continued)*

For the purpose of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. HK$) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of the translation reserve (attributed to non-controlling interest as appropriate).

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

### BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

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

### RETIREMENT BENEFIT COSTS

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

### TAXATION

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

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

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

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

### TAXATION *(continued)*

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

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

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

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

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

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

### CASH AND CASH EQUIVALENTS

Bank balances and cash in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above.

### PROVISIONS

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

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

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

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

### PROVISIONS *(continued)*

*Contingent liabilities acquired in a business combination*

Contingent liabilities acquired in a business combination are initially measured at fair value at the acquisition date. At the end of the subsequent reporting period, such contingent liabilities are measured at the higher of the amount that would be recognised in accordance with HKAS 37, Provisions, contingent liabilities and contingent assets and the amount initially recognised less cumulative amortisation recognised in accordance with HKAS 18, Revenue.

### INVENTORIES

Inventories are carried at the lower of cost and net realisable value. Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs 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 writedown or loss occurs. The amount of any reversal of any 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.

### FINANCIAL INSTRUMENTS

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

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

*Financial assets*

The Group's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss ("FVTPL"), loans and receivables and available-for-sale financial assets.

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

Effective interest method

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

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

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

### FINANCIAL INSTRUMENTS *(continued)*

*Financial assets (continued)*

Financial assets at FVTPL

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

A financial asset is classified as held for trading if:

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

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

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39, Financial instruments: Recognition and measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are measured at fair value, with any gains or losses arising from remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial assets and is included in the other gains and losses. Fair value is determined in manner described in Note 6.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.

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

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

### FINANCIAL INSTRUMENTS *(continued)*

*Financial assets (continued)*

Available-for-sale financial assets (continued)

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

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

Loans and receivables

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

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment losses on financial assets

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

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

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

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

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

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

### FINANCIAL INSTRUMENTS *(continued)*

*Financial assets (continued)*

Impairment losses on financial assets (continued)

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

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

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

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

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

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

*Financial liabilities and equity instruments*

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Equity instruments

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

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

### FINANCIAL INSTRUMENTS *(continued)*

*Financial liabilities and equity instruments (continued)*

Financial liabilities

The Group's financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liabilities are either held for trading or it is those designated at FVTPL on initial recognition.

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

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

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

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

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes any interest paid on the financial liability and is included in the 'other gains and losses' line item.

Other financial liabilities

Other financial liabilities (including other payables, borrowings, amount due to a related party, amount due to shareholder, amount due to a joint venture and promissory notes) are subsequently measured at amortised cost using the effective interest method.

*Convertible notes*

Convertible note issued by the Company that contains both a liability and embedded derivative is classified separately into these respective items on initial recognition. Conversion right that will be settled other than by the exchange of a fixed amount of cash or other financial assets for a fixed number of the Company's shares is conversion right derivative. Redemption right at the option of the Company which is not closely related to the host contract is also embedded derivative. At the date of issue of the convertible note, the embedded derivative is recognised at fair value, the host liability is recognised at the residual amount after deducting the fair value of embedded derivative from the fair value of the convertible note as a whole.

In subsequent periods, the liability component of the convertible note is carried at amortised cost using the effective interest method. The embedded derivatives are measured at fair value with changes in fair value recognised in the consolidated income statement.

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

### FINANCIAL INSTRUMENTS *(continued)*

*Convertible notes (continued)*

If the convertible note is converted before maturity date, the respective conversion right derivative in the convertible note, together with the carrying value of the liability component at the time of conversion, are transferred to share capital and share premium as consideration for the shares issued.

Effective interest method

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

Interest expense is recognised on an effective interest basis.

*Derecognition*

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

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

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

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

*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 of a parent of the Group.

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

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

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

(iii) The entity and the Group are joint ventures of the same third party.

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

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

(vi) The entity is controlled or jointly controlled by a person identified in (a).

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

(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 parent of the Group.

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.

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

The estimates and underlying assumptions are reviewed on an 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.

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

### KEY SOURCES OF ESTIMATION UNCERTAINTY

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

*(i) Useful lives and depreciation of property, plant and equipment*

The Group determines the estimated useful lives and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. The Group will revise the depreciation charge where useful lives are different from those previously estimated, or it will write-off or write-down technically obsolete or non- strategic assets that have been abandoned or sold. As at 31 December 2016, the carrying amount of the Group's property, plant and equipment was approximately HK$2,179,000 (2015: approximately HK$35,663,000)

*(ii) Useful lives and amortization of intangible assets*

Items of intangible assets are amortised on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. The Group reviews the estimated useful lives and residue value of the assets at each balance sheet date in order to determine the amount of amortisation expense to be recorded during the year. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The amortisation expense for future periods is adjusted if there are significant changes from previous estimates.

*(iii) Fair value of investment properties*

Investment properties are carried in the consolidated statement of financial position at their fair value. The fair value was based on a valuation on these properties conducted by Hung Association Appraisal And Professional Services Limited ("Hung Association"), a professional independent valuer not connected to the Group, using property valuation techniques which involve making assumptions on certain market conditions and or by reference to combined result of the different property valuation techniques, if necessary. Favourable or unfavourable changes to these assumptions would result in changes in the fair value of the Group's investment properties and the corresponding adjustments to the gain or loss recognised in the consolidated statement of profit or loss. As at 31 December 2016, the Group's investment properties are stated at fair value of approximately HK$605,000,000 (2015: approximately HK$2,389,000,000).

*(iv) Impairment of intangible asset*

Intangible asset is tested for impairment if there is any indication that the carrying value of these assets may not be recoverable and the assets are subject to impairment loss. The recoverable amount is the value-in-use. The value-in-use calculation requires the directors of the Company to estimate the future cash flows expected to arise from the relevant cash generating unit and a suitable discount rate is used in order to calculate the present value. As at 31 December 2016, the carrying amount of the Group's intangible asset was approximately HK$342,794,000 (2015: approximately HK$391,194,000).

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

**KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)***

*(v) Impairment of trade and other receivables*

The Group maintains an allowance for estimated loss arising from the inability of its trade and other receivables to make the required payments. The Group makes its estimates based on the history of its client, such as financial difficulties or default payments and current market conditions. If the financial condition of its trade and other receivables was to deteriorate so that the actual impairment loss might be higher than expected, the Group would be required to revise the basis of making the allowance and its future results would be affected. As at 31 December 2016, the carrying amount of the Group's trade and other receivables was approximately HK$289,543,000 (2015: approximately HK$396,920,000).

*(vi) Income taxes and deferred taxation*

The Group is subject to income taxes in the People's Republic of China ("PRC") and Hong Kong. Significant judgement is required in determining the provision for income taxes in these jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised when the management of the Company determines it is likely that future taxable profits will be available against the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different. When the expectations are different from the original estimates, such differences will impact the recognition of deferred tax assets and income tax charges in the period in which such estimates are changed.

*(vii) Impairment of goodwill*

Determining whether the goodwill is impaired requires an estimation of the recoverable amount of the cash-generating units to which goodwill has been allocated, which is the higher of the value in use or fair value less costs of disposal. The value in use calculation requires management to estimate the future cash flows expected to arise from the cash-generating units and suitable discount rate in order to calculate the present value. The fair value less costs of disposal require management to determine the fair value by taking reference to the valuation report conducted by independent valuer. As at 31 December 2016, the carrying amount of the Group's goodwill was approximately HK$725,330,000 (2015: approximately HK$725,330,000)

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

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

*(viii) Fair value of derivatives and other financial instruments*

As described in notes 32 and 35, the directors of the Company use their judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. For derivative financial instruments, assumptions are made based on quoted market rates adjusted for specific features of the instrument. Other financial instruments are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates. The carrying amount of the derivative financial liabilities, provision for contingent consideration and debt component of convertible notes as at 31 December 2016 is approximately HK$11,289,000 (2015: approximately HK$125,041,000), Nil (2015: approximately HK$202,652,000) and approximately HK$217,158,000 (2015: approximately HK$201,859,000) respectively. Details of the assumptions used are disclosed in notes 32 and 35. The directors believe that the chosen valuation techniques and assumptions are appropriate in determining the fair value of financial instruments.

## 5. CAPITAL RISK MANAGEMENT

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern in order to support its business and maximise shareholders' value.

The capital structure of the Group consists of net debt, which included the borrowings, convertible notes, promissory notes, amount due to a related party, amount due to a shareholder, amount due to a joint venture, cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure on an annual basis. As part of this review, the directors of the Company consider the cost of the capital and risks associated with each class of capital. Based on recommendations of the directors of the Company, the Group will balance its overall capital structure through payment of dividends and new share issues as well as the issue of new debt or the redemption of existing debt.

There is no change in the capital risk management policy adopted by the Company during the years ended 31 December 2016 and 31 December 2015.

Ping An Securities Limited ("Ping An"), a wholly-owned subsidiary of the Group, is registered with Securities and Futures Commission ("SFC") for the business it operates in. Ping An is subject to liquid capital requirements under Securities and Futures (Financial Resources) Rules ("SF(FR)R") adopted by the SFC. Under the SF(FR)R, Ping An must maintain their liquid capital in excess of HK$3 million or 5% of their total adjusted liabilities, whichever is the higher. The required information is filed with SFC on a monthly basis.

## 6. FINANCIAL INSTRUMENTS

### (a) CATEGORIES OF FINANCIAL INSTRUMENTS

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| **Financial assets** | | |
| Fair value through profit or loss | | |
| – Listed securities at fair value | **116** | 102 |
| – Convertible notes at fair value | **63,700** | – |
| | **63,816** | 102 |
| Loans and receivables at amortised cost | | |
| – Loan receivables | **–** | 354,191 |
| – Trade and other receivables | **27,020** | 59,051 |
| – Pledged bank balances | **–** | 23,613 |
| – Bank balances and cash - general accounts | **65,577** | 213,214 |
| – Bank balances and cash - trust accounts | **192,104** | 144,643 |
| | **284,701** | 794,712 |
| | **348,517** | 794,814 |
| **Financial liabilities** | | |
| Fair value through profit or loss | | |
| – Provision for contingent consideration | **–** | 202,652 |
| – Derivative financial liabilities – embedded conversion option | **11,289** | 125,041 |
| | **11,289** | 327,693 |
| Other financial liabilities at amortised cost | | |
| – Trade payables | **197,351** | 153,313 |
| – Other payables | **64,443** | 221,101 |
| – Borrowings | **98,031** | 1,212,825 |
| – Amount due to a related party | **–** | 1,533 |
| – Amount due to a shareholder | **69** | 75,711 |
| – Amount due to a joint venture | **–** | 49,475 |
| – Convertible notes | **217,158** | 201,859 |
| – Promissory notes | **–** | 636,019 |
| | **577,052** | 2,551,836 |
| | **588,341** | 2,879,529 |

## 6. FINANCIAL INSTRUMENTS *(continued)*

### (b) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade and other receivables, financial asset at fair value through profit or loss, pledged bank balances, bank balances and cash, trade and other payables, amount due to a related party, amount due to a shareholder, amount due to a joint venture, borrowings, promissory notes, convertible notes, derivative financial instruments and provision for contingent consideration. Details of these financial instruments are disclosed in respective notes.

The risks associated with these financial instruments include market risk (foreign currency risk and interest rate risk), credit risk, liquidity risk and equity price risk.

The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

*Market risk*

(i) Foreign currency risk

The functional currency of certain subsidiaries is RMB since part of the revenue of the Group are derived from operations in the PRC. In relation to the fluctuation on RMB against HK$, the Group considers that exchange risk arising from those currencies does not have significant financial impact to the Group. No hedging or other alternatives have been implemented during the year. The Group will consider hedging significant foreign currency exposure should the need arise. Other than the above, the Group did not have significant exposure to risk resulting from changes in foreign currency exchange rates.

As at 31 December 2016, the Group did not have significant monetary assets and monetary liabilities which were denominated in currencies other than the functional currency of the relevant group companies.

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed rate borrowings (see note 30), convertible notes, and cash flow interest rate risk in relation to variable- rate bank balances and borrowings at prevailing market rates (see notes 32, 28 and 30, respectively). The Group has not used any derivative contracts to hedge its exposure to interest rate risk. The directors of the Company consider the Group's exposure of the short-term bank deposits, to interest rate risk is not significant as interest bearing bank balances are within short maturity periods.

*Interest rate sensitivity*

The sensitivity analysis below is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 25 basis points (2015: 25 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

As at 31 December 2016, the Group has no significant variable-rate bank deposits and borrowing as at the end of reporting period. If interest rates had been 25 basis points higher/lower and all other variables were held constant, the Group's post-tax loss for the year ended 31 December 2015 would increase/decrease by approximately HK$2,309,000.

## 6. FINANCIAL INSTRUMENTS *(continued)*

### (b) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

*Credit risk*

As at 31 December 2016, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk in respect of the Group's trade and other receivables, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts at the end of each reporting period. In addition, the Group reviews the recoverable amount of each individual trade and other receivables at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry in which customers operate also has an influence on credit risk but to a lesser extent. At the end of the reporting period, the Group has a certain degree of concentration of credit risk as 72% (2015: 29%) and 82% (2015: 60%) of the total trade receivables were due from the Group's largest customer and the five largest customers, respectively. However, the directors of the Company consider the credit risk is under control since the management exercise due care in granting credit and check the financial background of these customers on a regular basis.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Group's concentration of credit risk by geographical locations is in Hong Kong and the PRC, which accounted for all of the Group's trade receivables as at 31 December 2016 and 2015.

## 6. FINANCIAL INSTRUMENTS *(continued)*

### (b) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

*Liquidity risk*

In the management of the liquidity risk, the Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it meets the liquidity requirements in the short and long term.

The following table details the Group's remaining contractual maturities for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

Specifically, bank borrowings with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity analysis for other non-derivative financial liabilities is prepared based on the scheduled repayment dates.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

**As at 31 December 2016**

| | Weighted average interest rate | 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 contractual undiscounted cash flows HK$'000 | Carrying amount HK$'000 |
|---|---|---|---|---|---|---|---|
| AMORTISED COST | | | | | | | |
| Trade payables | – | 197,351 | – | – | – | 197,351 | 197,351 |
| Other payables | – | 64,443 | – | – | – | 64,443 | 64,443 |
| Amount due to a shareholder | – | 69 | – | – | – | 69 | 69 |
| Convertible notes (debt component) | 5% | 169,528 | – | 100,000 | – | 269,528 | 217,158 |
| Borrowings | 5.14% | 34,853 | 4,393 | 84,098 | – | 123,344 | 98,031 |
| | | 466,244 | 4,393 | 184,098 | – | 654,735 | 577,052 |

## 6. FINANCIAL INSTRUMENTS *(continued)*

### (b) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

*Liquidity risk (Continued)*

As at 31 December 2015

| | Weighted average interest rate | 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 contractual undiscounted cash flows HK$'000 | Carrying amount HK$'000 |
|---|---|---|---|---|---|---|---|
| AMORTISED COST | | | | | | | |
| Trade payables | – | 153,313 | – | – | – | 153,313 | 153,313 |
| Other payables | – | 221,101 | – | – | – | 221,101 | 221,101 |
| Amount due to a related party | – | 1,533 | – | – | – | 1,533 | 1,533 |
| Amount due to a shareholder | – | 75,711 | – | – | – | 75,711 | 75,711 |
| Amount due to a joint venture | – | 49,475 | – | – | – | 49,475 | 49,475 |
| Convertible notes (debt component) | 5% | – | 228,330 | 100,000 | – | 328,330 | 201,859 |
| Borrowings | 4.94% | 68,966 | 85,943 | 277,553 | 1,412,888 | 1,845,350 | 1,212,825 |
| Promissory notes | 3.55% | 29,400 | 29,400 | 850,012 | – | 908,812 | 636,019 |
| | | 599,499 | 343,673 | 1,227,565 | 1,412,888 | 3,583,625 | 2,551,836 |

Bank borrowings with a repayment clause are included in the "within 1 year or on demand" time band in the above maturity analysis. As at 31 December 2015, the aggregate undiscounted principal amounts of these bank borrowings were HK$13,794,000. Taking into account the Group's financial position, the directors of the Company do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors of the Company believe that such bank borrowings will be repaid in accordance with the scheduled repayment dates set out in the loan agreements. At that time, the aggregate principal and interest cash outflows was HK$14,899,000.

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

## 6. FINANCIAL INSTRUMENTS *(continued)*

### (b) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

*Equity price risk*

The Group is exposed to equity price changes arising from equity investments classified as financial asset at fair value through profit or loss (note 26) and derivative financial liabilities (note 32). The directors consider that the equity price risk is low because the exposure is limited.

Equity price risk sensitivity

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date. For sensitivity analysis purpose, the sensitivity rate is 10% in current year as a result of the volatile financial market. If the prices of the respective equity underlying the instruments had been 10% (2015: 10%) higher/lower, post-tax loss for the year ended 31 December 2016 would increase/decrease by approximately HK$4,500,000 (2015: decrease/increase by approximately HK$10,432,000) as a result of the changes in fair value of held-for-trading investments and derivative financial liabilities.

### (c) FAIR VALUE

*Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis*

The following table gives information about how the fair values of the Group's financial assets and financial liabilities are determined (in particular, the valuation techniques and inputs used).

| | Fair values as at 31 December 2016 | Fair values as at 31 December 2015 | Fair value hierarchy | Valuation techniques and key inputs | Significant unobservable inputs |
|---|---|---|---|---|---|
| Listed equity securities classified as financial assets at fair value through profit or loss | Assets – HK$116,000 | Assets – HK$102,000 | Level 1 | Quoted bid prices in an active market | N/A |
| Convertible note classified as financial assets at fair value through profit or loss | Assets – HK$63,700,000 | – | Level 3 | Binomial option pricing model<br><br>Key inputs are share price, exercise price, option life, risk free rate, volatility, dividend yield and bond yield rate | The estimation of risk free rate has been made with reference to the yields to maturity of respective Hong Kong Exchange Fund Notes as at the valuation date<br><br>Volatility is the annualised standard deviation of the continuously compounded rates of return on the daily adjusted share price of the Company |
| Derivative financial instruments | Liabilities – HK$11,289,000 | Liabilities – HK$125,041,000 | Level 3 | Binomial option pricing model<br><br>Key inputs are share price, exercise price, option life, risk free rate, volatility, bond yield rate and dividend yield | The estimation of risk free rate has been made with reference to the yields to maturity of respective Hong Kong Exchange Fund Notes as at the valuation date<br><br>Volatility is the annualised standard deviation of the continuously compounded rates of return on the daily adjusted share price of the Company |

## 6. FINANCIAL INSTRUMENTS *(continued)*

### (c) FAIR VALUE *(continued)*

| | Fair values as at 31 December 2016 | Fair values as at 31 December 2015 | Fair value hierarchy | Valuation techniques and key inputs | Significant unobservable inputs |
|---|---|---|---|---|---|
| Provision for contingent consideration | – | Liabilities – HK$202,652,000 | Level 3 | Binomial option pricing model<br><br>Key inputs are price, exercise price, life, risk free rate, volatility and dividend yield | The Second Convertible Note are expected to be issued on 31 December 2016 based on the best estimation of the management of the Company on the current status of option conditions for issuing those convertible notes<br><br>The estimation of risk free rate has been made with reference to the yields to maturity of respective Hong Kong Exchange Fund Notes as at the valuation date<br><br>Volatility is the annualised standard deviation of the continuously compounded rates of return on the daily adjusted share price of the Company |

There were no transfers between all levels in both years.

*Fair value of financial assets and financial liabilities that are not measured at fair value (but fair value disclosures are required)*

Except as detailed in the following table, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate to their fair values.

| | **As at 31 December 2016** | | As at 31 December 2015 | |
|---|---|---|---|---|
| | **Carrying amount HK$'000** | **Fair value HK$'000** | Carrying amount HK$'000 | Fair value HK$'000 |
| **Financial liabilities** | | | | |
| Promissory notes | **–** | **–** | 636,019 | 660,113 |
| Convertible notes | **217,158** | **219,695** | 201,859 | 253,995 |

The fair value of the debt component of convertible notes is determined assuming redemption on maturity date and using a 9.09% to 12.21% interest rate.

## 6. FINANCIAL INSTRUMENTS *(continued)*

### (c) FAIR VALUE *(continued)*

*Reconciliation of Level 3 fair value measurements of financial assets and liabilities*

| | Financial asset – convertible notes HK$'000 | Derivative financial assets – Early redemption option of convertible notes HK$'000 | Derivative financial liabilities – Embedded conversion option of convertible notes HK$'000 | Provision for contingent consideration HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| At 1 January 2015 | – | (12,590) | 35,780 | 259,917 | 283,107 |
| Converted into ordinary shares | – | 12,572 | (82,957) | – | (70,385) |
| Issue of convertible notes | – | – | 176,627 | – | 176,627 |
| Arising on changes in fair value | – | 18 | (4,409) | (57,265) | (61,656) |
| At 31 December 2015 and 1 January 2016 | – | – | 125,041 | 202,652 | 327,693 |
| Additional | (45,000) | – | – | – | (45,000) |
| Converted into ordinary shares | – | – | (2,167) | – | (2,167) |
| Arising on changes in fair value | (18,700) | – | (111,585) | (96,252) | (226,537) |
| Derecognised on disposal of subsidiaries | – | – | – | (106,400) | (106,400) |
| At 31 December 2016 | (63,700) | – | 11,289 | – | (52,411) |

Included in profit or loss for the year were, 18,730,000 (gain), nil, HK$111,585,000 (gain) and HK$96,252,000 (gain) related to financial asset, derivative financial assets, derivative financial liabilities and provision for contingent consideration (2015: 10,000 (loss), HK$18,000 (loss), HK$4,409,000 (gain) and HK$57,265,000 (gain)), respectively. Fair value gains or losses on financial asset, derivative financial assets, derivative financial liabilities and provision for contingent consideration are included in "fair value change on financial assets at fair value through profit or loss", "fair value change on derivative financial assets", "fair value change on derivative financial liabilities", "fair value change on contingent consideration" in the Company's consolidated statement of profit or loss, respectively for both years.

The significant unobservable input used in the fair value measurement is the expected volatility from 53.41% to 154.28%. The fair value measurement is positively correlated to the expected volatility. As at 31 December 2016, it is estimated that with all other variables held constant, an increase/decrease in the expected volatility by 5% would have decrease/increase the group's loss by HK$1,983,000 (2015: 6,797,000).

During the year, the Group has disposal of subsidiaries (see note 39). The provision of contingent consideration was waived by Mr. Liang Wenguan ("Mr. Liang"), who is the father of Mr. Liang Zhenye, the beneficial owner of Season Trade Limited, the purchaser of the disposed subsidiaries.

## 7. SEGMENT INFORMATION

The Group's operating segments are determined, based on information reported to the executive directors of the Company, being the chief operating decision maker ("CODM"), for the purpose of resource allocation and assessment of segment performances.

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

| | |
|---|---|
| Property leasing | Property leased for rental income |
| Right to receive royalty fee | Royalty fee related to the royalty right leasing |
| Trading of goods | Operating of supermarket |
| Financial services | Securities dealing and financial services |
| Property development | Development of primarily hotel and commercial properties |

### SEGMENT REVENUES AND RESULTS

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

***For the year ended 31 December 2016***

| | Property leasing HK$'000 | Right to receive royalty fee HK$'000 | Trading of goods HK$'000 | Financial services HK$'000 | Property development HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| Revenue | 18,078 | – | 4,155 | 28,246 | – | 50,479 |
| Segment loss | (99,537) | (1,340) | (17,534) | (3,484) | (11,987) | (133,882) |
| Unallocated corporate expenses | | | | | | (53,953) |
| Unallocated other income | | | | | | 371,422 |
| Share of result of a joint venture | | | | | | (47,090) |
| Finance costs | | | | | | (169,845) |
| Loss before tax | | | | | | (33,348) |

*For the year ended 31 December 2015*

| | Property leasing HK$'000 | Right to receive royalty fee HK$'000 | Trading of goods HK$'000 | Financial services HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| Revenue | 22,760 | – | 10,532 | 17,173 | 50,465 |
| Segment profit (loss) | (365,148) | (9,251) | (33,103) | 195 | (407,307) |
| Unallocated corporate expenses | | | | | (25,196) |
| Unallocated other income | | | | | 277,463 |
| Share of result of a joint venture | | | | | (2) |
| Finance costs | | | | | (118,487) |
| Loss before tax | | | | | (273,529) |

Revenue reported above represents revenue generated from external customers. There were no inter-segment sales during the years ended 31 December 2016 and 31 December 2015.

## 7. SEGMENT INFORMATION *(continued)*

### SEGMENT REVENUES AND RESULTS *(continued)*

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment profit or loss represents the profit or loss from each segment without allocation of central administration costs, directors' emoluments, share of result of a joint venture, interest income, finance costs, gain on disposal of intangible asset, gain on disposal of subsidiaries, fair value change on financial assets at fair value through profit or loss, fair value change on derivative financial assets, fair value change on derivative financial liabilities and fair value change on contingent consideration. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

### SEGMENT ASSETS AND LIABILITIES

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

| | **2016**<br>**HK$'000** | 2015<br>HK$'000 |
|---|---|---|
| *Segment assets* | | |
| Property leasing | **–** | 2,175,587 |
| Right to receive royalty fee | **365** | 26,308 |
| Trading of goods | **–** | 150,200 |
| Financial services | **1,157,522** | 1,308,129 |
| Property development | **863,967** | – |
| Total segment assets | **2,021,854** | 3,660,224 |
| Unallocated corporate assets | **264,737** | 1,068,062 |
| Total consolidated assets | **2,286,591** | 4,728,286 |
| *Segment liabilities* | | |
| Property leasing | **–** | 1,448,734 |
| Right to receive royalty fee | **12,466** | 15,967 |
| Trading of goods | **–** | 11,275 |
| Financial services | **198,026** | 221,959 |
| Property development | **30,115** | – |
| Total segment liabilities | **240,607** | 1,697,935 |
| Unallocated corporate liabilities | **460,581** | 1,411,070 |
| Total consolidated liabilities | **701,188** | 3,109,005 |

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

– all assets are allocated to operating segment assets other than certain other receivables, interest in a joint venture, property, plant and equipment of head office, pledged bank balances and bank balances and cash.

– all liabilities are allocated to operating segment liabilities other than certain other payables, borrowings, tax liabilities, deferred tax liabilities, amount due to a related party, amount due to a shareholder, amount due to a joint venture, derivative financial liabilities, convertible notes, promissory notes and provision for contingent consideration.

## 7. SEGMENT INFORMATION *(continued)*

### OTHER SEGMENT INFORMATION

**For the year ended 31 December 2016**

| | Property leasing HK$'000 | Right to receive royalty fee HK$'000 | Trading of goods HK$'000 | Financial services HK$'000 | Property development HK$'000 | Unallocated HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| Amounts included in the measure of segment (profit) or loss or segment assets: | | | | | | | |
| Additions of property, plant and equipment and investment properties | 4,861 | – | 1,375 | 64 | 5,826 | 20 | 12,146 |
| Depreciation of property, plant and equipment | 96 | 98 | 1,167 | 399 | 64 | 562 | 2,386 |
| Impairment losses on inventories | – | – | 419 | – | – | – | 419 |
| Fair value loss (gain) on investment properties | 111,015 | – | – | – | (4,260) | – | 106,755 |
| Amortisation of intangible assets | – | 1,387 | – | 18,282 | – | – | 19,669 |
| Gains on disposal of investment properties | (4,420) | – | – | – | – | – | (4,420) |
| Gain on disposal of intangible assets | – | (4,234) | – | – | – | – | (4,234) |
| Gain on disposal of subsidiaries | – | – | – | – | – | (59,010) | (59,010) |
| Amounts regularly provided to the CODM but not included in the measure of segment (profit) or loss or segment assets: | | | | | | | |
| Share of result of a joint venture | – | – | – | – | – | 47,090 | 47,090 |
| Interest income | (22,156) | (4) | (60) | (1,260) | (3) | – | (23,483) |
| Other loan interest income | – | – | – | – | – | (995) | (995) |
| Convertible note interest income | – | – | – | (4,500) | – | – | (4,500) |
| Fair value change on financial assets at fair value through profit or loss | – | – | – | (18,730) | – | – | (18,730) |
| Interest expenses | 40,981 | – | – | – | – | 128,864 | 169,845 |
| Income tax (credit) expenses | (27,754) | – | – | 572 | 1,065 | – | (26,117) |

## 7. SEGMENT INFORMATION *(continued)*

### OTHER SEGMENT INFORMATION *(continued)*

**For the year ended 31 December 2015**

| | Property leasing HK$'000 | Right to receive royalty fee HK$'000 | Trading of goods HK$'000 | Financial services HK$'000 | Unallocated HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| Amounts included in the measure of segment (profit) or loss or segment assets: | | | | | | |
| Additions of property, plant and equipment and investment properties | 151,309 | – | 4,710 | 120 | 803 | 156,942 |
| Depreciation of property, plant and equipment | 181 | 105 | 920 | 100 | 1,084 | 2,390 |
| Additions of intangible assets | – | – | – | 365,646 | – | 365,646 |
| Losses on disposal of property, plant and equipment | – | 3 | 119 | – | – | 122 |
| Impairment losses on inventories | – | – | 1,144 | – | – | 1,144 |
| Fair value (gain) loss on investment properties | 372,659 | – | – | – | (206,182) | 166,477 |
| Amortisation of intangible assets | – | 3,457 | – | 4,570 | – | 8,027 |
| Gains on disposal of investment properties | (18,430) | – | – | – | – | (18,430) |
| Amounts regularly provided to the CODM but not included in the measure of segment (profit) or loss or segment assets: | | | | | | |
| Share of result of a joint venture | – | – | – | – | 2 | 2 |
| Interest income | (3,749) | (9) | (2,324) | – | (1) | (6,083) |
| Other loan interest income | – | – | – | – | (716) | (716) |
| Fair value change on financial assets at fair value through profit or loss | – | – | – | 10 | – | 10 |
| Interest expenses | 62,383 | – | 443 | – | 55,661 | 118,487 |
| Income tax (credit) expenses | (93,164) | – | – | 97 | 51,545 | (41,522) |

## 7. SEGMENT INFORMATION *(continued)*

### GEOGRAPHICAL INFORMATION

The Group operates in two principal geographical areas – the PRC (excluding Hong Kong) and Hong Kong (country of domicile).

Information about the Group's revenue from external customers and information about its specified non-current assets are presented based on the geographical location.

| | **Revenue from external customers** | | **Specified non-current assets** | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| PRC | **22,233** | 33,292 | **858,847** | 2,697,297 |
| Hong Kong | **28,246** | 17,173 | **1,133,410** | 1,162,989 |
| | **50,479** | 50,465 | **1,992,257** | 3,860,286 |

### INFORMATION ABOUT MAJOR CUSTOMERS

Revenue from customers of the corresponding years contributing over 10% of the total turnover of the Group is as follows:

| | **Reportable and operating segment** | **2016**<br>**HK$'000** | 2015<br>HK$'000 |
|---|---|---|---|
| Customer A | Financial services (Note) | **N/A** | 5,111 |
| Customer B | Property leasing | **18,078** | 21,081 |

Note: The corresponding amount is less than 10% of the total sales for the year ended 31 December 2016

## 8. REVENUE AND OTHER INCOME

The Group's revenue from sales of finished goods, rental income from leasing of investment properties, commission and brokerage income and underwriting income for the year is as follows:

| | **2016 HK$'000** | 2015 HK$'000 |
|---|---|---|
| **Revenue** | | |
| Rental income | **18,078** | 22,760 |
| Trading of goods | **4,155** | 10,532 |
| Commission and brokerage income | **5,596** | 1,234 |
| Underwriting income | **22,650** | 15,939 |
| | **50,479** | 50,465 |
| **Other income** | | |
| Interest income | **23,483** | 6,083 |
| Other loan interest income | **995** | 716 |
| Gain on trading of listed securities | **–** | 2,800 |
| Sundry income | **11,803** | 319 |
| Waiver of amount due to a joint venture | **49,475** | – |
| Convertible note interest income | **4,500** | – |
| | **90,256** | 9,918 |

## 9. FINANCE COSTS

| | **2016 HK$'000** | 2015 HK$'000 |
|---|---|---|
| Interests on: | | |
| – Bank and other borrowings | **47,885** | 70,367 |
| – Convertible notes | **64,942** | 21,546 |
| – Promissory notes | **57,018** | 26,574 |
| | **169,845** | 118,487 |

## 10. INCOME TAX CREDIT

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Current tax | | |
| – Hong Kong Profits Tax | **3,560** | 852 |
| Deferred tax | | |
| – Credit for the year | **(29,677)** | (42,374) |
| Income tax credit | **(26,117)** | (41,522) |

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

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

The tax credit for the years can be reconciled to the loss before tax per the consolidated statement of profit or loss as follows:

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Loss before tax | **(33,348)** | (273,529) |
| Tax calculated at a tax rate of 16.5% | **(5,502)** | (45,132) |
| Effect of different applicable tax rate for operations in Mainland China | **(7,302)** | (21,624) |
| Tax effect of share of results of a joint venture | **7,770** | – |
| Tax effect of expenses not deductible for tax purpose | **30,204** | 13,041 |
| Tax effect of income not taxable for tax purpose | **(61,761)** | (10,178) |
| Tax losses not recognised | **10,327** | 22,447 |
| Others | **147** | (76) |
| Income tax credit for the year | **(26,117)** | (41,522) |

The Group has tax losses arising in Hong Kong and the PRC of approximately HK$14,392,000 (2015: HK$14,392,000) and approximately HK$46,305,000 (2015: HK$262,971,000), respectively. The tax losses arising in Hong Kong are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The tax losses arising in the PRC are available for offsetting against future five years taxable profits of the companies in which the losses arose. No deferred tax asset has been recognised in respect of such unused tax losses due to the unpredictability of future profits streams.

## 10. INCOME TAX CREDIT *(continued)*

As at 31 December 2016, the Group's remaining unrecognised tax losses will expire in the following years:

| | **2016 HK$'000** | 2015 HK$'000 |
|---|---|---|
| 2016 | **–** | 28,142 |
| 2017 | **6,095** | 44,767 |
| 2018 | **8,513** | 66,587 |
| 2019 | **6,926** | 85,244 |
| 2020 | **7,012** | 38,231 |
| 2021 | **17,759** | – |
| | **46,305** | 262,971 |

## 11. LOSS FOR THE YEAR

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

| | **2016 HK$'000** | 2015 HK$'000 |
|---|---|---|
| Staff costs: | | |
| – Directors' emoluments (note 12) | **3,602** | 3,081 |
| – Other staff costs: | | |
| – Salaries and other benefits | **16,750** | 18,063 |
| – Retirement benefit scheme contributions | **1,798** | 1,735 |
| Total staff costs | **22,150** | 22,879 |
| Amortisation of intangible assets | **19,669** | 8,027 |
| Depreciation for property, plant and equipment | **2,386** | 2,390 |
| Total depreciation and amortisation | **22,055** | 10,417 |
| Cost of inventories sold | **3,487** | 8,932 |
| Impairment losses on inventories | **419** | 1,144 |
| Auditor's remuneration | | |
| – audit services | **1,200** | 1,000 |
| – other services | **522** | – |
| Minimum lease payments under operating lease | **3,712** | 2,294 |
| Rental income from investment properties (included in revenue) | **(18,078)** | (22,760) |
| Direct operating expenses incurred in respect of investment properties that generated rental income during the year | **5,156** | 8,834 |

## 12. DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION

### DIRECTORS' EMOLUMENTS

The emolument paid or payable to each of the 7 (2015: 8) directors of the Company were as follows:

**For the year ended 31 December 2016**

| | Fees | Salaries and other benefits | Discretionary and performance related incentive payments | Retirement benefit scheme contributions | Total |
|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Executive directors** | | | | | |
| Zhang Guodong (note (h)) | – | 1,020 | – | – | 1,020 |
| Nijssen Victoria | – | 975 | – | – | 975 |
| Cheung Kam Fai (note (f)) | – | 847 | – | 18 | 865 |
| | – | 2,842 | – | 18 | 2,860 |

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

| | Fees | Salaries and other benefits | Discretionary and performance related incentive payments | Retirement benefit scheme contributions | Total |
|---|---|---|---|---|---|
| **Non-executive director** | | | | | |
| Jacobsen William Keith (note (b)) | 143 | – | – | – | 143 |
| | 143 | – | – | – | 143 |

The non-executive director's emoluments shown above was for his service as director of the Company or its subsidiaries.

| | Fees | Salaries and other benefits | Discretionary and performance related incentive payments | Retirement benefit scheme contributions | Total |
|---|---|---|---|---|---|
| **Independent non-executive directors** | | | | | |
| Dong Ansheng | 190 | – | – | – | 190 |
| Wong Yee Shuen (note (e)) | 190 | – | – | – | 190 |
| Tsang Wah Kwong (note (g)) | 219 | – | – | – | 219 |
| | 599 | – | – | – | 599 |
| | 742 | 2,842 | – | 18 | 3,602 |

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

## 12. DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION *(continued)*

### DIRECTORS' EMOLUMENTS *(continued)*

For the year ended 31 December 2015

| | Fees HK$'000 | Salaries and other benefits HK$'000 | Discretionary and performance related incentive payments HK$'000 | Retirement benefit scheme contributions HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **Executive directors** | | | | | |
| Zhang Guodong | – | 1,170 | – | – | 1,170 |
| Nijssen Victoria | – | 1,030 | – | – | 1,030 |
| | – | 2,200 | – | – | 2,200 |
| **Non-executive directors** | | | | | |
| Marco Theodorus Nijssen (note (a)) | 148 | – | – | – | 148 |
| Jacobsen William Keith (note (b)) | 74 | – | – | – | 74 |
| | 222 | – | – | – | 222 |
| **Independent non-executive directors** | | | | | |
| Dong Ansheng | 226 | – | – | – | 226 |
| Hung Hing Man (note (c)) | 205 | – | – | – | 205 |
| Hong Sze Lung (note (d)) | 205 | – | – | – | 205 |
| Wong Yee Shuen (note (e)) | 23 | – | – | – | 23 |
| | 659 | – | – | – | 659 |
| | 881 | 2,200 | – | – | 3,081 |

Notes:

(a) Mr. Marco Theodorus Nijssen resigned as a non-executive director of the Company with effect from 12 August 2015.

(b) Mr. Jacobsen William Keith was appointed as a non-executive director of the Company with effect from 12 August 2015 and resigned as a non-executive director of the Company with effect from 30 September 2016.

(c) Mr. Hung Hing Man resigned as independent non-executive director of the Company with effect from 17 November 2015.

(d) Mr. Hong Sze Lung resigned as independent non-executive director of the Company with effect from 17 November 2015.

(e) Mr. Wong Yee Shuen was appointed as an independent non-executive director of the Company with effect from 17 November 2015.

(f) Mr. Cheung Kam Fai was appointed as an executive director of the Company with effect from 23 January 2016.

(g) Mr. Tsang Wah Kwong was appointed as an independent non-executive director of the Company with effect from 16 February 2016.

(h) Mr. Zhang Guodong resigned as an executive director of the Company with effect from 12 January 2017.

## 12. DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION *(continued)*

### DIRECTORS' EMOLUMENTS *(continued)*

All the fees, salaries and other benefits and retirement benefit scheme contributions were paid or payable by the Company.

None of the directors of the Company waived or agreed to waive any emoluments paid by the Group during the year ended 31 December 2016 (2015: nil). No emoluments have been paid by the Group to the directors of the Company as an inducement to join or upon joining the Group during the two years ended 31 December 2016 (2015: nil) and no compensation for loss of office were paid for both years ended 31 December 2016 (2015: nil).

## 13. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, 3 (2015: 2) were directors of the Company whose emoluments are included in the disclosure in note 12 above. The emoluments of the remaining 2 (2015: 3) individuals are as follows:

| | **2016**<br>**HK$'000** | 2015<br>HK$'000 |
|---|---|---|
| Salaries, allowance and other benefits | **1,533** | 1,855 |
| Retirement benefit scheme contributions | **36** | 36 |
| | **1,569** | 1,891 |

Their emoluments were within the following band:

| | **Number of individuals** | |
|---|---|---|
| | **2016** | 2015 |
| Nil to HK$1,000,000 | **2** | 3 |

During the year ended 31 December 2016, no emoluments have been paid by the Group to the five highest paid individuals (including directors of the Company and employees) as an inducement to join or upon joining the Group, or as compensation of loss of office (2015: nil).

## 14. DIVIDENDS

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

## 15. LOSS PER SHARE

### (a) BASIC LOSS PER SHARE

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

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Loss for the year attributable to the owners of the Company | **7,231** | 232,007 |

| | 2016<br>'000 | 2015<br>'000 |
|---|---|---|
| **Weighted average number of ordinary shares** | | |
| Issued ordinary shares at 1 January | **18,559,469** | 13,225,076 |
| Effect of shares issued upon conversion of convertible notes | **93,005** | 460,867 |
| Effect of shares issued | **–** | 1,132,989 |
| Effect of repurchases of shares | **–** | (6,666) |
| Weighted average number of ordinary shares at 31 December | **18,652,474** | 14,812,266 |

### (b) DILUTED LOSS PER SHARE

The diluted loss per share for the years ended 31 December 2016 and 31 December 2015 is equivalent to the basic loss per share for both years as the potential shares arising from the conversion of the convertible notes would decrease the loss per share of the Group for both years, and this is regarded as anti-dilutive.

## 16. PROPERTY, PLANT AND EQUIPMENT

| | Leasehold land and buildings HK$'000 | Leasehold improvements HK$'000 | Furniture and equipment HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **COST** | | | | | |
| At 1 January 2015 | 33,245 | 771 | 3,835 | 3,173 | 41,024 |
| Exchange adjustments | – | (6) | (178) | (94) | (278) |
| Additions form acquisition of a subsidiary | – | 346 | 152 | 142 | 640 |
| Additions from business combination | – | 821 | 454 | – | 1,275 |
| Additions | – | 9 | 3,893 | 993 | 4,895 |
| Other disposals | – | – | (458) | – | (458) |
| At 31 December 2015 and 1 January 2016 | 33,245 | 1,941 | 7,698 | 4,214 | 47,098 |
| Exchange adjustments | – | (23) | (143) | (111) | (277) |
| Derecognised on disposal of Quick Silver Group | – | – | (7,475) | (1,607) | (9,082) |
| Derecognised on disposal of Fortune House Group | (33,245) | – | – | – | (33,245) |
| Written off from disposal | – | – | (140) | – | (140) |
| Additions | – | – | 1,479 | – | 1,479 |
| At 31 December 2016 | – | 1,918 | 1,419 | 2,496 | 5,833 |

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

| | Leasehold land and buildings HK$'000 | Leasehold improvements HK$'000 | Furniture and equipment HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **DEPRECIATION AND IMPAIRMENT** | | | | | |
| At 1 January 2015 | 4,905 | 719 | 1,945 | 1,630 | 9,199 |
| Exchange adjustments | – | – | (118) | (36) | (154) |
| Charge for the year | 890 | 100 | 1,076 | 324 | 2,390 |
| At 31 December 2015 and 1 January 2016 | 5,795 | 819 | 2,903 | 1,918 | 11,435 |
| Exchange adjustments | – | – | (63) | (51) | (114) |
| Charge for the year | 445 | 183 | 1,314 | 444 | 2,386 |
| Eliminated in respect of derecognised on disposal of Quick Silver Group | – | – | (3,210) | (463) | (3,673) |
| Eliminated in respect of derecognised on disposal of Fortune House Group | (6,240) | – | – | – | (6,240) |
| Written back from disposal | – | – | (140) | – | (140) |
| At 31 December 2016 | – | 1,002 | 804 | 1,848 | 3,654 |
| **CARRYING VALUES** | | | | | |
| At 31 December 2016 | – | 916 | 615 | 648 | 2,179 |
| At 31 December 2015 | 27,450 | 1,122 | 4,795 | 2,296 | 35,663 |

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

| | | |
|---|---|---|
| – | Leasehold land and buildings | Over the lease terms |
| – | Leasehold improvements | Over the lease terms |
| – | Furniture and equipment | 5-15 years |
| – | Motor vehicles | 4-10 years |

As at 31 December 2015, the Group's leasehold land was located in Hong Kong.

At 31 December 2015, leasehold land and buildings with carrying amount of approximately HK$27,450,000 had been pledged to a bank to secure the Group's bank borrowings of approximately HK$13,794,000.

## 17. INVESTMENT PROPERTIES

| | Completed investment properties in the PRC (note (a)) HK$'000 | Investment properties under development in the PRC (note (b)) HK$'000 | Total HK$'000 |
|---|---|---|---|
| **FAIR VALUE** | | | |
| As at 1 January 2015 | 2,090,000 | – | 2,090,000 |
| Acquisition of a subsidiary | – | 445,798 | 445,798 |
| Additions | 151,256 | 791 | 152,047 |
| Exchange adjustments | (96,503) | (13,771) | (110,274) |
| Disposals | (22,094) | – | (22,094) |
| (Decrease) increase in fair value recognised in profit or loss | (372,659) | 206,182 | (166,477) |
| As at 31 December 2015 and 1 January 2016 | 1,750,000 | 639,000 | 2,389,000 |
| Additions | 4,841 | 5,826 | 10,667 |
| Disposals | (9,218) | – | (9,218) |
| Exchange adjustments | (36,608) | (44,086) | (80,694) |
| (Decrease) increase in fair value recognised in profit or loss | (111,015) | 4,260 | (106,755) |
| Derecognised on disposal of subsidiaries | (1,598,000) | – | (1,598,000) |
| As at 31 December 2016 | – | 605,000 | 605,000 |

The Group's investment properties as at 31 December 2016 and 2015 were situated in the PRC. As at 31 December 2016, the investment property held by the Group was located at Foshan City (the "Xiqiao Property"). The investment property located at Chongqing (the "Chongqing Property") which was classified as completed investment properties as at 31 December 2015 was disposed of upon the disposal of subsidiaries during the year ended 31 December 2016. The Xiqiao Property was classified as investment properties under development in the PRC as at 31 December 2016 and 2015.

(a) The fair values of the Chongqing Property as at 31 December 2015 and 30 June 2016 were arrived at on the basis of valuations carried out by Asset Appraisal Limited a professional independent valuer not connected to the Group. The Chongqing Property was valued by the discounted cash flow method and where appropriate, the comparison method. Discounted cash flow approach is based on the present value of future economic benefits expected to be derived from the properties. The value of the Chongqing Property was developed by discounting future cash flows available for distribution to the owners of the property to their present value at market derived rates of return appropriate for the risks and hazards of holding similar assets. Comparison method is based on prices realised or market prices of comparable properties. Comparable properties of similar size, character and location are analysed and carefully weighed against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of capital values.

## 17. INVESTMENT PROPERTIES *(continued)*

(a) *(continued)*

During the period from 1 January 2004 to 31 December 2006, Kings Mall Management entered into sales and purchase agreements ("SP Agreements") in respect of the selling certain portion of B1/F of the shopping mall of the Chongqing Property to certain independent third parties (the "Buyers"). As the conditions that the investment properties have a fixed boundary in accordance with 房屋登記辦法 (Measures for Building Registration*) that could not be met, the legal title of the properties could not be transferred to these Buyers. Starting from 1 January 2009, Kings Mall Management commenced to negotiate with the Buyers to enter into cancellation agreements in relation to the SP Agreements. Up to 31 December 2015, certain Buyers have not yet entered into the cancellation agreements with Kings Mall Management. The directors of the Company consider that, in view of these unresolved issues with the Buyers, such portion of the Chongqing Property (the "Problematic Properties") was excluded from the fair value valuation in respect of the entire Chongqing Property.

In relation to the SP Agreements, the leasing agency contracts and the mortgage contracts were signed together with SP Agreements among the Buyers, Kings Mall Management and Chongqing Xin Jia Jun Construction and Decoration Engineering Co. Ltd.* (重慶新佳俊建築裝飾工程有限公司) ("Xin Jia Jun"), formerly known as 重慶佳俊商務管理顧問有限公司, an independent third party who is the existing property management company of the Chongqing Property). Pursuant to the terms of the leasing agency contracts, Xin Jia Jun would pay the Buyers an annual rental income equivalent to ten percent of the purchase price of the properties over twenty years (the "Guaranteed Rent"). Pursuant to a termination contract signed on 1 January 2011, the obligation of paying Guaranteed Rent was transferred to Kings Mall Management on 1 February 2011.

Based on legal opinion of the Company's legal advisor, though the Problematic Properties could not be sold or mortgaged, however, since Kings Mall Management is willing to pay the Guaranteed Rent to the Buyers in accordance with the leasing agency contracts, Kings Mall Management is eligible to lease the Problematic Properties to third parties. Pursuant to an undertaking agreement signed on 27 February 2011 between the Company and Mr. Liang, Mr. Liang has agreed to undertake all costs that Kings Mall Management may suffer in connection therewith arising or accruing on or before the date of acquisition of net assets through an acquisition of Kings Mall Management and its holding companies and subsidiaries, including but not limited to the SP Agreements, cancellation contracts, leasing agency contracts, in respect thereof but excluding the original purchase price.

The directors of the Company are of the opinion that the Company is eligible to occupy the Chongqing Property, including the Problematic Properties and to lease them to other tenants to generate rental income. During the years ended 31 December 2015 and 31 December 2016, the Company leased out the Chongqing Property, including the Problematic Properties and accordingly, the Chongqing Property was classified as investment properties to earn rental during both years.

## 17. INVESTMENT PROPERTIES *(continued)*

(b) The fair value of the underdevelopment investment properties, which included a piece of land located in Xiqiao Town, Foshan City, Guangdong Province (the "Properties") and were acquired through the acquisition of a subsidiary on 28 August 2015, is set out in note 37. The fair value for the Properties as at 31 December 2016 had been arrived at on the basis of a valuation carried out on 31 December 2016 by Hung Association, a professional independent valuer not connected to the Group. As the Properties is underdeveloped, the residual method is adopted by making reference to recent comparable sales transactions as available in the relevant property market (i.e. direct comparison approach) and taking into account the construction costs to reflect the quality of the completed development.

All of the Group's property interests held under operating leases to earn rentals or capital appreciation are measured using the fair value model and are classified and accounted for as investment properties. As at 31 December 2015, the Group's completed investment properties with carrying amount of HK$1,750,000,000 were pledged to secure the Group's bank and other borrowings of HK$1,122,656,000.

*Fair value measurement of the Group's investment properties*

Independent valuations were performed by the valuer, Hung Association, a professional independent valuer not connected to the Group, to determine the fair values of investment properties held by Group as at 31 December 2016 (2015: Asset Appraisal). The revaluation gains or losses recognised in respect of investment properties are included in the profit or loss.

The following table gives information about how the fair values of the Group's investment properties are determined (in particular, the valuation techniques and inputs used), as well as the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

| Carrying value of investment properties held by the Group in the consolidated statement of financial position | Fair value hierarchy | Valuation technique(s) | Significant unobservable input(s) | Range of unobservable input(s) | Relationship of unobservable inputs to fair value |
|---|---|---|---|---|---|
| At 31 December 2016 Xiqiao Property HK$605,000,000 | Level 3 | Residue method | Adjusted market price (RMB/Sq.m) | RMB8,800 – RMB10,400 | The higher the market price, the higher the fair value |
| | | | Budgeted construction cost to be incurred (RMB/Sq.m) | RMB4,987 | The higher the budgeted construction cost to be incurred, the lower the fair value |
| | | | Remaining percentage to completion | 95% | The higher the remaining percentage to completion, the lower the fair value |
| | | | Anticipated developer's profit margin | 15% | The higher the anticipated developer's profit margin, the lower the fair value |

## 17. INVESTMENT PROPERTIES *(continued)*

*Fair value measurement of the Group's investment properties (continued)*

The Group's policy is to recognise transfers between levels of fair value hierarchy as of the date of the event or change in circumstances that caused the transfer.

During the year ended 31 December 2016, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3.

| Carrying value of investment properties held by the Group in the consolidated statement of financial position | Fair value hierarchy | Valuation technique(s) | Significant unobservable input(s) | Range of unobservable input(s) | Relationship of unobservable inputs to fair value |
|---|---|---|---|---|---|
| At 31 December 2015 Chongqing Property HK$1,750,000,000 | Level 3 | Discount cash flow method and where appropriate, the comparison method | Prevailing market rents | RMB112 – RMB290 /sq.m./month | The higher the prevailing market rent, the higher the fair value |
| | | | Rent growth rate (p.a.) | 5% p.a. | The higher the rent growth rate, the higher the fair value |
| | | | Vacancy rate | 5% – 40% p.a. | The higher the vacancy rate, the lower the fair value |
| | | | Pre-tax discount rate | 9.74% p.a. | The higher the discount rate, the lower the fair value |
| As at 31 December 2015 Xiqiao Property HK$639,000,000 | Level 3 | Residue method | Adjusted market price (RMB/Sq.m) | RMB5,560-15,057 | The higher the market price, the higher the fair value |
| | | | Budgeted construction cost to be incurred (RMB/Sq.m) | RMB4,571 | The higher the budgeted construction cost to be incurred, the lower the fair value |
| | | | Remaining percentage to completion | 100% | The higher the remaining percentage to completion, the lower the fair value |
| | | | Anticipated developer's profit margin | 15% | The higher the anticipated developer's profit margin, the lower the fair value |

* The English translation is for identification purposes only

## 18. GOODWILL

| | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|
| **COST** | | |
| As at 1 January | **725,330** | – |
| Arising from business combination | **–** | 725,330 |
| As at 31 December | **725,330** | 725,330 |
| **IMPAIRMENT** | | |
| As at 1 January and at 31 December | **–** | – |
| **CARRYING VALUES** | | |
| As at 31 December | **725,330** | 725,330 |

Particulars regarding impairment testing on goodwill and disclosed in note 19.

## 19. IMPAIRMENT TESTING ON GOODWILL

For the purpose of impairment testing, goodwill set out in note 18 has been allocated to the cash generating unit of – Financial Services (the "CGU"). The CGU is the Group as a whole excluding its leasing of investment properties and trading of goods, which belong to separate cash generating units. The goodwill arose from the Group's acquisition of Grand Ahead Limited and its subsidiary (see note 38), whose principal activities were securities dealing and financial services. After the acquisition, the business focus of the Group became securities dealing and financial services. Accordingly, management of the Company had determined that it was the CGU that was expected to benefit from the synergies of the combination.

| | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|
| Financial services | **725,330** | 725,330 |

### Financial services segment

During the year ended 31 December 2016 and 2015, the management of the Group determined that there was no impairment of goodwill based on its determination of recoverable amount of the CGU.

The recoverable amount of the CGU has been determined based on its fair value less costs of disposal. The fair value of the CGU was arrived at on the basis of valuations carried out by Hung Association, a professional independent valuer not connected to the Group. The CGU was valued using the market comparison method. The market comparison method is based on prices realized or market prices of comparable transactions.

The key assumptions for market approach are those regarding the applicable price earning ratio, price to book value ratio and the price to revenue ratio (the P/E, P/B and P/R ratios respectively) which had made reference to the P/E, P/B and P/R of comparable market transactions.

## 19. IMPAIRMENT TESTING ON GOODWILL *(continued)*

In the opinion of the directors of the Company, a reasonably possible change in any of the above mentioned key assumptions on which the directors had based their determination of the CGU's fair value would not cause the CGU's carrying amount to exceed its recoverable amount.

The fair value is determined by level 3 of the fair value hierarchy within which the fair value measurement is categorized in its entirety.

## 20. INTANGIBLE ASSETS

| | Trademark HK$'000 | License HK$'000 | Right to receive royalty fee HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| **COST** | | | | |
| At 1 January 2015 | – | – | 55,492 | 55,492 |
| Additions from business combination | 360,646 | 5,000 | – | 365,646 |
| Exchange adjustments | – | – | (2,948) | (2,948) |
| At 31 December 2015 | 360,646 | 5,000 | 52,544 | 418,190 |
| Exchange adjustments | – | – | (1,212) | (1,212) |
| Disposal | – | – | (51,332) | (51,332) |
| At 31 December 2016 | 360,646 | 5,000 | – | 365,646 |
| **AMORTISATION** | | | | |
| At 1 January 2015 | – | – | 20,150 | 20,150 |
| Charge for the year | 4,508 | 62 | 3,457 | 8,027 |
| Exchange adjustments | – | – | (1,181) | (1,181) |
| At 31 December 2015 | 4,508 | 62 | 22,426 | 26,996 |
| Charge for the year | 18,032 | 250 | 1,387 | 19,669 |
| Exchange adjustments | – | – | (543) | (543) |
| Disposal | – | – | (23,270) | (23,270) |
| At 31 December 2016 | 22,540 | 312 | – | 22,852 |
| **CARRYING VALUES** | | | | |
| At 31 December 2016 | 338,106 | 4,688 | – | 342,794 |
| At 31 December 2015 | 356,138 | 4,938 | 30,118 | 391,194 |

## 20. INTANGIBLE ASSETS *(continued)*

One of the intangible assets of the Group represented the right to receive royalty fee acquired from Zhuhai City Guo Xiang Investment and Consultancy Limited, an independent third party, during the year ended 31 December 2009. The Group's right to receive royalty fee last for 16 years and expiring on 31 December 2024, at an annual royalty fee of RMB5,000,000 (approximately HK$6,098,000) to RMB7,800,000 (approximately HK$9,512,000), pursuant to a management agreement.

The consideration for the acquisition of right to receive royalty fee was satisfied by cash of HK$28,000,000 and 320,837,000 newly issued consideration shares of the Company of HK$0.07, being the closing share price of the Company at the completion date of the acquisition. The transaction was completed on 20 April 2009 and the fair value of the intangible asset as at the completion date was considered to be approximately HK$50,459,000. As at 31 December 2015, part of the consideration of HK$10,000,000 has not yet been settled and the amount was included in the Group's trade and other payables in the consolidated statement of financial position as at 31 December 2015 (note 29).

The intangible asset of right to receive royalty fee has definite useful lives and is amortised over 16 years using the straight-line method.

On 29 February 2016, the subsidiary of the Group has signed a sales and purchases agreement with an independent third party in relation to the disposal of the intangible assets for the right to receive royalty fee at consideration of RMB28,000,000. The transaction was completed on 30 May 2016.

During the year ended 31 December 2015, the Group acquired 100% of Grand Ahead Limited ("Grand Ahead"). One of the intangible assets arised from acquisition of subsidiary represents the trademark. The management assessed the trademark to be 20 years useful lives. The valuation of trademark in the amount of HK$360,646,000 at the time of acquisition was carried by Asset Appraisal.

Another intangible asset arised from acquisition of subsidiary represents the licence under Securities and futures Ordinance, CAP.571, namely Type 1 Dealing in securities, Type 4 Advising on Securities, Type 6 Advising on Corporate Finance and Type 9 Asset Management with the estimated useful life of 20 years allied with the useful life of trademark. The valuation of the intangible assets in amount of HK$5,000,000 at the time of acquisition was carried out by the independent firm of professional valuer, Asset Appraisal.

Trademark and licence have definite useful lives and are amortised over 20 years using the straight-line method.

## 21. AVAILABLE-FOR-SALE INVESTMENTS

| | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|
| Unlisted equity securities | **34,500** | 34,500 |
| Less: Impairments | **(34,500)** | (34,500) |
| | **–** | – |

The amounts represent investments in unlisted equity securities issued by private entities incorporated overseas. They are measured at cost less impairment, if any.

In prior years, the carrying amounts of the investments were written down to nil through the recognition of impairment losses.

## 22. INTEREST IN A JOINT VENTURE

| | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|
| Cost of unlisted investment | **35,000** | 35,000 |
| Share of post-acquisition profit or loss | **(35,000)** | 12,090 |
| | **–** | 47,090 |

As at 31 December 2016 and 2015, the Group had interest in the following joint venture:

| | | | | | Percentage of | | | |
|---|---|---|---|---|---|---|---|---|
| **Name of company** | **Form of entity** | **Place of incorporation/ registration** | **Principal place of operation** | **Particulars of issued shares held** | **Ownership interest** | **Voting power** | **Profit sharing** | **Principal activities** |
| Madex (Zhuhai) Limited ("Madex Zhuhai") | Incorporated | British Virgin Island | The PRC | Ordinary share of US$1 each | 49% (note (a)) | 50% | 49% (note (a)) | Property development and provision of management services |

Madex Zhuhai, the only joint venture in which the group participates, is an unlisted corporate entity whose quote market price is not available.

On 2 July 2011, Madex Trading Limited ("Madex Trading"), a wholly-owned subsidiary of the Company, entered into a joint venture agreement (the "Joint Venture Agreement") with Grand Ocean Investment Company Limited ("Grand Ocean") for the establishment of Madex Zhuhai.

## 22. INTEREST IN A JOINT VENTURE *(continued)*

Note:

(a) Madex Zhuhai is held as to 49% and 51% by Madex Trading and Grand Ocean, respectively, as such Madex Zhuhai has a paid-up capital of HK$35 million which was contributed solely by Madex Trading in cash. Grand Ocean contributed to Madex Zhuhai by procuring 珠海市保利三好有限公司("保利三好"), a non-wholly owned subsidiary of Grand Ocean, to enter into a management agreement with Madex Zhuhai (the "Management Agreement") dated 2 July 2010 for provision of property management services to 保利三好 and its subsidiary by Madex Zhuhai as well as injection of management skill, marketing and selling strategy.

A supplemental agreement was signed between Madex Trading and Grand Ocean that Grand Ocean can only start to have its 51% sharing on the financial result and net financial position of Madex Zhuhai if the Management Agreement has been commenced. As the Management Agreement has not yet been commenced in 2016 and 2015, 100% of the financial result and net assets of Madex Zhuhai has been shared by the Group for the years ended 31 December 2016 and 2015.

The summarised financial information in respect of the Group's interest in the joint venture which is accounted for using the equity method is set out below:

| | **2016** **HK$'000** | 2015 HK$'000 |
|---|---|---|
| Current assets | **4** | 49,482 |
| Non-current assets | **–** | – |
| Current liabilities | **(2,392)** | (2,392) |
| Net (liabilities) assets | **(2,388)** | 47,090 |
| The Group's share of net assets of the joint venture | **–** | 47,090 |

| | **2016** **HK$'000** | 2015 HK$'000 |
|---|---|---|
| Total revenue | **–** | – |
| Other income | **–** | – |
| Expenses | **(49,478)** | (2) |
| Tax | **–** | – |
| Loss after tax and total comprehensive losses | **(49,478)** | (2) |
| The Group's share of result of the joint venture | **(47,090)** | (2) |

During the year 2016, the joint venture had waived the amount advanced to the Group.

## 23. OTHER DEPOSITS

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Statutory and other deposits | **248** | 273 |

Statutory and other deposits represent deposits with various exchanges and clearing houses. They are non-interest bearing.

## 24. INVENTORIES

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Finished goods | – | 7,053 |

## 25. LOAN RECEIVABLES

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Fixed-rate loan receivables | – | 354,191 |
| Analysed as | | |
| Current | – | 354,191 |

The carrying amount of the Group's fixed-rate loans receivable has remaining contractual maturity date as follows:

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Fixed-rate loan receivables | | |
| Within one year | – | 354,191 |

The Group has loan receivables of RMB300,000,000 (equivalent to HK$354,191,000), which carried interest at 10% per annum in 2015.

The loan receivables were secured by properties located in The People's Republic of China.

The collateral for the loan is sufficient to cover the loan amount on an individual basis.

The loan receivables were derecognised upon the disposal of subsidiaries during the year (note 39).

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

| | **2016** **HK$'000** | 2015 HK$'000 |
|---|---|---|
| Equity securities held for trading, at fair value | | |
| – Listed in Hong Kong – current portion | **116** | 102 |
| Convertible note at fair value, designated as at fair value through profit or loss – non current portion | **63,700** | – |
| | **63,816** | 102 |

## 27. TRADE AND OTHER RECEIVABLES

| | Notes | **2016** **HK$'000** | 2015 HK$'000 |
|---|---|---|---|
| Trade receivables from | | | |
| – Clearing house and cash clients | (a) (b) | **24,375** | 5,597 |
| – Others | (b) | **–** | 1,421 |
| Less: Allowances | | **–** | – |
| | | **24,375** | 7,018 |
| Payment in respect of the maintenance of the Group's Chongqing property | (c) | **–** | 30,697 |
| Advance property management fee | | **–** | 8,264 |
| Advance to a third party | (d) | **–** | 38,165 |
| Other receivables, prepayment and deposit | (e) | **265,168** | 312,776 |
| | | **265,168** | 389,902 |
| | | **289,543** | 396,920 |
| Represented by: | | | |
| Non-Current portion | | **253,006** | 271,736 |
| Current portion | | **36,537** | 125,184 |
| | | **289,543** | 396,920 |

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

Notes:

**(a) Trade receivables – clearing house and cash clients**

The settlement terms of trade receivables are two days after trade date.

**(b) Trade receivables – others**

The credit period granted to the Group's trade receivables generally ranges from 30 to 120 days. The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period.

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Within 3 months | **24,375** | 5,640 |
| 4 to 6 months | **–** | – |
| Over 6 months | **–** | 1,378 |
| Total | **24,375** | 7,018 |

The Group does not hold any collateral over these balances.

**AGEING OF TRADE RECEIVABLES WHICH ARE PAST DUE BUT NOT IMPAIRED**

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Overdue by: | | |
| Within 3 months | **–** | – |
| 4 to 6 months | **–** | – |
| Over 6 months | **–** | 1,378 |
| Total | **–** | 1,378 |

As at 31 December 2015, trade receivables that were past due but not impaired relate to independent customers that have signed an agreement with the Group to settle the balance by 4 instalments. The balance was fully received in 2016.

Trade receivables that were neither past due nor impaired related to customers for whom there was no recent history of default.

**(c) Payment in respect of the maintenance of the Group's Chongqing Property**

As at 31 December 2015, the amount of RMB26,000,000 (equivalent to HK$30,697,000) represents the payment made to Xin Jia Jun in respect of the property maintenance of the Group's Chongqing Property. Xin Jia Jun is the property management manager of the Group's Chongqing Property. The balance was derecognised upon the disposal of subsidiaries during the year (note 39).

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

Notes: *(continued)*

**(d) Advance to a third party**

As at 31 December 2015, the amount of approximately RMB32,326,000 (equivalent to HK$38,165,000) represents an unsecured and interest-free advance granted to Xin Jia Jun. The amount is a financial assets stated at amortised cost and has no fixed repayment schedule. The balance was derecognised upon the disposal of subsidiaries during the year (note 39).

**(e) Other receivables, prepayment and deposit**

As at 31 December 2016, the amount of RMB230,160,000 (approximately HK$253,006,000) (2015: RMB230,160,000 (approximately HK$271,736,000)) was classified as non-current asset, represents the prepayment of the first phase of development of the investment properties in the PRC. Pursuant to the construction contract, the total development cost of investment properties is RMB812,000,000 (approximately HK$958,678,000). The development of investment properties will be started by the coming financial year. As at 31 December 2016, the amount of approximately HK$2,645,000 (2015: HK$13,868,000) represents other receivables which are stated at amortised cost. The remaining amount of approximately HK$9,517,000 (2015: HK$27,172,000) represents prepayment and non-refundable deposits.

## 28. PLEDGED BANK BALANCES, BANK BALANCES AND CASH

| | Notes | **2016** HK$'000 | 2015 HK$'000 |
|---|---|---|---|
| Pledged bank balances | (a) | **–** | 23,613 |
| Bank balances and cash – general accounts | (b) | **65,577** | 213,214 |
| Bank balances and cash – trust accounts | (c) | **192,104** | 144,643 |
| | | **257,681** | 381,470 |

Notes:

(a) At 31 December 2015, the pledged bank balances of approximately HK$23,613,000 was pledged to a bank to guarantee of tariff. The pledged bank balances bear interest at the rate of 0.3% per annum. The pledged bank balances were released during the year.

(b) At 31 December 2016, the balances were placed with banks in the PRC amounted to approximately HK$4,445,000 (2015: HK$82,938,000). Remittance of funds out of the PRC is subject to the exchange restrictions imposed by the PRC government. Bank balances carry interest at floating rates based on daily bank deposit rates for both years.

(c) The Group maintains segregated accounts with authorised institutions to hold client money in the normal course of business.

## 29. TRADE AND OTHER PAYABLES

| | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|
| Account payables | | |
| – Clearing house and cash clients | **197,351** | 149,610 |
| – Others | **–** | 3,703 |
| Construction cost payables, other payables, accrued charges and others | **64,443** | 144,827 |
| Outstanding consideration for acquisition of intangible asset through acquisition of a subsidiary (note 20) | **–** | 10,000 |
| Deposits received | **5,424** | 66,274 |
| Rental received in advance | **–** | 4,135 |
| | **267,218** | 378,549 |

The following is an aged analysis of accounts payable presented based on the invoice date.

| | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|
| 0-60 days | **197,351** | 152,377 |
| 61-90 days | **–** | – |
| >90 days | **–** | 936 |
| | **197,351** | 153,313 |

## 30. BORROWINGS

| | Notes | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|---|
| Secured bank borrowings | (a) | **–** | 1,136,450 |
| Other borrowings | | | |
| – unsecured | (b) | **20,000** | – |
| Unsecured debentures | (c) | **78,031** | 76,375 |
| | | **98,031** | 1,212,825 |
| The carrying amount is repayable: | | | |
| Within one year, or on demand | | **29,806** | 2,361 |
| More than one year, but not exceeding two years | | **–** | 33,085 |
| More than two years, but not more than five years | | **68,225** | 82,955 |
| More than five years | | **–** | 1,080,630 |
| | | **98,031** | 1,199,031 |
| Carrying amount of borrowings that are not repayable within one year from the end of the reporting period but contain a repayment on demand clause which was shown under current liabilities | | **–** | 13,794 |
| | | **98,031** | 1,212,825 |
| Less: Amount due within one year shown under current liabilities | | **(29,806)** | (16,155) |
| | | **68,225** | 1,196,670 |

## 30. BORROWINGS *(continued)*

Notes:

(a) Secured bank borrowings

At 31 December 2015, all bank borrowings were secured by the leasehold land and buildings and investment properties with the total carrying value of HK$1,777,450,000. In additions, bank borrowings amounting to HK$1,136,450,000 were guaranteed by Mr. Liang.

| The bank borrowings bear interest at the rate of: | **2016 HK$'000** | 2015 HK$'000 |
|---|---|---|
| 1.5% per annum over Hong Kong Interbank Offered Rate and capped at 1.5% per annum below the Hong Kong Dollar Best Lending Rate and repayable by installments until 26 February 2025 | – | 13,794 |
| 4.9% per annum, with reference to the benchmark bank loan interest rate quoted by PBOC and repayable by installments until 13 October 2025 | – | 1,122,656 |
| | – | 1,136,450 |

The bank borrowings were derecognised upon disposal of subsidiaries (note 39).

(b) Unsecured other borrowings

Unsecured other borrowings represents an advance granted by Cheung, Kam Fai ("Mr. Cheung"), a director of the Company which is unsecured, interest charged at 1% and repayable on demand.

(c) Unsecured debentures

As at 31 December 2016 and 2015, the amounts represented the Group's unsecured debenture issued to certain independent third parties which were interest-bearing ranging from 5% to 6% per annum with 1 to 5 years maturity.

## 31. AMOUNT DUE TO A RELATED PARTY, AMOUNT DUE TO A SHAREHOLDER AND AMOUNT DUE TO A JOINT VENTURE

**(a) Amount due to a related party**

The amount due to a related party represents an advance granted by Madex International which is unsecured, interest-free and repayable on demand. Mr. Liang, the shareholder of the Company, owns the entire share capital of Madex International.

**(b) Amount due to a shareholder**

The amount due to a shareholder represents an advance granted by Mr. Liang which is unsecured, interest-free and repayable on demand.

**(c) Amount due to a joint venture**

The amount due to a joint venture represents an advance granted by Madex Zhuhai which is unsecured, interest-free and repayable on demand.

## 32. CONVERTIBLE NOTES AND DERIVATIVE FINANCIAL INSTRUMENT

On 28 October 2014, the Company issued Hong Kong dollar denominate convertible notes with the aggregate principal amount of HK$261,500,000 (the "2014 Convertible Note"). The 2014 Convertible Note entitles the holders to convert them into ordinary shares of the Company at any time after the date of issue of the 2014 Convertible Note and their maturity date on 27 April 2016, being eighteen month from the date of its issue, in multiples of HK$100,000 at a conversion price of HK$0.183 per convertible share subject to adjustments in certain events. The shares to be issued and allotted upon conversions shall rank pari passu in all respects among themselves and with all other ordinary shares in issue by the Company on the date of such allotment and issue. If the notes have not been converted, they will be redeemed on 27 April 2016 at a redemption amount equal to 100% of the principal amount of the outstanding convertible notes. Interest of 5% per annum will be paid on the maturity date 27 April 2016. During the year ended 31 December 2015, 2014 Convertible Note noteholders converted all of the remaining 2014 Convertible Note into 437,158,469 ordinary shares of HK0.05 each in the Company at the conversion price of HK$0.183 per share.

On 8 September 2015, the Company issued Hong Kong dollar denominated convertible notes with the aggregate principal amount of HK$242,960,000 (the "2015 CB 1"). The 2015 CB 1 entitles the holders to convert them into ordinary shares of the Company at any time after the date of issuance of the 2015 CB 1 and their maturity date on 7 March 2017, being eighteen months from the date of its issuance, in multiples of HK$100,000 at a conversion price of HK$0.163 per convertible share subject to adjustments in certain events. The shares to be issued and allotted upon conversions shall rank pari passu in all respects among themselves and with all other ordinary shares in issue by the Company on the date of such allotment and issue. If the notes have not been converted, they will be redeemed on 7 March 2017 at a redemption amount equal to 100% of the principal amount of the outstanding convertible notes. Interest of 5% per annum will be paid on the maturity date 7 March 2017. During the year ended 31 December 2016, 2015 CB 1 noteholders converted part of the 2015 CB1 into 273,619,630 ordinary shares (2015: 695,460,108) of HK0.05 each in the Company at the conversion price of HK$0.163 per share.

On 25 September 2015, the Company issued zero-coupon convertible notes (the "Ping An CB") with a nominal value of approximately HK$100,000,000 as part of the consideration for the acquisition of Grand Ahead and its subsidiaries (the "Grand Ahead Group") from Jayden Wealth Holdings Limited ("Jayden"). The Ping An CB is denominated in Hong Kong dollars. The Ping An CB entitles the holders to convert them into ordinary shares of the Company on any Business Day during a period commencing from the date of this Note and ending on the Maturity Date (both days inclusive), the whole by trenches of at least one-twentieth of the principal amount of the Note into Shares at any time and from time to time at the Conversion Price of HK$0.2 per convertible share subject to adjustments in certain events. The maturity date of Ping An CB is 24 September 2020.

## 32. CONVERTIBLE NOTES AND DERIVATIVE FINANCIAL INSTRUMENT *(continued)*

During the year ended 31 December 2016 and 2015, no Ping An CB was converted into share by noteholders.

On 20 November 2015, the Company issued Hong Kong dollar denominate convertible notes with the aggregate principal amount of HK$100,100,000 (the "2015 CB 2"). The 2015 CB 2 entitles the holders to convert them into ordinary shares of the Company at any time after the date of issuance of the 2015 CB 2 and their maturity date on 19 May 2017, being eighteen month from the date of its issuance, in multiples of HK$100,000 at a conversion price of HK$0.163 per convertible share subject to adjustments in certain events. The shares to be issued and allotted upon conversions shall rank pari passu in all respects among themselves and with all other ordinary shares in issue by the Company on the date of such allotment and issue. If the notes have not been converted, they will be redeemed on 19 May 2017 at a redemption amount equal to 100% of the principal amount of the outstanding convertible notes. Interest of 5% per annum will be paid on the maturity date 19 May 2017. During the year ended 31 December 2016, 2015 CB 2 noteholders converted part of the 2015 CB 2 into 61,963,189 ordinary shares (2015: 106,134,945) of HK0.05 each in the Company at the conversion price of HK$0.163 per share.

At the end of the reporting periods, the 2015 CB 1, 2015 CB 2, and Ping An CB were valued by the directors of the Company with reference to valuation report issued by Hung Association, an independent professional valuer not connected to the Group.

The principal amounts of 2015 CB 1, 2015 CB 2 and the Ping An CB are divided into straight debt component and embedded conversion option on initial recognition. The debt component are recognised in the consolidated statement of financial position as current liabilities for 2015 CB1 and 2015 CB2 and non-current liability for Ping An CB (the holders of 2015 CB 1, 2015 CB 2 and the Ping An CB cannot require the Company to settle the convertible notes before the maturity of the convertible notes). The embedded conversion options are recognised in the consolidated statement of financial position as current liabilities.

At initial recognition, the derivative components of convertible notes is measured at fair value. Subsequently, the debt components are measured at amortised cost. The effective interest rate of the debt component is from 12.42% to 54.99%. Embedded conversion option are measured at fair value with changes in fair value recognised in profit or loss.

The debt component of 2015 CB1 and 2015 CB2 with carrying amount of HK$152,563,000 are classified as current liabilities and the debt component of Ping An CB with carrying amount of HK$64,595,000 is classified as non-current liabilities.

## 32. CONVERTIBLE NOTES AND DERIVATIVE FINANCIAL INSTRUMENT *(continued)*

The movements of the debt component and derivatives components of the convertible notes for the year are set out as below:

| | Debt component HK$'000 | Derivative financial liabilities – Embedded conversion option HK$'000 | Derivative financial assets – Early redemption option HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| As at 1 January 2015 | 67,013 | 35,780 | (12,590) | 90,203 |
| Issue of convertible notes during the year | 274,080 | 176,627 | – | 450,707 |
| Interest charge (note 9) | 21,546 | – | – | 21,546 |
| Converted into ordinary shares (note 40) | (160,780) | (82,957) | 12,572 | (231,165) |
| (Gain) loss arising on changes of fair value | – | (4,409) | 18 | (4,391) |
| As at 31 December 2015 and 1 January 2016 | 201,859 | 125,041 | – | 326,900 |
| Interest charge (note 9) | 64,942 | – | – | 64,942 |
| Converted into ordinary shares (note 40) | (49,643) | (2,167) | – | (51,810) |
| Gain arising on changes of fair value | – | (111,585) | – | (111,585) |
| As at 31 December 2016 | 217,158 | 11,289 | – | 228,447 |

As at 31 December 2016, the Company had approximately HK$217,158,000 (2015: HK$201,859,000) outstanding Convertible Notes. As at 31 December 2016, upon conversion in full of the outstanding 2015 Convertible Notes, the Company will issue 1,467,484,703 (2015: 1,803,067,523) ordinary shares of HK0.05 each in the Company at the conversion price of HK$0.163 to 0.20 per share.

The fair values of the derivative financial assets and liabilities are calculated using the binomial model. The inputs into the model were as follows:

| | Ping An CB | 2015 CB1 | 2015 CB2 |
|---|---|---|---|
| **31 December 2016** | | | |
| Share price | HK$0.079 | HK$0.079 | HK$0.079 |
| Conversion price | HK$0.20 | HK$0.163 | HK$0.163 |
| Expected volatility (note (a)) | 65.44% | 154.28% | 104.71% |
| Expected life (note (b)) | 3.73 years | 0.19 years | 0.39 years |
| Risk free rate (note (c)) | 1.538% | 0.612% | 0.714% |
| **31 December 2015** | | | |
| Share price | HK$0.176 | HK$0.176 | HK$0.176 |
| Conversion price | HK$0.20 | HK$0.163 | HK$0.163 |
| Expected volatility (note(a)) | 59.4% | 72.4% | 73.43% |
| Expected life (note (b)) | 4.73 years | 1.19 years | 1.39 years |
| Risk free rate (note (c)) | 1.014% | 0.185% | 0.229% |

## 32. CONVERTIBLE NOTES AND DERIVATIVE FINANCIAL INSTRUMENT *(continued)*

Notes:

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

(b) Expected life was the expected remaining life of the convertible notes.

(c) The risk free rate is determined by reference to the yield of the Hong Kong Exchange Fund Bills and Notes.

## 33. DEFERRED TAX LIABILITIES

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

| | **Accelerated tax depreciation** HK$'000 | **Revaluation of properties** HK$'000 | **Amortization of intangible assets** HK$'000 | **Total** HK$'000 |
|---|---|---|---|---|
| At 1 January 2015 | – | 204,264 | – | 204,264 |
| Recognition from business combination | (23) | – | 60,332 | 60,309 |
| Credited to profit or loss | – | (41,620) | (754) | (42,374) |
| Exchange adjustments | – | (9,526) | – | (9,526) |
| At 31 December 2015 and 1 January 2016 | (23) | 153,118 | 59,578 | 212,673 |
| Derecognised on disposal of subsidiaries | – | (73,636) | – | (73,636) |
| Credited to profit or loss | 29 | (26,689) | (3,017) | (29,677) |
| Exchange adjustments | – | (5,317) | – | (5,317) |
| At 31 December 2016 | 6 | 47,476 | 56,561 | 104,043 |

The deferred tax liabilities for the year ended 31 December 2016 and 2015 are mainly arising from fair value changes on investment properties and amortization of intangible asset of the Group.

## 34. PROMISSORY NOTES

On 28 August 2015, the Company issued the promissory notes ("PN1") with a principal amount of HK$428,000,000 as part of the consideration for the Group's acquisition of the entire issued share capital of Full Boom (See note 37). The PN1 has a maturity of 36 months from the date of issue and bears simple interest at a rate of 5% per annum. The valuation of the PN1 as at the date of its issue was carried out by Asset Appraisal, a professional independent valuer not connected to the Group, using Hull-white model. The discount rate is derived from risk premium specific to the Company with reference to market sources. The fair value of the PN1 is recorded as financial liabilities stated at amortised cost in accordance with HKAS 39.

## 34. PROMISSORY NOTES *(continued)*

On 25 September 2015, the Company issued another promissory notes ("PN2") with a principal amount of HK$400,000,000 as part of the consideration for the Group's acquisition of the entire issued share capital of Grand Ahead (See note 38). The PN2 has a maturity of 36 months from the date of issue and bear simple interest at a rate of 2% per annum. The valuation of the PN2 as at the date of its issue was carried out by Asset Appraisal, a professional independent valuer not connected to the Group, using the discounted cash flow approach by applying an appropriate discount rate on the estimated future cash outflows on repayment of the PN2. The discount rate is derived from market risk-free rate and risk premium specific to the Company with reference to market sources. The fair value of the PN2 is recorded as financial liabilities stated at amortised cost in accordance with HKAS 39.

Movements of the promissory notes are set out as follows

| | **2016**<br>**HK$'000** | 2015<br>HK$'000 |
|---|---|---|
| At at 1 January | **636,019** | – |
| Fair value of PN1 at the date of issue (28 August 2015) | **–** | 331,307 |
| Fair value of PN2 at the date of issue (25 September 2015) | **–** | 285,525 |
| Interest expenses | **57,018** | 26,574 |
| Interest payable | **–** | (7,387) |
| Derecognised on disposal of subsidiaries as part of disposal consideration (see note 39) | **(693,037)** | – |
| As at 31 December | **–** | 636,019 |

During the year, the Group disposed of subsidiaries whereby part of the consideration of the disposal were set off against the promissory notes outstanding to the purchaser (see note 39). The promissory notes were derecognized at the date of completion (see note 39).

The fair value of promissory note was valued by Hung Association, a professional independent valuer not connected to the Group, using discount cash flow method as at the date of disposal subsidiaries.

A loss on extinguishment of the promissory notes aroses as their fair value as at the date of disposal of the subsidiaries exceeded their amortized cost carrying amount by an amount of HK$34,963,000.

## 35. PROVISION FOR CONTINGENT CONSIDERATION

In connection with the acquisition of net assets through the acquisition of Kings Mall Management and its holding companies and subsidiaries (the "Acquired Group") which was beneficially owned by Mr. Liang in 2011, provision for contingent consideration which represented the fair value of contingent consideration for the convertible notes at the acquisition date (the "Second Convertible Note"), will be issued by the Company if certain conditions as specified in the acquisition agreement signed on 27 February 2011 for the Acquired Group (the "Acquisition Agreement") and the supplemental agreement signed on 19 May 2011 (the "Supplemental Agreement") were fulfilled, as part of the consideration transferred in exchange for the Acquired Group.

The provision for contingent consideration is classified as a financial liability as it is resulted from a contract that will or may be settled by the Company's own equity instruments and is a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. The amount will then be measured at fair value with changes in fair value recognised in profit or loss.

As at 31 December 2015 the provision for contingent consideration was valued by the directors of the Company with reference to valuation report issued by Asset Appraisal, a professional independent valuer not connected to the Group.

## 35. PROVISION FOR CONTINGENT CONSIDERATION *(continued)*

The issuance of the Second Convertible Note is subject to the following condition:

Second Convertible Note with its full face value of HK$150,350,000 will be issued after completion of the redevelopment mainly for the extension and renovation work in respect of B2/F to 7/F of the Chongqing Property acquired on an acquisition of the Acquired Group, with an additional gross floor area of 10,773.43 square meters as approved by the relevant PRC regulatory authority (the "Extension Work"), full payment of the land premium in respect of the Extension Work and there is no legal impediment for the Acquired Group to obtain all valid real estate ownership certificates under the applicable laws, rules and regulations. On 19 May 2011, the Group, Profit China and Mr. Liang entered into the Supplemental Agreement, pursuant to which, Profit China and Mr. Liang had agreed and undertaken to pay the excess of the actual land premium ("Land Premium Excess") in respect of the Extension Work over the amount of RMB7,110,463.80 and should Profit China and Mr. Liang fail to pay the Land Premium Excess or any part thereof in accordance with the terms of the Supplemental Agreement, the Group would be entitled to pay the same on their behalf and deduct an amount equivalent to such Land Premium Excess or any part thereof paid by the Group from the part of the consideration to be satisfied by way of issue of the Second Convertible Note.

| | **2016**<br>**HK$'000** | 2015<br>HK$'000 |
|---|---|---|
| As at 1 January | **202,652** | 259,917 |
| Changes in fair value | **(96,252)** | (57,265) |
| Derecognised on disposal of subsidiaries | **(106,400)** | – |
| As at 31 December | **–** | 202,652 |

The fair values of the provision for contingent consideration are calculated using the binomial model. The inputs into the model were as follows:

| | **2016** | 2015 |
|---|---|---|
| Share price | **HK$0.087** | HK$0.176 |
| Conversion price | **HK$0.128** | HK$0.128 |
| Expected volatility (note (a)) | **57.37%** | 61.59% |
| Expected life (note (b)) | **5.37 years** | 6 years |
| Risk free rate (note (c)) | **0.607%** | 1.1768% |

Notes:

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

(b) Expected life was the expected remaining life of the Second Convertible Note.

(c) The risk free rate is determined by reference to the yield of the Hong Kong Exchange Fund Bills and Notes.

During the year, the Group has disposal of subsidiaries (see note 39). Provision of contingent consideration has been waived by Mr. Liang Wenguan ("Mr. Liang"), who is the father of Mr. Liang Zhenye, the beneficial owner of Season Trade Limited, the purchaser of the disposed subsidiaries, upon the disposal.

The fair value of contingent consideration was valued by Hung Association, a professional independent valuer not connected to the Group, using binomial option pricing method as at the date of disposal subsidiaries.

## 36. PLEDGE OF ASSETS

Assets with the following carrying amounts have been pledged to secure general banking facilities and guarantee of tariff granted to the Group or borrowings of the Group:

| | **2016 HK$'000** | 2015 HK$'000 |
|---|---|---|
| Leasehold land and buildings (note 16) | – | 27,450 |
| Investment properties (note 17) | – | 1,750,000 |
| Bank balances (note 28) | – | 23,613 |
| | – | 1,801,063 |

In addition, the Group has pledged its entire equity interest in its wholly-owned subsidiary, New China IQ Limited, to secure banking facilities of HK$21,500,000 granted to the Group for the year ended 31 December 2015.

## 37. ACQUISITION OF ASSETS THROUGH ACQUISITION OF A SUBSIDIARY

Pursuant to the Acquisition Agreement and the Supplemental Agreement, the Group, through Wealth Billows Limited, a directly wholly-owned subsidiary of the Company acquired the entire interest in Full Boom Global Limited ("Full Boom") from Mr. Liang (the "Acquisition"). Full Boom holds the entire interest of Soar Success Limited and its subsidiaries, 佛山市盛明投資咨詢有限公司 ("盛明投資") and 佛山盛明置業有限公司 ("盛明置業") (Full Boom, Soar Success Limited, 盛明投資 and 盛明置業 collectively referred to as the "Full Boom Group") at the completion date of the Acquisition. 盛明置業 mainly holds a piece of Land located in Xiqiao Town, Foshan City, Guangdong Province in the PRC (an investment properties under development as set out in note 17) and other assets and liabilities. The completion date of the acquisition was 28 August 2015. The Group has acquired the net assets, mainly the investment properties under development for a consideration of approximately HK$438,307,000, which was satisfied by the following:

(i) Cash in the sum of HK$107 million is paid in cheque by the Company to the Vendor upon signing of the Acquisition Agreement; and

(ii) Issue of HK$428 million promissory note (fair value: HK$331,307,000) to the Vendor upon Completion

The directors of the Company are of the opinion that the acquisition of the Full Boom Group is in substance an acquisition of net assets, instead of an acquisition of business, as the net assets included in the Full Boom Group were mainly investment properties under development located in Foshan without operation.

## 37. ACQUISITION OF ASSETS THROUGH ACQUISITION OF A SUBSIDIARY *(continued)*

For details, please refer to the announcement of the Company dated 13 November 2014, 4 December 2014, 18 December 2014, 12 January 2015, 30 January 2015, 17 February 2015, 9 March 2015 and 28 August 2015. The effect of the acquisition is summarised as follows:

| | 2015<br>HK$'000 |
|---|---|
| Property, plant and equipment | 640 |
| Investment properties under development | 445,798 |
| Trade and other receivables | 8 |
| Bank balances and cash | 1,004 |
| Other payables | (9,143) |
| | 438,307 |
| Satisfied by: | |
| Deposit paid | 107,000 |
| Promissory notes | 331,307 |
| | 438,307 |
| Net cash inflow arising on acquisition: | |
| Bank balances and cash acquired | 1,004 |

## 38. BUSINESS COMBINATION

During the year ended 31 December 2015, the Group entered into a sale and purchase agreement and a supplemental agreement with Jayden Wealth Holdings Limited (the "Jayden") in relation to the acquisition of the entire share capital of Grand Ahead and its subsidiary, Ping An. Ping An is principally engaged in securities dealing and financial services in Hong Kong. The completion date of the acquisition was 25 September 2015.

The acquisition was expected to enhance the Group's investment portfolio. Ping An is one of the well-established securities brokerage and financial advisory houses in Hong Kong providing a wide range of financial services which include the provision of securities brokerage, securities underwriting and placements and financial advisory services. It also expects that the Group's strategic move towards diversification of business will achieve stable return on investment for the shareholders.

The consideration was satisfied by (i) issuance of 3,500,000,000 consideration shares; (ii) issuance of Promissory note in principal sum of HK$400,000,000 ("Ping An PN") and (iii) issuance of convertible note in principal sum of HK$100,000,000 ("Ping An CB") on the completion date of acquisition.

The Ping An PN carries interest charged at 2% per annum and its fair value at acquisition was approximately HK$285.5 million which was calculated by discounting the estimated contractual cash flow over the remaining contractual term at the discount rate of approximately 14.1%. The Ping An CB bears no interest. The fair value of the Ping An CB at acquisition date was approximately HK$107.6 million which was calculated by Binomial Option Pricing Model.

## 38. BUSINESS COMBINATION *(continued)*

Valuation for both of the Ping An PN and Ping An CB was performed by Asset Appraisal, an independent qualified professional valuer which is independent to the Group.

Further details of the acquisition are set out in the Company's announcement dated 10 March 2015, 31 March 2015, 30 April 2015, 15 May 2015, 22 May 2015, 15 June 2015, 9 September 2015, 18 September 2015 and 25 September 2015.

Assets acquired and liabilities recognised at the date of acquisition:

| | **Fair value** HK$'000 |
|---|---|
| Property, plant and equipment | 1,275 |
| Intangible assets | 365,646 |
| Other deposits | 273 |
| Trade and other receivables | 14,597 |
| Financial assets at fair value through profit or loss | 113 |
| Bank balances and cash – trust accounts | 211,882 |
| Bank balances and cash – general accounts | 16,946 |
| Trade and other payables | (223,474) |
| Tax liabilities | (11,606) |
| Deferred tax liabilities | (60,309) |
| Net assets acquired | 315,343 |

The goodwill arising on acquisition:

| | HK$'000 |
|---|---|
| Fair value of net assets acquired shown as above | 315,343 |
| Less: Purchase consideration | |
| Fair value of consideration shares | (647,500) |
| Fair value of promissory note | (285,525) |
| Fair value of convertible notes | (107,648) |
| Goodwill | (725,330) |
| Bank balances and cash in a subsidiary acquired | 16,946 |
| Net Cash inflow arising from acquisition: | |
| Bank balances and cash acquired | 16,946 |

As a result of the acquisition, the Group is expected to increase its sources of income for the group in future. The goodwill of approximately HK$725,330,000 arising from the acquisition is attributable to economies of scale expected from combining the operations of the Group and Ping An. None of the goodwill recognised is expected to be deductible for income tax purposes.

Acquisition costs of approximately HK$2,467,000 have been charged to administrative expenses in the consolidated statement of profit or loss for the year ended 31 December 2015.

## 38. BUSINESS COMBINATION *(continued)*

The fair value and the gross contractual amount of trade and other receivables at the date of acquisition amounted to approximately HK$14,597,000 and it is not expected to be uncollectible.

The revenue included in the consolidated statement of profit or loss and other comprehensive income since 25 September 2015 contributed by Ping An was approximately HK$17,173,000. The profit of approximately HK$4,766,000 was incurred for the same period.

Had this business combination been effected at 1 January 2015, the revenue of the Group would have been approximately HK$97,130,000, and the profit for the year would have been approximately HK$59,264,000.

## 39. DISPOSAL OF SUBSIDIARIES

During the year ended 31 December 2016, the Group had the following disposals of subsidiaries:

Pursuant to the Company's announcement on 28 April 2016, the Company and Season Trade Limited ("Purchaser") entered into the disposal agreement on 27 April 2016, pursuant to which the Company has conditionally agreed to sell, and the Purchaser under each disposal agreement has conditionally agreed to purchase, entire issued share capital in Quick Silver Global Enterprises Limited and Fortune House Worldwide Holdings Limited for a total consideration that is the release of two promissory notes with principal amounts of HK$428,000,000 and HK$400,000,000 respectively (the "Disposals") (see note 34). The transaction was completed on 18 August 2016.

As the Purchaser is wholly owned by Mr. Liang Zhenye, the son of Mr. Liang who is a substantial shareholder of the issued share capital of the Company, the Purchaser is a connected person of the Company under Chapter 14A of the Listing Rules and the Disposals constitute connected transactions for the Company.

Total consideration for disposal of two subsidiaries shall be set off entirely against the Promissory Notes, where the Purchaser shall procure Mr. Liang Zhenye to execute a deed of release for the two Promissory Notes in the principal amount of HK$428,000,000 and HK$400,000,000 in favour of the Company upon completion of the disposal agreements.

| **Total consideration satisfied by** | HK$'000 |
|---|---|
| Promissory note 1 settled by buyer (note 34) at fair value | 392,000 |
| Promissory note 2 settled by buyer (note 34) at fair value | 336,000 |
| Waiver of promissory note accrued interest by buyer | 7,387 |
| Total consideration received | 735,387 |

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

Analysis of assets and liabilities over which control was lost

| | Quick Silver Group HK$'000 | Fortune House Group HK$'000 | Total HK$'000 |
|---|---|---|---|
| Properties, plant and equipment | 5,409 | 27,005 | 32,414 |
| Investment properties | 1,598,000 | – | 1,598,000 |
| Financial asset | 34,714 | – | 34,714 |
| Trade and other receivables | 188,318 | 47 | 188,365 |
| Inventories | 8,312 | – | 8,312 |
| Loan receivables | 347,142 | – | 347,142 |
| Amount due from related companies | 985 | – | 985 |
| Cash and cash equivalents | 26,317 | 132 | 26,449 |
| Trade and other payables | (151,405) | (1) | (151,406) |
| Rental received in advance | – | (140) | (140) |
| Amount due to related companies | (16) | – | (16) |
| Amount due to shareholder | (52,357) | – | (52,357) |
| Secured bank borrowings | (1,162,301) | (12,862) | (1,175,163) |
| Deferred tax | (73,636) | – | (73,636) |
| | 769,482 | 14,181 | 783,663 |

**Gain on disposal of subsidiaries**

| | HK$'000 |
|---|---|
| Consideration received | 735,387 |
| Cumulative exchange differences in respect of the net assets of the subsidiaries released on loss of control of Quick Silver Group | 886 |
| Net asset disposed of | (783,663) |
| Waiver of contingent consideration by Mr. Liang | 106,400 |
| PRC tax provision of Quick Silver Group (note) | – |
| Gain on disposal of Quick Silver Group and Fortune House Group | 59,010 |

**Net cash outflow arising on disposal**

| | HK$'000 |
|---|---|
| Cash consideration | – |
| Less: cash and cash equivalents disposed of | (26,449) |
| | (26,449) |

Note: According to the disposal agreement, PRC taxation was borne by Purchaser. The management considered that there is no PRC tax required to be provided.

## 40. SHARE CAPITAL

| | 2016 No. of share | 2016 Per Share HK$ | 2016 Amount HK$'000 | 2015 No. of share | 2015 Per Share HK$ | 2015 Amount HK$'000 |
|---|---|---|---|---|---|---|
| **Authorised** | | | | | | |
| Ordinary shares of HK$0.05 each | **60,000,000,000** | **0.05** | **3,000,000** | 60,000,000,000 | 0.05 | 3,000,000 |
| **Issued and fully paid** | | | | | | |
| At 1 January | **18,559,469,193** | **0.05** | **927,973** | 13,225,075,670 | 0.05 | 661,253 |
| Issue of share by placement (note a) | – | – | – | 613,400,000 | 0.05 | 30,670 |
| Issue of consideration shares (note b) | – | – | – | 3,500,000,000 | 0.05 | 175,000 |
| Issue of new shares on conversion of convertible notes (note c) | **335,582,819** | **0.05** | **16,779** | 1,238,753,523 | 0.05 | 61,938 |
| Repurchase of shares | – | – | – | (17,760,000) | 0.05 | (888) |
| At 31 December | **18,895,052,012** | **0.05** | **944,752** | 18,559,469,193 | 0.05 | 927,973 |

During the years ended 31 December 2015 and 31 December 2016, the movements of the authorised and issued share capital of the Company are as following:

(a) Pursuant to a subscription agreement dated 8 September 2015, 613,400,000 new shares of the Company were issued at the subscription price of HK$0.163 per subscription share. Details of the issue of the shares are set out in the Company's announcement dated 8 September 2015.

(b) As explained in note 38, during the year ended 31 December 2015, the Company issued 3,500,000,000 shares of HK$0.05 each in the Company at the price of HK$0.185 per share for a total consideration of HK$647,500,000 as part of the consideration in respect of the acquisition of Grand Ahead.

(c) As disclosed in note 32, total number of ordinary shares of 335,582,819 (2015: 1,238,753,523) with nominal value of approximately HK$16,779,000 (2015: HK$61,938,000) were issued upon the conversion of the 2014 Convertible Note amounting to approximately HK$Nil (2015: HK$91,450,000), 2015 CB 1 amounting to approximately HK$13,681,000 (2015: HK$121,534,000) and 2015 CB 2 amounting to approximately HK$3,098,000 (2015: HK$18,181,000) during the year ended 31 December 2016.

The new shares rank pari passu in all respects with the existing shares.

### Purchase of own shares

During the year ended 31 December 2015, the Company repurchased its own ordinary shares on The Stock Exchange of Hong Kong Limited as follows:

| Month/year | Number of shares repurchased | Purchase price Highest HK$ | Purchase price Lowest HK$ | Aggregate price paid $'000 |
|---|---|---|---|---|
| July 2015 | 17,760,000 | 0.157 | 0.137 | 2,722 |

The total amount paid on the repurchased shares was HK$2,722,000. The premium of approximately HK$1,834,000 on the repurchase of such shares was charged to the share premium account.

## 41. RELATED PARTY TRANSACTIONS

(a) Except as disclosed in the consolidated financial statements elsewhere, during the years ended 31 December 2016 and 2015, the Group entered into the following transactions with its related parties:

(i) As at 31 December 2015, Mr. Liang provided a personal guarantee to the bank for the repayment of the bank loan of HK$1,136,450,000.

(ii) Pursuant to a tenancy agreement entered by New China IQ Limited ("New China"), a wholly owned subsidiary of the Group, and Mai Shunxing (the mother of Nijssen Victoria, a director of the Company, and the spouse of Mr. Liang, a substantial shareholder of the Company) on 26 January 2016, New China agreed to rent a property owned by Mai Shunxing at a monthly rent of HK$50,000 for the period from 1 January 2016 to 31 December 2017. Upon the disposal of New China as at 18 August 2016, New China had been transferred the lease to Ping An Securities Group (Holdings) Limited by signing a new tenancy agreement for the period from 19 August 2016 to 31 December 2016 as at 19 August 2016. During the year ended 31 December 2016, total rent of HK$600,000 was paid to Mai Shunxing (2015: HK$600,000).

(iii) Pursuant to a tenancy agreement entered into on 1 November 2016 between Winford Asia Pacific Limited ("Winford"), a wholly owned subsidiary of the Group, and New China, Liang Zhenye, the son of a substantial shareholder of the Company and executive director of New China, New China agreed to rent a property owned by New China at a monthly rent of HK$140,000 for the period from 1 September 2016 to 31 December 2018.

(b) Compensation of directors of the Company and key management personnel of the Company: Remuneration for key management personnel including amounts paid to the Company's directors as disclosed in note 12 and the highest paid employees as disclosed in note 13 is as follows:

| | **2016**<br>**HK$'000** | 2015<br>HK$'000 |
|---|---|---|
| Salaries and other short-term employee benefits | **5,117** | 4,936 |
| Retirement benefit scheme contributions | **54** | 36 |
| | **5,171** | 4,972 |

The remuneration of directors of the Company and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

(c) Finance arrangement

| | **2016**<br>**HK$'000** | 2015<br>HK$'000 |
|---|---|---|
| Unsecured other borrowings | **20,000** | – |

Unsecured other borrowings represents an advance granted by Cheung, Kam Fai ("Mr. Cheung"), a director of the Company. The balance at the end of the reporting period is unsecured, interest-bearing at 1% per annum and repayable on demand.

## 42. MAJOR NON-CASH TRANSACTIONS

On 18 August 2016, the Company completed the disposal of Quick Silver Group and Fortune House Group with consideration of HK$735,387,000 of which promissory note 1 and promissory note 2 with fair value of HK$392,000,000 and HK$336,000,000 were set off, of which accrued interest of promissory note with carrying amount of HK$7,387,000 waived. Besides, contingent consideration with fair value of HK$106,400,000 also waived.

## 43. COMMITMENTS

### (a) OPERATING LEASE COMMITMENTS

*The Group as lessor*

The Group leases its investment properties under operating lease arrangements, with committed tenants and operator for the next one to eight years. The terms of the leases also require the tenants and operator to pay security deposits.

As at 31 December 2016 and 2015, the Group had total future minimum lease receivables under non-cancellable operating leases falling due as follows:

The investment properties under operating lease arrangement was disposed of upon the disposal of subsidiaries (see note 39).

| | **2016 HK$'000** | 2015 HK$'000 |
|---|---|---|
| Within one year | – | 20,334 |
| In the second to fifth year | – | 84,606 |
| Over five years | – | 45,114 |
| | – | 150,054 |

*The Group as lessee*

At 31 December 2016 and 2015, the Group had total future minimum lease payments under the non-cancellable operating lease falling due as follows:

| | **2016 HK$'000** | 2015 HK$'000 |
|---|---|---|
| Within one year | **1,423** | 1,423 |
| In the second to fifth year | **103** | 1,525 |
| | **1,526** | 2,948 |

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average of 2 to 3 years (2015: 2 to 3 years) and rentals are fixed for average of 2 to 3 years (2015: 2 to 3 years).

### (b) CAPITAL COMMITMENTS

| | **2016 HK$'000** | 2015 HK$'000 |
|---|---|---|
| Contracted but not provided for | **721,260** | 764,978 |

## 44. RETIREMENT BENEFIT SCHEME

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF Scheme, the employer and its employees are each required to make contributions to the MPF scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000, contributions to the MPF Scheme vest immediately. Contributions paid or payable to the MPF scheme are charged to the statement of profit or loss.

The employees of the Group's subsidiaries in the PRC are members of a state-sponsored retirement plan organised by the municipal government under the regulations of the PRC and these subsidiaries make mandatory contributions to the state-sponsored retirement plan to fund the employees' retirement benefits. The retirement contributions paid by the PRC subsidiaries are based on a percentage of the eligible employees' salaries and are charged to the statement of profit or loss as incurred. The Group discharges its retirement obligations upon payment of the retirement contributions to the state-sponsored retirement plan organised by the municipal government in the PRC.

The Group does not have any other pension schemes for its employees in respect of the subsidiaries outside Hong Kong and the PRC. In the opinion of the directors of the Company, the Group did not have any significant contingent liabilities as at 31 December 2016 in respect of the retirement of its employees.

The total cost charged to the consolidated statement of profit or loss of approximately HK$1,798,000 (2015: HK$1,735,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

## 45. PRINCIPAL SUBSIDIARIES

Particulars of the Group's principal subsidiaries as at 31 December 2016 and 2015 are as follows:

| Name | Place of incorporation/ principle place of business | Particular of issued and fully paid capital/ registered capital | Proportion of ownership interest and voting power held by the Company indirectly | | Principal activities |
|---|---|---|---|---|---|
| | | | **2016** | 2015 | |
| Ping An Securities Limited | Hong Kong | HK$100,000,000 (ordinary share) (2015: HK$50,000,000) | **100%** | 100% | Securities dealing and financial services |
| 佛山盛明置業有限公司 | PRC | RMB20,000,000 (paid-up registered capital) | **100%** | 100% | Property development, property trading and leasing of properties |
| New China IQ Limited | Hong Kong | HK$2 (ordinary share) | **–** | 100% | Investment holding |
| 珠海市百力行酒店管理有限公司 | PRC | RMB1,000,000 (paid-up registered capital) | **100%** | 100% | Operating right leasing |
| Kings Mall Management | PRC | RMB340,000,000 (paid-up registered capital) | **–** | 100% | Property development, property trading and leasing of properties |
| 重慶盛明滙名品百貨有限公司 | PRC | RMB10,000,000 | **–** | 100% | Operating of supermarket |

## 46. CONTINGENT LIABILITIES

As explained in note 17, during the period from 1 January 2004 to 31 December 2006, certain units and shops of the investment properties located in Chongqing had been sold to the independent third parties under the SP Agreements. The leasing agency contracts and the mortgage contracts were signed together with SP Agreements among the Buyers, Kings Mall Management and Xin Jia Jun. Pursuant to the terms of the leasing agency contracts, Xin Jia Jun would pay the Buyers the Guaranteed Rent equivalent to ten percent of the purchase price of the properties over twenty years.

Based on the legal advice from the legal adviser of the Group, the directors of the Company considered that they have strong and valid ground of defense in relation to the probable litigations, if any, in respect of the Problematic Properties and the directors of the Company considered that Kings Mall Management would not suffer material financial losses arising from such probable litigation, if any, and has the right to occupy and lease the Problematic Properties to tenants to generate rental income.

On 27 February 2011, pursuant to a deed of indemnity being executed by Profit China and Mr. Liang in favour of the Group at the date of acquisition completion, Profit China and Mr. Liang will indemnify the Group against all costs that the Group may suffer in relation to the investment properties acquired on the acquisition of the Acquired Group and any disputes and litigation (whether commencing before or after the acquisition completion) against the Group arising or accruing in relation to the operation of the Acquired Group on or before the date of acquisition completion (the "Indemnified Liabilities").

In addition, on 19 May 2011, Zhu Hai Port Plaza Development Company Limited entered into an undertaking to pay the aforesaid Indemnified Liabilities to the extent that such losses, liabilities and expenses have not been settled by Mr. Liang pursuant to his obligations under the indemnity agreement executed by him in favour of Kings Mall Management that Kings Mall Management may suffer.

In view of the above, the directors of the Company consider that the probable litigations, if any, would not have any significant financial impacts on the financial positions of the Company.

The management considered there were no contingent liabilities as at 31 December 2016 as the Kings Mall Group was disposed of during the year.

## 47. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

| | Notes | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|---|
| **Non-current asset** | | | |
| Interest in subsidiaries | | **1,066,435** | 1,066,435 |
| Amounts due from subsidiaries | (a) | **1,411,136** | 3,176,620 |
| | | **2,477,571** | 4,243,055 |
| Less: Impairment | | **(296,682)** | (1,063,138) |
| | | **2,180,889** | 3,179,917 |
| **Current assets** | | | |
| Prepayment, deposit and other receivables | | **64** | 7,260 |
| Bank balances and cash | | **3,391** | 69,429 |
| | | **3,455** | 76,689 |
| **Current liabilities** | | | |
| Accruals and other payables | | **8,574** | 30,994 |
| Amounts due to subsidiaries | (a) | **429,170** | 429,181 |
| Amount due to a joint venture | | **–** | 49,475 |
| Borrowings – current portion | | **29,806** | – |
| Convertible notes – current portion | | **152,563** | – |
| Derivative financial liabilities | | **11,289** | 125,041 |
| | | **631,402** | 634,691 |
| **Net current liabilities** | | **(627,947)** | (558,002) |
| **Total assets less current liabilities** | | **1,552,942** | 2,621,915 |
| **Capital and reserves** | | | |
| Share capital | | **944,752** | 927,973 |
| Reserves | (b) | **475,370** | 577,037 |
| **Total equity** | | **1,420,122** | 1,505,010 |
| **Non-current liabilities** | | | |
| Borrowings – non current portion | | **68,225** | 76,375 |
| Convertible notes – non current portion | | **64,595** | 201,859 |
| Promissory note | | **–** | 636,019 |
| Provision for contingent consideration | | **–** | 202,652 |
| | | **132,820** | 1,116,905 |
| | | **1,552,942** | 2,621,915 |

## 47. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(continued)*

Notes:

(a) AMOUNTS DUE TO/FROM SUBSIDIARIES

The amounts due to/from subsidiaries are unsecured, interest-free and repayable on demand.

(b) RESERVES

| | Share premium HK$'000 | Contributed surplus reserve HK$'000 (note) | Capital redemption reserve HK$'000 | Accumulated losses HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| At 1 January 2015 | 1,084,365 | 115,419 | 52 | (438,874) | 760,962 |
| Loss and total comprehensive expense for the year | – | – | – | (892,632) | (892,632) |
| Issue of shares | 541,814 | – | – | – | 541,814 |
| Share issuance costs | (500) | – | – | – | (500) |
| Repurchase of shares | (1,834) | – | – | – | (1,834) |
| Converted convertible notes into shares | 169,227 | – | – | – | 169,227 |
| At 31 December 2015 and 1 January 2016 | 1,793,072 | 115,419 | 52 | (1,331,506) | 577,037 |
| Loss and total comprehensive expense for the year | – | – | – | (136,698) | (136,698) |
| Converted convertible notes into shares | 35,031 | – | – | – | 35,031 |
| At 31 December 2016 | 1,828,103 | 115,419 | 52 | (1,468,204) | 475,370 |

Note: The contributed surplus arose in 1989 as a result of the Group's reorganisation and represented the difference between the nominal value of the Company's shares allotted under the reorganisation scheme and the then consolidated net asset value of the acquired subsidiaries. According to the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to shareholders under certain circumstances. The Company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:

(i) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or

(ii) the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

## 48. SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

On 20 January 2017, the Company and Topsource International Holding Co., Limited ("Topsource"), a company incorporated in the Hong Kong with limited liabilities, wholly owned by Shanghai Xinhua Publishing Group Limited ("Xinhua Publishing"), entered into a convertible bond subscription agreement ("New CB Subscription Agreement") whereby Topsource has conditionally agreed to subscribe for, and the Company has conditionally agreed to issue, the new convertible bonds ("2017 CBs") for the aggregate principal amount of HK$200 million pursuant to the terms and conditions set out in the announcement of the Company dated 20 January 2017.

On the same date as the New CB Subscription Agreement, the Company was informed by the Mr. Liang, Mr. Cheung and Madex International Company Limited, which is wholly owned by Mr. Liang (collectively the "Sellers") that on 20 January 2017, the Well Up (Hong Kong) Limited ("Offeror") entered into the Share Sale and Purchase Agreement ("Share Sale and Purchase Agreement") with the Sellers, the guarantor and the Buyer's guarantor, pursuant to which the Offeror conditionally agreed to purchase, and the Sellers conditionally agreed to sell the shares, being an aggregate of 6,911,498,463 Shares, representing approximately 36.58% of the entire issued share capital of the Company at the 20 January 2017, for a total consideration of HK$663,503,852 (equivalent to HK$0.096 per Sale Share) in cash.

The 2017 CBs in aggregate principal amount of HK$200 million were issued by the Company to Topsource on 27 February 2017.

Further details of the possible conditional mandatory general cash offers are set out in the Company's announcement dated 20 January 2017.

## 49. COMPARATIVE FIGURES

In order to conform with the current year's presentation, deposit of HK$271,736,000 as at 31 December 2015 included in current assets has been reclassified to non-current assets.

# Five Year Financial Summary

The summarised consolidated results, assets and liabilities of the Group for the last five financial years, as extracted from the published audited financial statements and reclassified as appropriate, are as set out below:

| | **2016** | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|
| | **HK$'000** | HK$'000 (Restated) | HK$'000 | HK$'000 | HK$'000 |
| **RESULTS** | | | | | |
| Revenue | **50,479** | 50,465 | 33,107 | 31,881 | 26,702 |
| (Loss) profit attributable to owners of the Company | **(7,231)** | (232,007) | (573,620) | (304,086) | 16,925 |
| **ASSETS AND LIABILITIES** | | | | | |
| Total assets | **2,286,591** | 4,728,286 | 2,945,096 | 3,214,469 | 3,276,912 |
| Total liabilities | **(701,188)** | (3,109,005) | (1,992,498) | (1,864,543) | (1,800,018) |
| Equity attributable to owners of the Company | **1,585,403** | 1,619,281 | 952,598 | 1,349,926 | 1,476,894 |

# Schedule of Investment Properties

| Description | Use | Area | Percentage of attributable interest |
|---|---|---|---|
| Lot No. 0414191933,<br>South side of the lot,<br>Qiao Gao Road,<br>Xiqiao Town,<br>Nanhai District,<br>Foshan, Guangdong,<br>The People's Republic of China | Commercial | Gross area –<br>approximately<br>86,938 sq. metre | 100 |