# VICTORY GROUP LIMITED

(Incorporated in Bermuda with limited liability)
(Stock code: 1139)

Annual Report 2016

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# Corporate Information

## BOARD OF DIRECTORS

### Executive Directors

Chan Chun Choi *(Chairman and Managing Director)*
Chan Kingsley Chiu Yin *(Deputy Chairman)*
Lo So Wa Lucy (formerly known as Lu Su Hua)

### Independent Non-executive Directors

Ip Ka Keung
Lam King Hang
Cheung Man Fu

## AUDIT COMMITTEE

Ip Ka Keung *(Chairman)*
Lam King Hang
Cheung Man Fu

## REMUNERATION COMMITTEE

Lam King Hang *(Chairman)*
Ip Ka Keung
Cheung Man Fu

## NOMINATION COMMITTEE

Cheung Man Fu *(Chairman)*
Lam King Hang
Ip Ka Keung

## COMPANY SECRETARY

Leung Wai Kei

## PRINCIPAL BANKER

DBS Bank (Hong Kong) Limited
11th Floor, The Center
99 Queen's Road Central
Central
Hong Kong

## AUDITORS

Asian Alliance (HK) CPA Limited
Suites 313-316, 3/F Shui On Centre
6-8 Harbour Road
Wan Chai
Hong Kong

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Codan Services Limited
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

## REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

## PRINCIPAL PLACE OF BUSINESS

Suite 1609 New East Ocean Centre
9 Science Museum Road
Tsimshatsui East
Kowloon
Hong Kong

## STOCK CODE

1139

# Profiles of Directors

## EXECUTIVE DIRECTORS

**Mr. Chan Chun Choi**, aged 71, is the chairman and managing director of Victory Group Limited (the "Company"). Mr. Chan has been appointed as an executive director since 1988. Mr. Chan, together with his ex-wife, Madam Lam Mo Kuen, Anna, founded the Company in mid-1980s. Mr. Chan has extensive experience in the distribution and marketing of automotive products, principally in the PRC. Mr. Chan is responsible for the strategic planning and business development of the Group. Mr. Chan had been a member of the Consultative Conference of Guangdong Province, a committee member of the China Council for the Promotion of Peaceful National Reunification, an honorary citizen of Jiangmen and Enping, the PRC, and the honorary chairman of the Federation of Hong Kong Guangdong Community Organization Limited. He is also the executive director and major shareholder of Wazi Led Lighting Limited, a Hong Kong company primarily engaged in the LED lighting trading business since 2010. Mr. Chan did not act as a director in any other listed public company in the last three years. Mr. Chan is the spouse of Ms. Lo So Wa Lucy (formerly known as Ms. Lu Su Hua) and the father of Mr. Chan Kingsley Chiu Yin, both of them are executive director of the Company.

**Mr. Chan Kingsley Chiu Yin**, aged 30, graduated at California State University, with Bachelor of Business Administration, major in Finance. Mr. Kingsley Chan, has engaged in asset management experience in United States of America up to 5 years, and joined our group as General Manager in 2009. Mr. Kingsley Chan was appointed an executive director of the Company on 15 August 2012. Mr. Kingsley Chan has been the director of various companies and has invested in various industries like Financial Services, Property Holdings, General Trading, and LED Business, etc. Mr. Kingsley Chan did not hold any directorships in other listed public company in the last three years. Mr. Kingsley Chan is the son of Mr. Chan Chun Choi who is chairman and managing director of the Company and ex-director Ms. Lam Mo Kuen Anna.

**Ms. Lo So Wa Lucy** (formerly known as Ms. Lu Su Hua), aged 47, graduated from the Beijing Foreign Studies University in 1999, and Ms. Lo obtained her Master of Business Administration (MBA) degree from the University of Ballarat in Australia in 2003. She joined a company primarily engaged in LED business, as a deputy general manager for three years. Ms. Lo was appointed an executive director of the Company on 6 October 2003. Ms. Lo is the spouse of Mr. Chan Chun Choi, an executive director. Ms. Lo did not act as a director in any other listed public company in the last three years.

# Profiles of Directors

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Ip Ka Keung**, aged 48, has been working in the fund industry for a number of years. Having qualified with a big four accountancy firm in London in the nineties, he worked for their Hong Kong office specializing in audit, due diligence and initial public offering work for listed, multi-national and clients from China. Mr. Ip joined the legal division of a major Hong Kong Blue Chip company and managed their Regulatory Affairs function thereafter. Mr. Ip was also the Chief Financial Officer and the Head of Compliance of a Securities and Future Commission licensed Hong Kong asset management company as well as an associate director of a transaction services department of an international accountancy firm. Mr. Ip holds an honors bachelor degree in Accounting and Finance and a Bachelor of Law (LLB) honors degree from the London University. Mr. Ip is a Certified Public Accountant, a Fellow member of Chartered Certified Accountant and a member of Hong Kong and U.S. Society of Financial Analyst. He is also currently a member of the Hong Kong Institute of Directors. Mr. Ip was appointed an independent non-executive director of the Company on 18 January 2010. Mr. Ip did not act as a director in any other listed public company on The Stock Exchange of Hong Kong Limited in the last three years. He also does not have any relationships with any Directors, senior management or substantial or controlling shareholders of the Company.

**Dr. Lam King Hang**, aged 46, received his bachelor degree in Electrical Energy Systems Engineering from the University of Hong Kong in 1994. He worked in the Building Services industry after graduation and returned to the Alma Mater for joining the HKU Photovoltaic research team in 1998. His research focus was on Photovoltaic applications in Hong Kong. He was involved in a number of research projects concerning LED applications when he was employed by the University of Hong Kong from 1998 to 2007. In 2007, he received his PhD in Architecture at The University of Hong Kong and was appointed as Honorary Lecturer for teaching a Master of Science course at the University of Hong Kong in 2009. Dr. Lam is now a Lecturer of Department of Electrical and Electronic Engineering at the University of Hong Kong. Dr. Lam had been a Senior Manager in a Solar Energy company and currently is a Lecturer of Department of Electrical and Electronic Engineering at the University of Hong Kong. Dr. Lam was appointed an independent non-executive director of the Company on 1 June 2010. Dr. Lam did not act as a director in any other listed public company in the last three years. He also does not have any relationships with any Directors, senior management or substantial or controlling shareholders of the Company.

**Mr. Cheung Man Fu**, aged 44, graduated from the Wu Yi University, Jiangmen, PRC with a Bachelor of Science degree in Electronics Engineering. He is currently engaged in, inter alia, auto mechanics and LED businesses for a number of years. Mr. Cheung was appointed an independent non-executive director of the Company on 1 August 2011. Mr. Cheung did not act as a director in any other listed public company in the last three years. He also does not have any relationships with any Directors, senior management or substantial or controlling shareholders of the Company.

# Chairman's Statement

Dear Shareholders,

I hereby present the annual report for the year ended 31 December 2016 of Victory Group Limited and its subsidiaries (collectively referred to as the "Group") on behalf of the Board of Directors (the "Board").

## FINANCIAL REVIEW HIGHLIGHT

For the year ended 31 December 2016, the Group recorded a revenue of approximately HK$4,902,000 for the year (2015: HK$10,985,000). Net loss attributable to shareholders of the Company for the year was approximately HK$12,177,000 (2015: HK$18,846,000).

The Board did not recommend to pay any dividend for the year ended 31 December 2016 (2015: Nil).

## BUSINESS REVIEW

The principal activities of the Group during the year under review were investment holding, trading of motor vehicles and money lending business. The core business of the Company during the year were money lending business and car sales business which principally engaged in the trading and distribution of motor vehicles. The primary market of the motor vehicles trading business was mainland China.

During the year, the unstable global economic environment and the slowdown of market growth in mainland China have posed challenges to motor vehicles business. The supply and demand disparities due to the over production of cars in mainland China have led to drop on selling prices of new cars and affected the demand for second-hand cars. The company strengthens the brand awareness and promotes the development of automotive business in mainland China through cooperation with several vehicle distributors in mainland. Even if the economic growth in mainland China likely slowdown, the Company will take the positive and prudent management strategies to face the challenge.

Same as previous financial years, the Company will continue to exercise stringent cost control under limited funding situation. Furthermore, the Board will use its best endeavors to look for new business and investment opportunities with an aim to broadening the Group's revenue stream.

During the year under review, the Board comprised Mr. Chan Chun Choi, Mr. Chan Kingsley Chiu Yin and Ms. Lo So Wa Lucy (formerly known as Ms. Lu Su Hua) as executive directors; Mr. Ip Ka Keung, Dr. Lam King Hang and Mr. Cheung Man Fu as independent non-executive directors.

# Chairman's Statement

## APPRECIATION

I would like to express sincere thanks to all our management and staff for their contribution and commitment. On behalf of the Board, I would also like to take this opportunity to thank our shareholders, professional advisors for their encouragement and support.

By Order of the Board
**Chan Chun Choi**
*Chairman and Managing Director*

Hong Kong, 27 March 2017

# Management Discussion and Analysis

## RESULTS

The Group had revenue of approximately HK$4,902,000 for the year ended 31 December 2016. Net loss attributable to owners of the Company for the year was approximately HK$12,177,000.

## BUSINESS REVIEW

The principal activities of the Group during the year under review were investment holding, trading of motor vehicles and money lending business. The Company during the year was principally engaged in money lending business and car sales business which was trading and distribution of motor vehicles. The primary market of the motor vehicles trading business was mainland China.

During the year, the unstable global economic environment and the slowdown of market growth in mainland China have posed challenges to motor vehicles business. The supply and demand disparities due to the over production of cars in mainland China have led to drop on selling prices of new cars and affected the demand for second-hand cars. The company strengthens the brand awareness and promotes the development of automotive business in mainland China through cooperation with several vehicle distributors in mainland. Even if the economic growth in mainland China likely slowdown, the Company will take the positive and prudent management strategies to face the challenge.

Comparing to last financial year, the audited net loss for 2016 was slightly improved but still primarily caused by the weakness of business environment. It including increase of approximately HK$53,000, and HK$145,000 in other income and administrative expenses respectively, and decrease of approximately HK$112,000, HK$5,917,000 and HK$24,000 in gross profit, selling and distribution expenses and finance costs respectively.

During the year under review, the Group's overall running cost had been sustained at its minimal level through the strict cost control measures. The human resources had also been maintained at the least possible status to generate maximum productivity. In brief, the cost structure of the Group has always been successfully locked at the least possible efficient level.

## LIQUIDITY, FINANCIAL RESOURCES AND FUNDING

The current ratio of the Group at the end of 2016 was 2.62 (2015: 4.87). The gearing ratio resulting from a comparison of the total borrowings with total equity of the Group at 31 December 2016 was 0.30 (2015: NIL), the borrowing at 31 December 2016 was HK$12,000,000 (2015: NIL). Details of the Group's exposure to credit risk, liquidity risk, currency risk, interest rate risk and any related hedges are stated in note 5(b) to the consolidated financial statements.

At as 31 December 2016, the Group had loan and interest receivables amounted to approximately HK$13,061,000 (2015: HK$10,864,000), no trade receivables (2015: Nil) and no trade payables (2015: NIL. There had inventories amounted to approximately HK$5,278,000 as at 31 December 2016 (2015: HK$11,995,000).

# Management Discussion and Analysis

As at 31 December 2016, the Group's net current assets amounted to approximately HK$25,765,000 (2015: HK$38,028,000) and net assets amounted to approximately HK$40,668,000 (2015: HK$53,562,000). At the same day, the Group's bank balances and cash amounted to approximately HK$15,838,000 (2015: HK$10,073,000). The bank borrowing at 31 December 2016 was HK$12,000,000 (2015: NIL).

## CHARGES ON ASSETS

As at 31 December 2016, the Group had pledged building and prepaid lease payments with an aggregate carrying amount of approximately HK$13,303,000 (2015: HK$13,733,000) to secure banking facilities and other borrowings granted to the Group. The bank borrowing at 31 December 2016 was HK$12,000,000.

## SIGNIFICANT INVESTMENT HELD

The Group did not hold any significant investment during the year ended 31 December 2016.

## MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

During the year, there were no material acquisitions and disposals of the Company's subsidiaries.

## SEGMENT INFORMATION

Information reported to the board of directors of the Company (the "Board"), being the chief operating decision maker (CODM), for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group.

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

| | | |
|---|---|---|
| Trading of motor vehicles | – | Trading and distribution of motor vehicles |
| Money lending | – | Provision of financing services |

### Geographical information

The Group's operations are in Hong Kong. All the revenue from external customer of the Group are generated from customers located in Hong Kong. All the non-current assets (excluding financial instruments) of the Group are located in Hong Kong.

Details of segment information are set out in note 7 to the financial statements.

# Management Discussion and Analysis

## HUMAN RESOURCES

As at 31 December 2016, the Group had a total of 8 (2015: 8) employees, of whom all were based in Hong Kong. The remuneration package for Hong Kong staff was strictly on a monthly-salary basis. Year-end bonus was linked to the financial results of the Group as well as the performance of individual staff. The remuneration policies of the Group's employees are subject to review regularly. Total staff costs including directors' remuneration, for the year amounted to approximately HK$2,435,000 (2015: HK$2,164,000). On irregular but necessary basis, adequate on-job training had been provided to staff in need.

The Group has implemented a provident fund scheme for its staff in compliance with requirements of the Mandatory Provident Fund ("MPF") Schemes Ordinance from 1 December 2000.

The Group has adopted a share option scheme, which was duly approved by the shareholders at the Annual General Meeting of the Company on 26 May 2014, available for participants including any director and employee of the Company or of any subsidiaries. No options have been granted since the approval of the scheme.

## FOREIGN CURRENCY EXPOSURE

The Group mainly operates in Hong Kong with most of the transactions denominated and settled in HK$. As such, the Group does not have material currency risk.

## CONTINGENT LIABILITIES

At 31 December 2016, neither the Group nor the Company had any significant contingent liabilities.

## CAPITAL COMMITMENT

At 31 December 2016, neither the Group nor the Company had any significant capital commitment outstanding.

## FUTURE OUTLOOK

The slow recovery of the global economic environment and the moderated market conditions in the mainland China, decrease in demand for second-hand cars, may continue to affect the second-hand left hand-drive motor vehicles business of the Group in the coming year. The revenue of money lending business will be stable continually.

The Directors will use its best endeavors to look for new business and investment opportunities with an aim to broaden the Group's revenue stream. The Company will also keep on exercising stringent cost control, quality assurance, and expense control to minimize operating costs.

# Report of the Directors

The Directors present their Annual Report and Audited Financial Statements for the year ended 31 December 2016.

## PRINCIPAL ACTIVITIES

The principal activities of the Group during the year under review were investment holding, trading of motor vehicles and money lending business. During the year, the Group had revenue of approximately HK$4,902,000.

## RESULTS AND DIVIDEND

The results of the Group for the year ended 31 December 2016 and the state of affairs of the Company and the Group at that date are set out in the consolidated financial statements on pages 49 to 103.

No dividends had been paid or declared by the Company for both years presented.

## SEGMENT INFORMATION

Details of segment information are set out in note 7 to the financial statements.

## MAJOR CUSTOMERS AND SUPPLIERS

The Group's five largest customers accounted for approximately 47.86% of the sales and the largest customer accounted for approximately 15.36% of sales for the year under review.

The Group's five largest suppliers accounted for approximately 100% of the purchases and the largest supplier accounted for approximately 47.34% of purchases for the year under review.

None of the Directors or any of their associates or any shareholders (which to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest suppliers.

## SUMMARY FINANCIAL INFORMATION

The results, assets and liabilities of the Group for the last five financial years are summarised on page 104. This summary is not part of the audited consolidated financial statements.

## PROPERTY, PLANT AND EQUIPMENT AND LAND LEASE PREPAYMENT

Details of movements in property, plant and equipment and land lease prepayment of the Group are set out in notes 16 and 17 to the consolidated financial statements respectively.

## SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out in note 33 to the consolidated financial statements.

## BORROWINGS

Details of the Group's borrowings are set out in note 25 to the consolidated financial statements.

## RETIREMENT SCHEME

The Group has implemented a provident fund scheme for its staff in compliance with requirements of the Mandatory Provident Fund ("MPF") Schemes Ordinance from 1 December 2000. The Company contributed according to the minimum requirements of the MPF Ordinance (that is, 5 per cent of staffs' relevant income with maximum limit of HK$1,500) and the contributions are charged to the income statement.

## SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year and subsequent to the balance sheet date, together with the reasons for the issue thereof, are set out in notes 27 to 28 to the consolidated financial statements.

## SUFFICIENCY OF PUBLIC FLOAT

As at the date of this report, the Company has maintained the prescribed public float under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the Hong Kong Listing Rules) based on the information publicly available to the Company and within the knowledge of the Directors.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda, being the jurisdiction in which the Company is incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

# Report of the Directors

## RESERVES

### (a) The Group

| | Share premium HK$'000 | Contributed surplus HK$'000 | Other reserve HK$'000 | Accumulated losses HK$'000 | Sub-total HK$'000 | Non-controlling interests HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| At 1 January 2015 | 158,099 | 710 | – | (86,611) | 72,198 | (555) | 71,643 |
| Loss and total comprehensive expense for the year | – | – | – | (18,846) | (18,846) | (89) | (18,935) |
| Acquisition of additional interests in a subsidiary | – | – | (4) | – | (4) | (1) | (5) |
| At 31 December 2015 | 158,099 | 710 | (4) | (105,457) | 53,348 | (645) | 52,703 |
| Loss and total comprehensive expense for the year | – | – | – | (12,177) | (12,177) | (717) | (12,894) |
| At 31 December 2016 | 158,099 | 710 | (4) | (117,634) | 41,171 | (1,362) | 39,809 |

*Note:*

During the year ended 31 December 2015, the Group further acquired 50% equity interest of AC Cars at a consideration of HK$5,000 from minority shareholders. The loss between the cash consideration paid and the carrying net assets acquired of approximately HK$4,000 was recognised in equity as other reserve and the derecognition of non-controlling interest of approximately HK$1,000 was recognised as a decrease in the non-controlling interests.

### (b) The Company

The amounts of the Company's reserves and the movements therein for the current and prior year are presented in the note 34b to the financial statements.

## DISTRIBUTABLE RESERVES

At 31 December 2016, the Company had no reserves available for cash distribution and distribution in specie computed in accordance with the Companies Act 1981 of Bermuda except for the Company's share premium account which may be distributed in the form of fully paid bonus shares. Under the Companies Act 1981 of Bermuda, the Company may make distributions from its contributed surplus in certain circumstances, prescribed by Section 54 thereof, which the Company was unable to satisfy as at 31 December 2016.

## CONTINGENT LIABILITIES

At 31 December 2016, neither the Group nor the Company had any significant contingent liabilities.

## SIGNIFICANT INVESTMENTS

The Group did not hold any significant investment during the year ended 31 December 2016.

## RELATED PARTY TRANSACTIONS

Except for the disclosure in the note 31 to the consolidated financial statements, there were no related party transactions in the year under review.

## EMPLOYEES

As at 31 December 2016, the Group had a total of 8 (2015: 8) employees, of whom all were based in Hong Kong. The remuneration package for Hong Kong staff was strictly on a monthly-salary basis. Year-end bonus was linked to the financial results of the Group as well as the performance of individual staff. The remuneration policies of the Group's employees are subject to review regularly. Total staff costs including directors' remuneration, for the year amounted to approximately HK$2,435,000 (2015: HK$2,164,000). On irregular but necessary basis, adequate on-job training had been provided to staff in need.

The Group has implemented a provident fund scheme for its staff in compliance with requirements of the Mandatory Provident Fund ("MPF") Schemes Ordinance from 1 December 2000.

The Group has adopted a share option scheme, which was duly approved by the shareholders at the Annual General Meeting of the Company on 26 May 2014, available for participants including any director and employee of the Company or of any subsidiaries. No options have been granted since the approval of the scheme.

## CHARGES OF ASSETS

As at 31 December 2016, the Group had pledged building and prepaid lease payments with an aggregate carrying amount of approximately HK$13,303,000 (2015: HK$13,733,000) to secure banking facilities and other borrowings granted to the Group. The bank borrowing at 31 December 2016 was HK$12,000,000.

## PROPERTY VALUATION

A property valuation had been carried out by Roma Appraisals Limited, an independent professional valuer, in respect of the Group's land lease prepayment and building. The Group's land lease prepayment and building were valued at HK$25,670,000 and HK$2,530,000 respectively (2015: HK$26,610,000 and HK$2,590,000 respectively) giving no impairment loss on land lease prepayment and building.

# Report of the Directors

## ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATES

During the year, there were no material acquisitions and disposals of the Company's subsidiaries.

## DIRECTORS

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

**Executive Directors:**

Chan Chun Choi *(Chairman and Managing Director)*
Chan Kingsley Chiu Yin *(Deputy Chairman)*
Lo So Wa Lucy (formerly known as Lu Su Hua)

**Independent non-executive Directors:**

Ip Ka Keung
Lam King Hang
Cheung Man Fu

In accordance with clauses 87(1) of the Company's bye-laws, Ms. Lo So Wa Lucy and Dr. Lam King Hang, shall retire from their offices and, being eligible, will offer themselves for re-election at the Company's forthcoming annual general meeting.

## DIRECTORS BIOGRAPHIES

Biographical details of the Directors are set out on pages 3 to 4 of this report.

## EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of emoluments of the Directors and the five highest paid individuals in the Group are set out in notes 12 and 13 to the financial statements, respectively.

## DIRECTORS' SERVICE CONTRACTS

All Directors had entered service contracts with the Company for an initial term of no more than two years. Every Director, including those appointed for a specific term, is subject to retirement by rotation at least once every three years. Unless the clause 87(1) of the Company's bye-laws states that the chairman of the Board and/or the managing director of the Company shall not be subject to retirement by rotation or be taken into account in determining the number of directors to retire.

## DIRECTORS' INTERESTS IN CONTRACTS

Except for the related party transactions as disclosed in the note 31 to the consolidated financial statements, no other contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest subsisted at the end of the year or at any time during the year.

At no time during the year was the Company or its subsidiaries a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of the Company or any other body corporate.

## MANAGEMENT CONTRACTS

Except for those as disclosed in note 31 to the consolidated financial statements, no other 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.

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

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

## DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

The Group has adopted a share option scheme, which was duly approved by the shareholders at the Annual General Meeting of the Company on 26 May 2014, available for participants including any director and employee of the Company or of any subsidiaries. Details are set out in note 28 to the consolidated financial statements. No options have been granted since the approval of the scheme.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARE CAPITAL OF THE COMPANY

At the balance sheet date, the interests of the Directors and chief executives of the Company in the share capital of the Company and its associated corporations, as recorded in the register required to be kept by the Company under Section 352 of the Securities and Future Ordinance (the "SFO"), or as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), were as follows:

### (i) The Company

| Name of Directors | Number of shares held | Percentage of Shareholding |
|---|---|---|
| Chan Chun Choi *(Note a)* | 330,350,152 | 38.45 per cent |
| Lo So Wa Lucy *(Note a, b)* | 330,350,152 | 38.45 per cent |
| Chan Kingsley Chiu Yin *(Note a)* | 202,575,000 | 23.58 per cent |

(a) 202,575,000 shares were beneficially held by Winsley Investment Limited ("Winsley") (98% of its shares held by Mr. Chan, 1% by his wife, Lo So Wa Lucy (formerly known as Lu Su Hua) and 1% by his son, Chan Kingsley Chiu Yin).

(b) Lo So Wa Lucy (formerly known as Lu Su Hua) is deemed to be interested in the shares in which her spouse, Mr. Chan Chun Choi, is interested.

### (ii) Associated corporation

| Name of associated corporation | Name of Directors | Number of shares held | Class of shares | Type of interest |
|---|---|---|---|---|
| Victory Motors Centre Limited | Chan Chun Choi | 100,000 | Non-voting deferred | Personal |
| | Chan Chun Choi | 2,800,000 | Non-voting deferred | Corporate *(Note)* |
| | Chan Kingsley Chiu Yin | 2,800,000 | Non-voting deferred | Corporate *(Note)* |

*Note:*

The 2,800,000 non-voting deferred shares are held by Wazi LED Lighting Limited (formerly known as Victory Petro Chemical Limited and Kwong Hung Hing Enterprises Co. Limited) of which Mr. Chan Chun Choi and Mr. Chan Kingsley Chiu Yin together hold the entire issued share capital.

Save as disclosed above, none of the Directors and chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company and 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 required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

## ULTIMATE HOLDING COMPANY AND SUBSTANTIAL SHAREHOLDERS

The Directors consider the ultimate holding company of the Company at the balance sheet date to be Winsley, details of whose share interests are set out under the section headed "Directors' and Chief Executives' Interests in Share Capital of the Company".

At the balance sheet date, so far as is known to the Company as recorded in the register required to be kept by the Company under section 336 of the SFO, the following persons, other than any Director or the chief executive of the Company, were the substantial shareholders (within the meaning of the Listing Rules) of the Company and had the following interests in the shares and underlying shares of the Company:

### Long Position

| Name | Number of Shares held | Percentage of Shareholding |
|---|---|---|
| Winsley Investment Limited *(Note)* | 202,575,000 | 23.58 per cent |
| Lin Huiwen | 196,880,000 | 22.92 per cent |

*Note:*

Winsley Investment Limited is owned by the directors Mr. Chan Chun Choi, Ms. Lo So Wa Lucy (formerly known as Lu Su Hua) and Mr. Chan Kingsley Chiu Yin.

Save as disclosed herein, the Company has not been notified of any other person, other than a Director or chief executive of the Company, who has an interest or a short position in the shares and underlying shares as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO as at the balance sheet date.

## AUDITOR

The Audit Committee reviews the appointment of the Company auditor, its effectiveness and its relationship with the Company, which includes monitoring our use of the auditor for non-audit services and the balance of audit and non-audit fees paid. The financial statements since the year ended 31 December 2010 were audited by Lo and Kwong C.P.A. Company Limited. Pursuant to the internal business restructuring between the practices of Lo and Kwong C.P.A. Company Limited and ZHONGLEI (HK) CPA Company Limited, Lo and Kwong C.P.A. Company Limited resigned and ZHONGLEI (HK) CPA Company Limited was appointed as auditor of the Company on 30 December 2013. The financial statements of the Company for the year ended 31 December 2013 were audited by ZHONGLEI (HK) CPA Company Limited which was rebranded to Asian Alliance (HK) CPA Limited on 10 May 2016. Following a review of the independence and effectiveness of our Company auditor, a resolution will be submitted to the forthcoming annual general meeting to re-appoint Asian Alliance (HK) CPA Limited as auditor of the Company. Each Director believes that there is no relevant information of which our Company auditor is unaware. Each has taken all steps necessary as a Director to be aware of any relevant audit information and to establish that the auditor is made aware of any pertinent information.

On Behalf of the Board
**Chan Chun Choi**
*Chairman and Managing Director*

Hong Kong, 27 March 2017

# Corporate Governance Report

## CORPORATE GOVERNANCE PRACTICES

This report is a product of the Company's compliance with all relevant recommendations laid down in the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 of the Listing Rules. The Company is committed to maintain a high standard of corporate governance practices and procedures. The Board believes that good corporate governance helps the Company safeguard the interests of its stakeholders and improve the performance of the Group. During the year under review, the Company had complied with all the applicable code provisions (the "Code Provisions") set out in Corporate Governance Code contained in Appendix 14 to the Listing Rules except for the deviation from the code provisions A.2.1 and A.4.2.

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 individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing. Mr. Chan Chun Choi held the offices of chairman and CEO of the Company. The Board believes that vesting the roles of both chairman and CEO in the same person provides the Company with strong and consistent leadership and allows for effective and efficient planning and implementation of business decisions and strategies.

Code Provision A.4.2 requires that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. The clause 87(1) of the Company's bye-laws states that the chairman of the Board and/or the managing director of the Company shall not be subject to retirement by rotation or be taken into account in determining the number of directors to retire. In the opinion of the Board, stability and continuation are key factors to the successful implementation of business plans. The Board believes that it is beneficial to the Group that there is continuity in the role of the chairman and the managing director and, therefore, the Board is of the view that the chairman and the managing director should be exempt from this arrangement at the present time.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules. The Company had made specific enquire of all directors whether the directors have complied with or whether there has been any noncompliance with the required standard set out in the Model Code during the year. The Company satisfied that all directors had fully complied with the required standard set out in the Model Code.

## BOARD OF DIRECTORS

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

### Executive Directors:

Chan Chun Choi *(Chairman and Managing Director)*
Chan Kingsley Chiu Yin *(Deputy Chairman)*
Lo So Wa Lucy (formerly known as Lu Su Hua)

### Independent non-executive Directors:

Ip Ka Keung
Lam King Hang
Cheung Man Fu

Lo So Wa Lucy (formerly known as Lu Su Hua) is the spouse of Mr. Chan Chun Choi.
Chan Kingsley Chiu Yin is the son of Mr. Chan Chun Choi.

The Board consists of a good mix of expertise, knowledge, experience and skills, the essential abilities to guide the teams to fulfill corporate goals. The mission of the Board is to undertake the role for strategic planning and development of the Group with the objective to maximize its shareholders' value. Through the aids of senior management and the internal control mechanism, the Board monitors and supervises, from time to time, the ongoing performance of the Group.

The Board is responsible to develop and review Company's policies and practices on corporate governance and make recommendations; to review and monitor the training and continuous professional development of directors and senior management; to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; to develop, review and monitor the code of conduct applicable to employees and directors; and to review the Company's compliance with the code and disclosure in the Corporate Governance Report.

Of the three independent non-executive Directors ("INEDs"), Mr. Ip Ka Keung possesses appropriate professional accounting qualifications and financial management expertise, satisfying Rule 3.10(2) of the Listing Rules. Through positive contributions to the Board and committee works, the INEDs provide independent directives on important decisions in respect of strategic developments, corporate governance practices, financial reporting framework, internal controls and risk management.

The Company has received, from each of its INEDs, an annual confirmation of their independence pursuant to Rule 3.13 of the Listing Rules. The Company therefore considers that all INEDs are independent.

# Corporate Governance Report

The bye-laws of the Company (the "Bye-laws") allow board meetings to be conducted by way of telephone or video conference and all Directors are given fourteen-day notices for regular board meetings. Sufficient information was supplied by management to facilitate the board meetings in making decisions. In both regular and ad hoc board meetings as required by business needs, the Directors are free to include matters of interest for discussion in the agenda. Other than the board papers and related materials, documents of all kinds in relation to the entire Group are accessible to all Directors at any time with one-day notice.

During the year, five board meetings and one annual general meeting (the "AGM") were held and the attendance summary is as below:

| Name of Director | Board Meetings Number of attendance/Total | AGM Number of attendance/Total |
|---|---|---|
| Chan Chun Choi | 6/6 | 1/1 |
| Chan Kingsley Chiu Yin | 6/6 | 1/1 |
| Lo So Wa Lucy (formerly known as Lu Su Hua) | 6/6 | 1/1 |
| Ip Ka Keung | 5/6 | 1/1 |
| Lam King Hang | 6/6 | 1/1 |
| Cheung Man Fu | 5/6 | 1/1 |

## RE-ELECTION OF DIRECTORS

In accordance with clauses 87(1) of the Company's bye-laws, Ms. Lo So Wa Lucy and Dr. Lam King Hang, shall retire from their offices and, being eligible, will offer themselves for re-election at the Company's forthcoming annual general meeting.

## DIRECTOR'S TRAINING

All directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the board remains informed and relevant.

The Directors are committed to complying with the Code Provision A6.5 on Directors' training. All Directors have participated in continuous professional development and provided their records of training they received to the Company for the financial year ended 31 December 2016.

| Name of Director | Attending seminars/ conferences/reading materials relevant to the business or directors' duties |
|---|---|
| Chan Chun Choi | ✓ |
| Chan Kingsley Chiu Yin | ✓ |
| Lo So Wa Lucy (formerly known as Lu Su Hua) | ✓ |
| Ip Ka Keung | ✓ |
| Lam King Hang | ✓ |
| Cheung Man Fu | ✓ |

## THE CHAIRMAN AND MANAGEMENT TEAM

The Company implements a clear division of responsibilities among its top management. The chairman is kept separate from the control of daily operations. The role of chairman is management of the Board including oversees the functions of the Board and provide leadership for the Board. The management team takes responsibility for the Group's day-to-day business operations.

The positions of chairman of the Board and chief executive officer of the Company are both currently carried on by Mr. Chan Chun Choi. Although Code Provision A.2.1 provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual, the Board considers that the structure currently operated by the Company does not undermine the balance of power and authority between the Board and the management. The Board members have considerable experience and qualities which they bring to the Company and there is a balanced composition of Executive Directors and Non-executive Directors (including Independent Non-executive Directors). Given the composition of the Board, the Board believes that it is able to ensure that the balance of power between the Board and the management is not impaired. The Board believes that having the same person performing the roles of both chairman and chief executive officer does provide the Group with strong and consistent leadership and that, operating in this manner allows for more effective and efficient overall strategic planning of the Group.

The Company will continue to review the effectiveness of the Group's corporate governance structure and consider whether any changes, including the separation of the roles of chairman and CEO, are necessary.

# Corporate Governance Report

## FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the Group's financial statements in accordance with statutory requirements and applicable accounting standards. The Directors will also ensure the publication of the financial statements of the Group in a timely manner. Equally important, they are also responsible for keeping proper accounting records and disclosures.

## AUDIT COMMITTEE

The audit committee of the Company ("Audit Committee") comprises three members who are all the INEDs Mr. Ip Ka Keung (Chairman), Dr. Lam King Hang and Mr. Cheung Man Fu. The composition and member of the Audit Committee comply with the requirements under Rule 3.21 of the Listing Rules. The written terms of reference, which describe the authority and duties of the Audit Committee, were adopted since its establishment and had been amended to conform to the provisions of the Code.

The Audit Committee is to:

- consider the appointment of the external auditors, the performance of the external auditors, the audit fee, and any questions of resignation or dismissal;

- review with the Group's management, external auditor and internal auditor, the adequacy of the Group's policies and procedures regarding internal controls (including financial, operational and compliance controls), risk management system and any statement by the Director to be included in the annual accounts prior to endorsement by the Board;

- have familiarity with the financial reporting principles and practices applied by the Group in preparing its financial statements;

- prior to audit commencement, review the scope of the external audit, including the engagement letter. The Committee should understand the factors considered by the external auditor in determining their audit scope. The external audit fees are to be negotiated by management, and presented to the Committee for review and approval annually;

- review the annual and interim financial reports prior to approval by the Board;

- review the draft representation letter to approval by the Board;

- evaluate the cooperation received by the external auditor, including their access to all requested records, data and information; obtain the comments of management regarding the responsiveness of the external auditor to the Group's needs; inquire of the external auditor as to whether there have been any disagreements with management which if not satisfactorily resolved would result in the issue of a qualified report on the Group's financial statements;

- seek from the external auditor, on an annual basis, information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including provision of non-audit services and requirements regarding rotation of audit partners and staff;

- discuss with the external auditor any recommendations arising from the audit (if necessary in the absence of management); and review the draft management letter, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of control including management's response to the points raised;

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

- review and monitor the scope, effectiveness and results of internal audit function, ensure co-ordination between the internal and external auditor and ensure that the internal audit function is adequately resourced and has appropriate standing within the Group;

- the engagement of the external auditor to perform non-audit services is in general prohibited except for tax related services. If a compelling reason exists to engage the external auditor due to their unique expertise in a particular area, the prior approval of the Committee is required;

- discuss with management the scope and quality of internal control and risk management systems;

- discuss with the management the system of internal control and ensure that management has discharged its duty to have an effective internal control system including the adequacy of resources, qualifications and experience of staff of the issuer's accounting and financial reporting function, and their training programmes and budget;

- apprise the Board of significant developments in the course of performing the above duties;

- recommend to the Board any appropriate extensions to, or changes, in the duties of the Committee;

- arrangements for employees of the Company to raise concerns about financial reporting improprieties;

- review the findings of internal investigations and management's response into any suspected frauds or irregularities or failures of internal controls or infringements of laws, rules, and regulations;

- establish a whistleblowing policy and system;

- approve the policies relating to the hiring of employees or former employees of the external auditor and monitor the applications of such policy. The Committee will consider whether as a result of such hiring there has been any impairment of the auditor's judgment or independence in respect of an audit; and

- consider other topics, as requested by the Board.

# Corporate Governance Report

The Audit Committee convenes meetings to review with management the accounting principles and practices adopted by the Group and all other matters within the scope of its terms of reference and the maintenance of the independence and objectivity of the external auditors. For the audit of 2016 accounts, the existing Committee members satisfy with the performance by the Auditor, who presented the implications of those accounting standards enforceable in this and subsequent financial years to the Audit Committee.

The Group's 2016 audited financial statements had been duly reviewed by the Audit Committee with management and the Auditor. The members of the Audit Committee unanimously recommended for approval by the Board. The Audit Committee has concluded that it is satisfied with the professional performance of the Auditor and therefore recommends the Board that the Auditor be re-appointed as our auditor in the Company's forthcoming annual general meeting. With the consent of the Audit Committee, the Board hereby confirms that, in the preparation of the 2016 consolidated financial statements of the Company, the Directors, both collectively and individually, applied such degree of skill, care and diligence as may reasonably be expected of under the Rule 3.08 of the Listing Rules.

The Audit Committee should meet at least twice per year and convenes additional meetings when necessary.

During the year, four Audit Committee meetings were held and the attendance summary is as below:

| **Name of Director** | **Number of attendance/Total** |
|---|---|
| Ip Ka Keung *(Chairman)* | 5/5 |
| Lam King Hang | 5/5 |
| Cheung Man Fu | 5/5 |

## REMUNERATION COMMITTEE

The remuneration committee of the Company (the "Remuneration Committee") was established with specific terms of reference. The Remuneration Committee members are all the INEDs Dr. Lam King Hang (Chairman), Mr. Ip Ka Keung and Mr. Cheung Man Fu. The Remuneration Committee provides objective opinions in helping the Group formulating remuneration policies, especially for those involving Directors or senior management. Moreover, the Remuneration Committee ensures that no conflicting parties are involved in the decision process of committing remuneration packages. In short, the objective of this Remuneration Committee is to assure that the Group is able to attract, retain, and motivate a high-caliber management team which is essential to the future of the Company.

The Remuneration Committee shall:

- formulate remuneration policy for approval by the Board, which shall take into account factors such as salaries paid by comparable companies, employment conditions, and responsibilities, and individual performance of the directors, senior management, and the general staff. Performance shall be measured against corporate goals and objectives resolved by the Board from time to time; and implement the remuneration policy laid down by the Board;

- without prejudice to the generality of the foregoing:

  – establish guidelines for the recruitment of the Managing Director and senior management;

  – recommend to the Board the policy and structure for the remuneration of directors and senior management whilst ensuring no director or any of his associates is involved in deciding his own remuneration;

  – determine the remuneration of directors and senior management, including benefits in kind, pension right, compensation payment (including compensation for loss of office or appointment etc). The Chairman and/or the Managing Director shall be consulted respectively about their proposals relating to the remuneration of the Managing Director and/or senior management, as the case may be;

  – review and approve the compensation arrangements in connection with any loss or termination of their office or appointment, or dismissal or removal for misconduct to executive directors and senior management which shall be fair and not excessive;

  – determine the criteria for assessing employee performance, which should reflect the Company's business objectives and targets;

  – consider the annual performance bonus for Executive Directors, senior management, and the general staff, having regard to their achievements against the performance criteria by reference to market norms, and make recommendation of the Board;

  – engage such external independent professional advisors to assist and/or advise the Committee on issues as it considers necessary;

  – do any such things to enable the Committee to discharge its powers and functions conferred on it by the Board; and

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

The Remuneration Committee should meet at least once per year and convenes additional meetings when necessary.

# Corporate Governance Report

During the year, one Remuneration Committee meetings were held and the attendance summary is as below:

| Name of Director | Number of attendance/Total |
|---|---|
| Lam King Hang *(Chairman)* | 3/4 |
| Ip Ka Keung | 3/4 |
| Cheung Man Fu | 3/4 |

The remuneration package for Hong Kong staff is strictly on a monthly-salary basis. Year-end bonus is linked to the financial results of the Group as well as the performance of individual staff. The remuneration policies of the Group's employees are subject to review regularly.

The Group has implemented a provident fund scheme for its staff in compliance with requirements of the Mandatory Provident Fund ("MPF") Schemes Ordinance from 1 December 2000.

The Group has adopted a share option scheme, which was duly approved by the shareholders at the Annual General Meeting of the Company on 26 May 2014, available for participants including any director and employee of the Company or of any subsidiaries. No options have been granted since the approval of the scheme.

Due to its unfavorable performance over years, the Group offered no benefits of any kind, except the employer's contribution to MPF, to its directors and staff in 2016.

Directors' remuneration disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance is as follows:

The emoluments paid or payable to each of six (2015: six) Directors were as follows:

| | Fees 2016 HK$'000 | Salaries, bonuses and allowances 2016 HK$'000 | Waived Fees 2016 HK$'000 | Contributions to retirement benefit scheme 2016 HK$'000 | Total 2016 HK$'000 | Total 2015 HK$'000 |
|---|---|---|---|---|---|---|
| **Executive director and chief executive** | | | | | | |
| Mr. Chan Chun Choi *(Note)* | 6,500 | - | (6,500) | - | - | - |
| **Executive directors** | | | | | | |
| Ms. Lo So Wa, Lucy | - | 428 | - | 18 | 446 | 414 |
| Mr. Chan Kingsley Chiu Yin | - | 300 | - | 15 | 315 | 277 |
| Sub-total | 6,500 | 728 | (6,500) | 33 | 761 | 691 |
| **Independent non-executive directors** | | | | | | |
| Mr. Ip Ka Keung | 100 | - | - | - | 100 | 100 |
| Dr. Lam King Hang | 100 | - | - | - | 100 | 100 |
| Mr. Cheung Man Fu | 100 | - | - | - | 100 | 100 |
| Sub-total | 300 | - | - | - | 300 | 300 |
| **Total** | 6,800 | 728 | (6,500) | 33 | 1,061 | 991 |

*Note:*

Mr. Chan Chun Choi agreed to waive his emoluments of approximately HK$6,500,000 (2015: HK$6,500,000) for the year ended 31 December 2016.

The emoluments of the Directors fell within the following bands:

| | **2016 Number of Directors** | 2015 Number of Directors |
|---|---|---|
| Nil – HK$1,000,000 | **6** | 6 |

## NOMINATION COMMITTEE

The nomination committee of the Company (the "Nomination Committee") was established by the Board with specific terms of reference. The members of the Nomination Committee are all the INEDs Mr. Cheung Man Fu (Chairman), Mr. Ip Ka Keung and Dr. Lam King Hang. The Nomination Committee responses to:

- review and monitor the structure, size and composition (including the skills, knowledge and experience) of the Board to complement the Company's corporate strategy;

# Corporate Governance Report

- identify and nominate qualified individuals for appointment as additional directors or to fill Board vacancies as and when they arise;

- make recommendations to the Board on matters relating to the appointment or re-appointment of directors and succession planning for directors, in particular the Chairman and the Managing Director;

- assess the independence of independent non-executive directors and review the Independent Non-executive Directors' annual confirmations on their independence; and make disclosure of its review results in the Corporate Governance Report; and

- report back to the Board on decisions or recommendations made, unless there are legal or regulatory restrictions to do so.

The Nomination Committee should meet at least once per year and convenes additional meetings when necessary.

During the year, one Nomination Committee meetings were held and the attendance summary is as below:

| Name of Director | Number of attendance/Total |
|---|---|
| Cheung Man Fu *(Chairman)* | 3/4 |
| Ip Ka Keung | 3/4 |
| Lam King Hang | 3/4 |

## AUDITOR'S REMUNERATION

During the financial year, fees paid or payable to Asian Alliance (HK) CPA Limited, the auditor of the Company (the "Auditor") for audit services was HK$420,000 and for non-audit service was HK$118,000.

## COMPANY SECRETARY

The company secretary of the Company (the "Company Secretary") is an employee of the Company. The Company Secretary is responsible for advising the Board through the Chairman of the Board on governance matters and also facilitates induction and professional development of Directors. All Directors have access to the advice and services of the Company Secretary to ensure that board procedures, and all applicable law, rules and regulations, are followed. During the year under review, the Company Secretary has confirmed that she has taken sufficient hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.

## SHAREHOLDER RIGHTS

In accordance with clause 58 of bye-laws, any shareholder holding not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company have the right, by written requisition to the Board or the Company Secretary, to require a special general meeting to be called by the Board for transaction of any business specified in such requisition.

## INVESTOR RELATIONS

The Board welcomes shareholders' views on matters affecting the Group, and encourages their attendance at shareholders' meetings to communicate any concerns they may have with the Board or management directly. The Company's AGM is an especially important forum.

In respect of any disclosable and significant event, the Company will make accurate and complete disclosure through the publication of announcements, notices, circulars, interim and annual reports in a timely manner on the websites of the Stock Exchange and the Company, pursuant to the disclosure requirements under the Listing Rules.

The Company considers that maintaining on-going and open communications with investors could enhance investors' understanding of and confidence in the Company as well as improving its corporate governance standards. The Company maintains its website at http://www.victoryg.com, where extensive information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are posted.

## RISK MANAGEMENT AND INTERNAL CONTROL

### Goals and objectives

The Board acknowledges that it is the responsibility of the Board for the maintenance of sound and effective risk management and internal control systems to safeguard the Shareholders' investment and the assets of the Group, maintain proper accounting records, and ensure the execution of business decisions with appropriate authority and compliance of the relevant laws and regulations. Such risk management and internal control systems are designed for managing risks rather than eliminating the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

### Main features of the risk management and internal control systems

To ensure the efficient and effective operation of the business and operations, relevant internal control procedures have been set up for safeguarding assets against unauthorized use or disposition, controlling over capital expenditure, maintaining proper accounting records and ensuring the reliability of financial information used for business and publication. These procedures are monitored and reviewed from time to time and updated where necessary.

The processes used to identify, evaluate and manage significant risks by the Group are summarised as follows:

*Risk Identification*

- Identifies risks that may potentially affect the key processes of the Group's business and operations.

*Risk Assessment*

- Assesses the risks identified by using the assessment criteria developed by the management; and
- Considers the impact on the business and the likelihood of their occurrence.

*Risk Response*

- Prioritizes the risks by comparing the results of the risk assessment; and
- Determines the risk management strategies and internal control processes to prevent, avoid or mitigate the risks.

*Risk Monitoring and Reporting*

- Performs ongoing and periodic monitoring of the risk and ensures that appropriate internal control processes are in place;
- Revises the risk management strategies and internal control processes in case of any significant change of situation; and
- Report the results of risk monitoring to the management and the Board regularly.

The management has carried out periodic review of the procedures and the implementation of the risk management and internal control systems, including areas covered accounting, business and legal compliance.

The Board is responsible for implementing and reviewing the risk management and of internal control systems its effectiveness. The Board is also responsible for reviewing and considering the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting and financial reporting function annually. The Group has engaged an independent professional adviser (the "Internal Control Adviser") to carry out internal audit functions by conducting an annual review of the effectiveness of the risk management and internal control systems for the year ended 31 December 2016. Such review is conducted annually. The scope of review included revenue and receipt cycle, property, plant and equipment cycle, and financial reporting cycle for one of our operating subsidiary. Internal Control Adviser has reported major findings and areas for improvement to the Company. All recommendations from Internal Control Adviser would be followed up closely by the management of the Group to ensure that they are implemented within a reasonable period of time. The Group therefore considered that its risk management and internal control processes are adequate to meet the needs of the Group in its current business environment and that nothing has come to its attention to cause the Board to believe the Group's risk management and internal control systems are inadequate.

# Environmental, Social and Governance Report

## About this report

Victory Group Limited ("Victory" or the "Company") was incorporated in Bermuda as an exempted company with limited liability under the Companies Act of Bermuda. The Company's shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company and its subsidiaries (collectively known as the "Group") was principally engaged in investment holding, trading of motor vehicles and money lending business.

This Environmental, Social and Governance Report (the "ESG Report") is to highlight our approaches and strategies in pursuit of sustainable development during the period from 1 January 2016 to 31 December 2016 (the "Reporting Period"). Unless otherwise stated, this ESG Report covers the sustainability performance and initiatives of our Hong Kong office and our trade of motor vehicles business. The content is in compliance with the applicable disclosure requirements of the "Environmental, Social and Governance Reporting Guide" under Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

We welcome your valuable comments and suggestions in relation to this ESG Report and our sustainability performance. Your feedback on the ESG Report and our sustainability performance can be sent to info@1139vgl.com.

## About Victory

Our core business during the Reporting Period is principally engaged in the trading of left-hand-drive motor vehicles in Hong Kong. The customers of such left-hand-drive vehicles are mainly individuals and sales desks from the PRC. In addition, we also sell vehicles to other left-hand-drive car dealers in Hong Kong and vice versa. Generally, we source left-hand-drive motor vehicles from overseas markets such as the US and Europe. The motor vehicles traded by us are principally luxurious passenger vehicles such as sedans, sport utility vehicles and supercars manufactured by premium brands. We trade under the name Car Paradise and its operations are conducted at a lot of land in Kam Tin, New Territories which serves as our showroom. In addition, we also operates the website http://www.mycarshk.com/which serves as our online catalogue.

## Our mission

To (i) have a high turnover of left-hand-drive vehicles for mid-market vehicles; and (ii) increase sales volume of ultra luxury vehicles or high performance supercars with high profit margin.

## Our approach to sustainability development

While promoting our business growth, we are concerned about the environmental and social responsibilities in the business operation. To be accountable to all the stakeholders, the company endeavoured to minimize the influence to environment, be aware of the employee well-being and contribute more to the community.

# Environmental, Social and Governance Report

### Listening to our stakeholders

We believe that understanding the views of our stakeholders lays a solid foundation to the long-term growth and success of the Group. We develop multiple channels to a broad spectrum of stakeholders in order to provide them with the opportunity to express their views on our sustainability performance and future strategies. To reinforce mutual trust and respect, we are committed to maintaining enduring communication channels, both formally and informally, with stakeholders to enable us to better shape our business strategies in order to respond to their needs and expectations, anticipate risks and strengthen key relationships. We have identified employees, customers, business partners, shareholders, suppliers, government and the community at large as our key stakeholder groups. The information collected through different communication processes serves as an underlying basis for the structure of this ESG Report.

### Environmental performance

We show consideration for the impact of daily operation caused to the environment. In order to achieve the balance between the business development and the environmental protection, we have implemented several policies as detailed below to enhance the environmental awareness of all Group's members.

### Emission and use of resources

Our greenhouse gas emissions are mainly generated from the use of purchased electricity. The electricity purchased is for maintaining daily showroom and office operations including lighting, office equipment and other miscellaneous items.

In order to reduce greenhouse gas emissions, we have adopted the following key measures:

- Switch off unnecessary lighting and energy consumption equipment (eg: PC, computer) while not in use.
- Deploy natural light as much as possible.
- Deploy LED lighting.
- Clean the air filter of air-conditioners regularly to improve cool air flow efficiency.
- Put the computer to sleep instead of using a screen saver.
- In order to reduce the carbon footprint from flight caused, the member of the Group are suggested to conduct video conferencing or use emails instead of taking overseas business trips, if possible.

Paper use is an essential item for normal operational activities such as printing of publications and notices. For environment protection, we implemented the following key measures to reduce the use of paper:

- Adopt an electronic system for filling and documentation
- Promote electronic communications for internal use.
- Sending email is suggested instead of letters or fax when possible.
- Promote a "think before you copy" attitude.
- Encourage our employee to use both sides of the paper for printing and copying.
- Allow share of documents with co-workers when possible to minimize the use of paper.

**Waste management**

We have arranged recycling company to collect toner cartridges for recycling.

We did not generate any hazardous waste in the ordinary course of business during the Reporting Period.

**Water use management**

Water usage is arising from toilet flushing, water tap and drinking water. We operated in leased office premises of which both of the water supply and discharge are solely controlled by the respective building management which considered that provision of water withdrawal and discharge data or sub-meter for individual occupant not feasible. To avoid not necessary water consumption from daily operation, we promote staff behavior by posting saving slogans at eye levels of occupied areas.

We will continue to look for opportunities to reduce further emissions and wastes on an ongoing basis in order to minimize the Company's impacts of activities on the environment and natural resources.

We do not aware of any non-compliance with relevant laws and regulations that have a significant impact on our Group relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste for the Reporting Period.

## Our people

The Group believe that human resources is one of the key to success in business operation. Our key management has had over 20 years of experience in the car trading industry. Their extensive experience allows them to make timely buying decisions that are in line with the latest market trends which in turn helps lower stock turnover. In addition, we also possessed an experienced sales team, some of which have been working in the industry for over 15 years. All of our people are valuable assets to us.

# Environmental, Social and Governance Report

We advocate work life balance and pays close attention to employee's total well-being. We aims to provide a safe and fair working environment for all members so as to work with a peaceful mind.

We committed to provide a work environment free from all forms of discrimination on the basis of age, race, gender, nationality, disability or sexual preference. We are also committed to hiring employees without taking into consideration of nationality, gender, age, family status and other facts irrelevant to competencies and qualifications of the candidates during the recruitment process. Our staff handbook sets out the standard working hours, paid leaves, rest periods, and dismissal policy to safeguard the rights of our people.

The relevant laws and regulations that have significant impact on the Group relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination and other benefits and welfare during the Reporting Period included Employment Ordinance (Chapter 57 of the Laws of Hong Kong), Minimum Wage Ordinance (Chapter 608 of the laws of Hong Kong) and Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the laws of Hong Kong). The Group is not aware of any non-compliance with such laws and regulations during the Reporting Period.

### Employee remuneration package

The remuneration package of our employees was linked to the financial results of the Group as well as the performance of individual staff. We understand that employees are our most valuable assets and we strive to provide comprehensive benefits and safeguards to our employees. For example, we provide five-day work week arrangement and comprehensive medical insurance. Moreover, the Group may grants the share options to eligible members in order to reward for their contribution under the share award schemes. To ensure our salary structure is fair and competitive, we would reviewed annually.

Whenever an employee resigns or gets laid off, designated human resource personnel should perform exit-interview to find out the underlying reasons of departure or dismissal, and to ensure full compliance with the relevant employee laws and regulations.

### Health and safety

We stress the importance of workplace health and safety by the reason that employee's well-being is our main concern. We adhere to Occupational Safety And Health Ordinance (Chapter 509 of the laws of Hong Kong) and other applicable laws and regulations to provide a safe and healthy workplace in order to protect our employees from occupational hazards.

We are committed to achieve this goal by implementing the following key measures:

- Providing and maintaining in all workplaces under the Group's control a working environment which is safe and poses no threat to health
- Providing sufficient first-aid kits at workplaces
- As provided by the properties management company, regular rescue, fire and evacuation drills and fire or explosion emergency plan are arranged and established

- All staff have to clean up spills and pick up debris immediately after they occur or are noticed in order to prevent slips and falls

Additionally, to enhance our indoor air quality and well-being of all employees, we create smoke-free workplaces for our employees. Smoking is prohibited in all enclosed areas within the offices, without exception. We have also provided employees' compensation insurance as required under the relevant laws and regulations. If any accidents or injuries occur, we would provide compensation and carry out investigation to prevent reoccurrence.

### Development and training

The skills, knowledge and capabilities of our employees are the pillars of the sustainable development of the Group. We encouraged our directors and employees to attend outside seminars to enrich their knowledge in discharging their duties. Below are some of the examples of the training courses offered during the Reporting Period:

- Directors' responsibilities

- Translating ESG into sustainable business value

- Risk management requirement for listed companies

### Labour standards

We strictly emphasize on prohibition of engaging child labour and forced labour. Regarding to the Employment of Children Regulations, children aged under 15 should not be employed in all economic sectors. As prevention, during the hiring process, our human resources department verify the personal information, including age, of the applicants by checking their identity documents. We do not aware of any non-compliance with relevant rules and regulations on preventing child or forced labour during the Reporting Period.

### Supply chain management

In general, we purchase motor vehicles from different overseas suppliers based on the perceived market demand of the target customers for various car models. We will also base on specific requests from a potential customer on a specific car model, color and other configurations to contact our overseas suppliers to try to procure the specific motor vehicle.

One of our major contributing factors of the success is maintaining strong relationship with our overseas car agents. In particular, we have had business relationship with our US and Germany agents since 1998 with over 18 years of active relationship. Such relationship ensures that we are able to secure a steady supply of in-demand motor vehicles for sales to our customers.

Most of our motor vehicles are sourced from US, Germany, Italy, France and other European countries. Some of our motor vehicles were purchased through our US agent in the car auctions. These car auctions are generally not available to the public and are only reserved for the car agent or trader. In addition, our car agent based in Germany is engaged to principally source left-hand-drive motor vehicles from the local car dealers in European countries including Germany, Italy and France.

# Environmental, Social and Governance Report

We also commit to assure the safety and quality of our cars to our customers. Before the completion of car purchase through our overseas agents, our agents are responsible to carry out a thorough inspection of the motor vehicle to ensure it is free from any material defects, including compliance with the exhaust emission standards and roadworthiness inspection. Our overseas agents would purchase the vehicles only after the inspection is satisfactorily completed.

To minimize shipping cost and reduce emission, we would request our overseas agents to aggregate several cars and/or share a container with other overseas car exporters.

### Warranty and aftersales services

We consider that providing caring and dependable aftersales and maintenance services to our customers is a key successful factor to the sustainability of our automobile business. We serve our customers through different communication channels like customer hotline and internet collaboration platform. In expanding our PRC market, we carefully select our PRC distribution partners through our distributor assessment process to assure their profession and financial sustainability. Our authorized distributors are committed to continuously source and ally with different local automobile mechanic shops to provide extensive range of aftersales and maintenance services to our customers.

### Green procurements

For our Hong Kong office, we adopted green procurements policy which purchase products and services that causes minimal impacts to the environments. For the items commonly used for daily operation, we prefer refillable or reusable products instead of single-use disposable items. Moreover, we choose to purchase products with improved recyclability, higher recycled content, reduced packaging, greater durability and greater energy efficiency to show our support to eco-friendly living.

### Personal data privacy

We are committed to protecting privacy and confidentiality of personal data of our employees, customers and business partners and other identifiable individuals. Our employees are instructed to handle customer information with due care. They may only obtain information about the customers when necessary. We collect and use customer information in a responsible and non-discriminatory manner by restricting the use of customer information to the purposes consistent with those identified in our contracts with such customers.

The Group is not aware of any non-compliance with relevant laws and regulations that have a significant impact on our Group relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.

## Anti-corruption

We commit to stringent compliance with the Prevention of Bribery Ordinance ("POBO") enforced by the Independent Commission Against Corruption ("ICAC") in order to maintain a fair and just society. As the cornerstone of our corporate culture, we attach great emphasis to maintaining the highest standards of integrity and honesty. We adopt our zero-tolerance policy for misconduct and maintain our well-defined anti-bribery policy and whistle-blowing policy and channels for redress. We also request our employees to conform with our requirements and policies on provisions for conflicts of interest, bribery, anti-corruption, privacy and confidentiality and corruption and equal opportunities, extortion, fraud and money laundering set out in staff handbook. We have no hesitation to adopt disciplinary actions upon any proven misconduct case.

The Group is not aware of any material non-compliance with the relevant laws and regulations that have significant impact on the Group relating to bribery, extortion, fraud and money laundering during the Reporting Period.

## Community investment

Our management strives encourage employees to improve the society through community involvement, both management and employees of the Company have been eager to take their own initiatives in helping and supporting the local communities and neighbours.

## Governance

The corporate governance section is addressed separately in the "Corporate Governance Report" section of this annual report.

# Environmental, Social and Governance Report

## Index to the ESG Reporting Guide

| A. Environmental | | Chapter/ Disclosure | Page |
|---|---|---|---|
| **Aspect A1: Emissions** | | | |
| General Disclosure | | | |
| Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste. | | • Environmental performance<br>• Emission and use of resources<br>• Waste management<br>• Water use management | 32-33 |
| KPI A1.1 | The types of emissions and respective emissions data. | Not disclosed for this Reporting Period | – |
| KPI A1.2 | Greenhouse gas emissions in total and where appropriate, intensity. | Not disclosed for this Reporting Period | – |
| KPI A1.3 | Total hazardous waste produced and where appropriate, intensity. | Not disclosed for this Reporting Period | – |
| KPI A1.4 | Total non-hazardous waste produced and where appropriate, intensity. | Not disclosed for this Reporting Period | – |
| KPI A1.5 | Description of measures to mitigate emissions and results achieved. | Not disclosed for this Reporting Period | – |
| KPI A1.6 | Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved. | Not disclosed for this Reporting Period | – |

### Aspect A2: Use of Resources

| | | | |
|---|---|---|---|
| General Disclosure | | | |
| Policies on the efficient use of resources, including energy, water and other raw materials.<br>Note: Resources may be used in production, in storage, transportation, in buildings, electronic equipment, etc. | | • Emission and use of resources<br>• Waste management<br>• Water use management | 32-33 |
| KPI A2.1 | Direct and/or indirect energy consumption by type in total and intensity. | Not disclosed for this Reporting Period | – |
| KPI A2.2 | Water consumption in total and intensity. | Not disclosed for this Reporting Period | – |
| KPI A2.3 | Description of energy use efficiency initiatives and results achieved. | Not disclosed for this Reporting Period | – |
| KPI A2.4 | Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved. | Not disclosed for this Reporting Period | – |
| KPI A2.5 | Total packaging material used for finished products, and if applicable, with reference to per unit produced. | Not disclosed for this Reporting Period | – |

### Aspect A3: The Environment and Natural Resources

| | | | |
|---|---|---|---|
| General Disclosure | | | |
| Policies on minimising the issuer's significant impact on the environment and natural resources. | | • Emission and use of resources<br>• Waste management<br>• Water use management | 32-33 |
| KPI A3.1 | Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them. | Not disclosed for this Reporting Period | – |

## B. Social

*Employment and Labour Practices*

### Aspect B1: Employment

General Disclosure

| | | | |
|---|---|---|---|
| Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare. | | • Our people<br>• Employee remuneration package | 33-34 |
| KPI B1.1 | Total workforce by gender, employment type, age group and geographical region. | Not disclosed for this Reporting Period | – |
| KPI B1.2 | Employee turnover rate by gender, age group and geographical region. | Not disclosed for this Reporting Period | – |

### Aspect B2: Health and Safety

General Disclosure

| | | | |
|---|---|---|---|
| Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards. | | • Health and safety | 34-35 |
| KPI B2.1 | Number and rate of work-related fatalities. | Not disclosed for this Reporting Period | – |
| KPI B2.2 | Lost days due to work injury. | Not disclosed for this Reporting Period | – |

| | | | |
|---|---|---|---|
| KPI B2.3 | Description of occupational health and safety measures adopted, how they are implemented and monitored. | Not disclosed for this Reporting Period | – |

**Aspect B3: Development and Training**

General Disclosure

| | | |
|---|---|---|
| Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities. | • Development and training | 35 |

| | | | |
|---|---|---|---|
| KPI B3.1 | The percentage of employees trained by gender and employee category. | Not disclosed for this Reporting Period | – |
| KPI B3.2 | The average training hours completed per employee by gender and employee category. | Not disclosed for this Reporting Period | – |

**Aspect B4: Labour Standards**

General Disclosure

| | | |
|---|---|---|
| Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour. | • Labour standards | 35 |

| | | | |
|---|---|---|---|
| KPI B4.1 | Description of measures to review employment practices to avoid child and forced labour. | Not disclosed for this Reporting Period | – |
| KPI B4.2 | Description of steps taken to eliminate such practices when discovered. | Not disclosed for this Reporting Period | – |

*Operating Practices*

**Aspect B5: Supply Chain Management**

General Disclosure

| | | | |
|---|---|---|---|
| Policies on managing environmental and social risks of the supply chain. | | • Supply chain management | 35-36 |
| KPI B5.1 | Number of suppliers by geographical region. | Not disclosed for this Reporting Period | – |
| KPI B5.2 | Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored. | Not disclosed for this Reporting Period | – |

**Aspect B6: Product Responsibility**

General Disclosure

| | | | |
|---|---|---|---|
| Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress. | | • Supply chain management<br>• Warranty and after sales services<br>• Green procurements<br>• Personal data privacy | 35-36 |
| KPI B6.1 | Percentage of total products sold or shipped subject to recalls for safety and health reasons. | Not disclosed for this Reporting Period | – |
| KPI B6.2 | Number of products and service related complaints received and how they are dealt with. | Not disclosed for this Reporting Period | – |
| KPI B6.3 | Description of practices relating to observing and protecting intellectual property rights. | Not disclosed for this Reporting Period | – |

| | | | |
|---|---|---|---|
| KPI B6.4 | Description of quality assurance process and recall procedures. | Not disclosed for this Reporting Period | – |
| KPI B6.5 | Description of consumer data protection and privacy policies, how they are implemented and monitored. | Not disclosed for this Reporting Period | – |

**Aspect B7: Anti-corruption**

General Disclosure

| | | |
|---|---|---|
| Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering. | • Anti-corruption | 37 |

| | | | |
|---|---|---|---|
| KPI B7.1 | Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases. | Not disclosed for this Reporting Period | – |
| KPI B7.2 | Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored. | Not disclosed for this Reporting Period | – |

*Community*

**Aspect B8 : Community Investment**

General Disclosure

| | | |
|---|---|---|
| Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests. | • Community investment | 37 |

| | | | |
|---|---|---|---|
| KPI B8.1 | Focus areas of contribution. | Not disclosed for this Reporting Period | – |
| KPI B8.2 | Resources contributed to the focus area. | Not disclosed for this Reporting Period | – |

# Independent Auditor's Report

華融(香港)會計師事務所有限公司
Asian Alliance (HK) CPA Limited

**TO THE MEMBERS OF VICTORY GROUP LIMITED**
**華多利集團有限公司**
*(incorporated in the Bermuda with limited liability)*

## OPINION

We have audited the consolidated financial statements of Victory Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 49 to 103, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and 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 judgment, 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.

### 1. Impairment assessment of loan and interest receivables

The Group has been engaged in provision of financing services in Hong Kong. As disclosed in Note 19 to the consolidated financial statements, as at 31 December 2016, the Group had outstanding loan and interest receivables of approximately HK$13,061,000. For the year ended 31 December 2016, no impairment loss has been recognised in respect of loan and interest receivables. During the year ended 31 December 2016, interest income of approximately HK$3,219,000 has been recognised.

## KEY AUDIT MATTERS – *Continued*

### 1. Impairment assessment of loan and interest receivables – *Continued*

The impairment assessment of loan and interest receivables requires significant judgement by the management of the Company, in particular, it needs to take into account a number of factors, e.g., the financial position of the borrowers, the fair value of collaterals, if any, etc. Accordingly, we have identified the impairment assessment of loan and interest receivables as a key audit matter.

#### How our audit addressed the key audit matter

Our major audit procedures to address this key audit matter included:

- ➢ We discussed with the management of the Company the procedures it would take before it advanced loans to customers.
- ➢ Further, we discussed with the management of the Company its impairment policy (i.e. when and how impairment was determined) and assessed whether sufficient impairment losses recognised, taking into account the specific facts and circumstances provided to us.
- ➢ We challenged the management of the Company the sufficient of impairment loss and appropriateness of recognition of interest income based on the specific facts and circumstances.
- ➢ We also compared the recoverable amounts of the loan and interest receivables estimated by the management of the Company with the carrying amounts recognised in the Group's consolidated statement of financial position.

### 2. Net realisable value assessment of inventories

The Group has been engaged in trading of motor vehicles business in Hong Kong. As disclosed in Note 18 to the consolidated financial statements, as at 31 December 2016, the carrying amount of the Group's inventories amounted to approximately HK$5,278,000.

The impairment assessment of the inventories requires significant judgement from the management of the Company in determining the net realisable value of its inventories. Accordingly, we have identified the impairment assessment of inventories as a key audit matter.

#### How our audit addressed the key audit matter

Our major audit procedures to address this key audit matter included:

- ➢ We evaluated the appropriateness of the Group's accounting policy on the valuation of its inventories.
- ➢ Further, we looked out for slow moving inventories during our attendance of physical inventory count at year end.

# Independent Auditor's Report

## KEY AUDIT MATTERS – *Continued*

### 2. Net realisable value assessment of inventories – *Continued*

**How our audit addressed the key audit matter** – *Continued*

- ➢ We checked and analysed the ageing profile of the inventories by verifying to the underlying suppliers' invoices.

- ➢ We tested the unit cost of the inventories and checked management's assessment of inventories to state them at the lower of cost and net realisable value by comparing the carrying amount of the inventory items to their recent selling prices.

- ➢ We also evaluated management's assessment of the allowance for slow-moving inventories by taking into consideration the aging, physical condition, and past and expected future sales of the inventories.

## OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include 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 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.

Those charged with governance are responsible 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. 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 judgment and maintain professional skepticism 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.

# Independent Auditor's Report

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

We communicate with those charged with governance 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 those charged with governance 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 those charged with governance, 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.

**Asian Alliance (HK) CPA Limited**
*Certified Public Accountants (Practising)*
**Lam Chik Tong**
Practising Certificate Number: P05612

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

27 March 2017

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016

| | Notes | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|---|
| Revenue | 6 | **4,902** | 10,985 |
| Interest income | | **3,219** | 3,388 |
| Others | | **1,683** | 7,597 |
| Cost of sales | | **(1,576)** | (7,547) |
| **Gross profit** | | **3,326** | 3,438 |
| Other income | 8 | **104** | 51 |
| Selling and distribution expenses | | **(1,804)** | (7,721) |
| Administrative expenses | | **(14,471)** | (14,326) |
| Share of loss of a joint venture | 20 | **(8)** | – |
| **Operating loss** | | **(12,853)** | (18,558) |
| Finance costs | 9 | **(13)** | (37) |
| **Loss before tax** | | **(12,866)** | (18,595) |
| Income tax expense | 10 | **(28)** | (340) |
| **Loss and total comprehensive expense for the year** | 11 | **(12,894)** | (18,935) |
| **Loss and total comprehensive expense for the year attributable to:** | | | |
| Owners of the Company | | **(12,177)** | (18,846) |
| Non-controlling interests | | **(717)** | (89) |
| | | **(12,894)** | (18,935) |
| **Loss per share** | 15 | | |
| **Basic (HK cents)** | | **(1.42)** | (2.19) |
| **Diluted (HK cents)** | | **N/A** | N/A |

# Consolidated Statement of Financial Position

At 31 December 2016

| | Notes | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 16 | **1,513** | 2,251 |
| Prepaid lease payment – non-current portion | 17 | **11,424** | 11,805 |
| Prepayments – non-current portion | 21 | **–** | 1,200 |
| Loan and interest receivables – non-current portion | 19 | **1,464** | 278 |
| Interest in a joint venture | 20 | **502** | – |
| | | **14,903** | 15,534 |
| **CURRENT ASSETS** | | | |
| Inventories | 18 | **5,278** | 11,995 |
| Loan and interest receivables | 19 | **11,597** | 10,586 |
| Prepayment, deposits and other receivables | 21 | **8,544** | 14,809 |
| Amount due from a minority shareholder | 24 | **40** | – |
| Prepaid lease payment | 17 | **381** | 381 |
| Bank balances and cash | 22 | **15,838** | 10,073 |
| | | **41,678** | 47,844 |
| **CURRENT LIABILITIES** | | | |
| Other payables and accruals | 23 | **3,582** | 2,607 |
| Deposit received | | **5** | 5 |
| Amount due to a director | 24 | **27** | 2,003 |
| Amount due to a minority shareholder | 24 | **–** | 4,889 |
| Bank borrowing | 25 | **12,000** | – |
| Tax payable | | **299** | 312 |
| | | **15,913** | 9,816 |
| **NET CURRENT ASSETS** | | **25,765** | 38,028 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **40,668** | 53,562 |

# Consolidated Statement of Financial Position

At 31 December 2016

| | Notes | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|---|
| **CAPITAL AND RESERVES** | | | |
| Share capital | 27 | **859** | 859 |
| Reserves | | **41,171** | 53,348 |
| Equity attributable to owners of the Company | | **42,030** | 54,207 |
| Non-controlling interests | 33 | **(1,362)** | (645) |
| **TOTAL EQUITY** | | **40,668** | 53,562 |

The consolidated financial statements on pages 49 to 103 were approved and authorised for issue by the board of directors on 27 March 2017 and are signed on its behalf by:

**Chan Chun Choi**
*DIRECTOR*

**Lo So Wa Lucy**
*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 | **Contributed surplus** HK$'000 *(Note)* | **Other reserve** HK$'000 | **Accumulated losses** HK$'000 | **Sub-total** HK$'000 | **Non-controlling interests** HK$'000 | **Total** HK$'000 |
| **At 1 January 2015** | 859 | 158,099 | 710 | – | (86,611) | 73,057 | (555) | 72,502 |
| Loss for the year, representing total comprehensive expense for the year | – | – | – | – | (18,846) | (18,846) | (89) | (18,935) |
| Acquisition of additional interests in a subsidiary (Note 33) | – | – | – | (4) | – | (4) | (1) | (5) |
| At 31 December 2015 | 859 | 158,099 | 710 | (4) | (105,457) | 54,207 | (645) | 53,562 |
| Loss for the year, representing total comprehensive expense for the year | – | – | – | – | (12,177) | (12,177) | (717) | (12,894) |
| **At 31 December 2016** | **859** | **158,099** | **710** | **(4)** | **(117,634)** | **42,030** | **(1,362)** | **40,668** |

*Note:*

The contributed surplus represents the excess of the fair value of the subsidiaries' shares acquired pursuant to the reorganisation on 22 January 1998, over the nominal value of the Company's shares issued in exchange.

# Consolidated Statement of Cash Flows

For the year ended 31 December 2016

| | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Loss before tax | **(12,866)** | (18,595) |
| Adjustments for: | | |
| Bank interest income | **(2)** | (3) |
| Interest expenses | **13** | 37 |
| Depreciation of property, plant and equipment | **750** | 1,801 |
| Amortisation of prepaid lease payment | **381** | 381 |
| Write-down of inventories | **1,788** | 255 |
| Loss on written-off of property, plant and equipment | **–** | 230 |
| Share of loss of a joint venture | **8** | – |
| **Operating cash flows before movements in working capital** | **(9,928)** | (15,894) |
| Decrease in inventories | **–** | 2,794 |
| Increase in loan and interest receivables | **(2,197)** | (2,283) |
| Decrease in prepayment, deposits and other receivables | **7,465** | 15,722 |
| Increase (decrease) in other payables and accruals | **975** | (689) |
| Decrease in deposit received | **–** | (36) |
| Decrease in amount due to a director | **(1,976)** | (1,066) |
| **Cash used in operations** | **(5,661)** | (1,452) |
| Income tax (paid) refund | **(41)** | 27 |
| **NET CASH USED IN OPERATING ACTIVITIES** | **(5,702)** | (1,425) |
| **INVESTING ACTIVITIES** | | |
| Purchases of property, plant and equipment | **(12)** | (1,380) |
| Bank interest received | **2** | 3 |
| Purchase of additional interest in a subsidiary | **–** | (5) |
| Net cash outflow on establishment of a joint venture | **(510)** | – |
| **NET CASH USED IN INVESTING ACTIVITIES** | **(520)** | (1,382) |
| **FINANCING ACTIVITIES** | | |
| New borrowing raised | **12,000** | – |
| Repayment of borrowing | **–** | (6,000) |
| Interest paid | **(13)** | (37) |
| **NET CASH USED IN FINANCING ACTIVITIES** | **11,987** | (6,037) |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | **5,765** | (8,844) |
| **CASH AND CASH EQUIVALENTS AT 1 JANUARY** | **10,073** | 18,917 |
| **CASH AND CASH EQUIVALENTS AT 31 DECEMBER,** represented by bank balances and cash | **15,838** | 10,073 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 1. GENERAL INFORMATION

Victory Group Limited (the "Company") is incorporated in Bermuda as an exempted company with limited liability under the Companies Act of Bermuda. The Company's shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The parent and ultimate controlling party of the Company is Winsley Investment Limited which is incorporated in Hong Kong. Its ultimate controlling party is Mr. Chan Chun Choi, who is also the director and chief executive officer of the Company.

The address of the registered office of the Company is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The principal place of business of the Company is Suite 1609, New East Ocean Centre, 9 Science Museum Road, Tsimshatsui East, Kowloon, Hong Kong.

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

During the year ended 31 December 2016, the Group was principally engaged in investment holding, trading of motor vehicles and money lending business.

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

### Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied a number of amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are mandatorily effective for an accounting period that begins on or after 1 January 2016. These amendments have been applied by the Group for the first time in the current year unless otherwise specified. The impacts of these amendments are described below.

| | |
|---|---|
| Amendments to HKFRS 11 | Accounting for Acquisitions of Interest in Joint Operations |
| Amendments to Hong Kong Accounting Standard ("HKAS") 1 | Disclosure Initiative |
| Amendments to HKAS 16 and HKAS 38 | Clarification of Acceptable Methods of Depreciation 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 Cycles |

The directors of the Company (the "Directors") are of the opinion that 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.

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

### New and amendments to HKFRSs in issued but not yet effective

The Group has not early applied the following new and amendments to 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 | Leases[2] |
| Amendments to HKFRS 2 | Classification and Measurement of Share-based Payment Transactions[1] |
| Amendments to HKFRS 4 | Applying HKFRS 9 *Financial Instruments* with HKFRS 4 *Insurance Contracts*[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] |

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 has introduced new requirements for a) classification and measurement of financial assets; b) impairment of financial assets; and c) general hedge accounting.

Specifically, with regard to the classification and measurement of financial assets, HKFRS 9 requires all recognised financial assets that are within the scope of HKFRS 9 to be subsequently measured at amortised cost or fair value. 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 each of the subsequent accounting periods. Debt investments 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 are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income (FVTOCI). All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. Further, 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 nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 applies) in other comprehensive income, with only dividend income generally recognised in profit or loss and that cumulative fair value changes will not be reclassified to profit or loss upon derecognition of the investment.

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

### New and amendments to HKFRSs in issue but not yet effective – *Continued*

*HKFRS 9 Financial Instruments – Continued*

With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes 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.

With regard to impairment of financial assets, HKFRS 9 has adopted an expected credit loss model, as opposed to an incurred credit loss model required under HKAS 39. In general, the expected credit loss model requires an entity to assess the change in credit risk of the financial asset since initial recognition at each reporting date and to recognise the expected credit loss depending on the degree of the change in credit risk.

With regard to the general hedge accounting requirements, HKFRS 9 retains the three types of hedge accounting mechanisms currently available in HKAS 39. Under HKFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an "economic relationship". Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The Group is still in the process of assessing the impact of HKFRS 9. The Directors believe that it is impractical to disclose the impact in these consolidated financial statements until the Group has completed the assessment.

*HKFRS 15 Revenue from Contracts with Customers*

HKFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, HKFRS 15 introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

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

### New and amendments to HKFRSs in issue but not yet effective – *Continued*

*HKFRS 15 Revenue from Contracts with Customers – Continued*

Under HKFRS 15, an entity recognises revenue when a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The Group is still in the process of assessing the impact of HKFRS 15. The Directors believe that it is impractical to disclose the impact in these consolidated financial statements until the Group has completed the assessment.

*HKFRS 16 Leases*

HKFRS 16 will supersede the current lease guidance including HKAS 17 Leases and the related interpretations when it becomes effective.

With regard to lessee accounting, the distinction of operating leases and finance leases, as required by HKAS 17, has been replaced by a model which requires a right-of-use asset and a corresponding liability to be recognised for all leases by lessees except for short-term leases and leases of low value assets. Specifically, 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 re-measurement 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. Furthermore, the classification of cash flows will also be affected as operating lease payments under HKAS 17 are presented as operating cash flows; whereas, under the HKFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

With regard to lessor 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.

The Group is in the process of assessing the impact of HKFRS 16. The Directors believe that it is impractical to disclose the impact in these consolidated financial statements until the Group has completed the assessment.

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

### New and amendments to HKFRSs in issue but not yet effective – *Continued*

*Amendments to HKFRS 2 Classification and Measurement of Share-based Payment Transactions*
The amendments clarify the following:

- In estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity-settled share-based payments.

- Where tax law or regulation requires an entity to withhold a specified number of equity instruments equal to the monetary value of the employee's tax obligation to meet the employee's tax liability which is then remitted to the tax authority, i.e. the share-based payment arrangement has a "net settlement feature", such an arrangement should be classified as equity-settled in its entirety, provided that the share-based payment would have been classified as equity-settled had it not included the net settlement feature.

- A modification of a share-based payment that changes the transaction from cash-settled to equity-settled should be accounted for as follows: the original liability is derecognised. The equity-settled share-based payment is recognised at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to the modification date. Any difference between the carrying amount of the liability at the modification date and the amount recognised in equity should be recognised in profit or loss immediately.

The Group does not have any cash-settled share-based payment arrangements or any withholding tax arrangements with tax authorities in relation to share-based payments and hence the Directors do not anticipate that the application of the amendments in the future will have a significant impact on the Group's consolidated financial statements.

*Amendments to HKFRS 10 and HKAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
The amendments to HKFRS 10 and HKAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the re-measurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The Group did not enter into these transactions in the current year. The Directors anticipate that the application of these amendments may have an impact on the Group's consolidated financial statements in future periods should such transactions arise.

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

### New and amendments to HKFRSs in issue but not yet effective – *Continued*

*Amendments to HKAS 7 Disclosure Initiative*

The amendments require an entity to make disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. The Directors do not anticipate that the application of these amendments will have a material impact on the Group's consolidated financial statements.

*Amendments to HKAS 12 Recognition of Deferred Tax Assets for Unrealised Losses*

The amendments provide a number of guidance to help entities assess and estimate whether sufficient taxable profits will be available against which it can utilise a deductible temporary difference. The Directors do not anticipate that the application of these amendments will have a material impact on the Group's consolidated financial statements.

## 3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis.

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

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

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

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

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

The principal accounting policies are set out below.

### 3.1 Basis of consolidation

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

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

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

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

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

### 3.1 Basis of consolidation – *Continued*

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

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's 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 recognised directly in equity and attributed to owners of the Company.

### 3.2 Investments in joint ventures

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 and assets and liabilities of joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in a joint venture is 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 the joint venture. When the Group's share of losses of a joint venture 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 venture), 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 venture.

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 a 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.

The requirements of HKAS 39 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) 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

### 3.2 Investments in joint ventures – *Continued*

When the Group ceases to have significant influence over joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former joint venture and the retained interest is a financial asset within the scope of HKAS 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the joint venture and the fair value of any retained interest and any proceeds from disposing the relevant interest in the joint venture is included in the determination of the gain or loss on disposal of the joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that joint venture on the same basis as would be required if that joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

When the Group reduces its ownership interest in a joint venture but the Gorup continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with a joint venture of the Group, profits and 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.

### 3.3 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

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 the sale of goods is recognised when the goods are delivered and titles have passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

## 3. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

### 3.4 Leasing

All leases are classified as operating leases.

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

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

*Leasehold land and building*
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.

### 3.5 Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items 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 in the period in which they arise.

## 3. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

### 3.5 Foreign currencies – *Continued*

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) 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 that 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 translation reserve (attributable to non-controlling interest as appropriate).

### 3.6 Retirement benefit costs and termination benefits

*(a)* *Retirement benefit costs*

Payments to the Mandatory Provident Fund Scheme ("MPF") are recognsied as an expense when employees have rendered services entitling them to the contributions.

*(b)* *Short-term employee benefits*

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

### 3.7 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 of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

### 3.7 Taxation – *Continued*

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

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

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

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

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

### 3.8 Property, plant and equipment

Property, plant and equipment including buildings and leasehold land 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 subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and 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.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

### 3.9 Impairment on tangible assets

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

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

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

### 3.10 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 that obligation, and a reliable estimate can be made of the amount of the obligation.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

### 3.11 Financial instruments

Financial assets and financial liabilities are recognised 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 or 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*

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

Effective interest method

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

Interest income is recognised on an effective interest basis.

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 loan and interest receivables, deposits and other receivables, amount due from a minority shareholder and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment (see 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 of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

### 3.11 Financial instruments – *Continued*

*Financial assets – Continued*

Impairment of financial assets – Continued

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.

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, observable changes in national or local economic conditions that correlate with default on receivables.

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loan and interest receivables and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a loan receivable or 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.

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 investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

*Financial liabilities and equity instruments*

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

Equity instruments

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

Effective interest method

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

## 3. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

### 3.11 Financial instruments – *Continued*

Financial liabilities at amortised cost
Financial liabilities including other payables and accruals, amount due to a director/a minority shareholder and bank borrowing are subsequently measured at amortised cost, using the effective interest method.

*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 recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

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

When the contractual terms of financial liability are modified such that the revised terms would result in a substantial modification from the original terms, after taking into account all relevant facts and circumstances including qualitative factors, such modification is accounted for as derecognition of the original financial liability and the recognition of new financial liability. The difference between the carrying amount of financial liability derecognised and the fair value of consideration paid or payable, including any liabilities assumed and derivative components recognised, is recognised in profit or loss.

### 3.12 Bank balances and cash

Bank balances and cash in the consolidated statement of financial position comprise cash at banks and on hand.

### 3.13 Borrowing costs

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

### 3.14 Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on specific identification and include all cost of purchase, and other costs incurred in bringing the inventories to their present location and conditions. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

## 4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3 to the consolidated financial statements, the Directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying 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.

### Critical judgments in applying accounting policies

The following is the critical judgment, apart from those involving estimations (see below), that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

*Classification of Victory Investment Holdings Limited as a joint venture*
Victory Investment Holdings Limited is a limited liability company incorporated in the Hong Kong whose legal form confers separation between the parties to the joint arrangement and the company itself. Furthermore, there are no contractual arrangements or any other facts and circumstances that indicate that the parties to the joint arrangement have rights to the assets and obligations for the liabilities of the joint arrangement. Accordingly, Victory Investment Holdings Limited is classified as a joint venture of the Group. For details, please refer to Note 20 to the consolidated financial statements.

### Key sources of estimation uncertainty

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

(a) *Useful lives of property, plant and equipment*
In applying the accounting policy on property, plant and equipment with respect to depreciation, management estimates the useful lives of various categories of property, plant and equipment according to the industrial experiences over the usage of property, plant and equipment and also by reference to the relevant industrial norm. When the actual useful lives of property, plant and equipment due to the change of commercial environment are different from their estimated useful lives, such difference will impact the depreciation charges and the amounts of assets written down for future periods.

(b) *Estimated impairment losses for property, plant and equipment and prepaid lease payment*
The impairment losses for property, plant and equipment and prepaid lease payment are recognised for the amounts by which the carrying amounts exceed their recoverable amounts, in accordance with the Group's accounting policies. The recoverable amount is the higher of the fair value less costs of disposal and the value in use. The Directors appointed an independent qualified professional values, Roma Appraisals Limited ("Roma"), to perform property valuations based on prices realised on actual sales of comparative properties. Roma has appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. Comparable properties of similar size, character and location are analysed and carefully weighted against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of values. No impairment losses on the building and prepaid lease payment were recognised for the years ended 31 December 2016 and 2015.

## 4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY – *Continued*

### Key sources of estimation uncertainty – *Continued*

(c) *Estimated impairment for loan and interest receivables*

The Group establishes, through charges against the consolidated statement of profit or loss and other comprehensive income, impairment allowances in respect of estimated incurred loss in loan and interest receivables. The allowances consist of individual impairment allowances. The overall impairment allowances represent the aggregate amount by which the management considers necessary to write-down its loan portfolio in order to state it in the consolidated statement of financial position at its estimated net recoverable value.

In determining individual impairment allowances, management considers objective evidence of impairment. When loan and interest receivable is impaired, an individual impairment allowance is assessed by a discounted cash flow method, measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate.

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

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

During the year ended 31 December 2016, no impairment loss in respect of loan and interest receivables (2015: Nil) had been recognised in the consolidated statement of profit or loss and other comprehensive income.

(d) *Estimated write-down of inventories*

The Group reviews an aging analysis at the end of the reporting period, and determines the write-down of inventories by reference to the current market conditions of the inventories. During the year ended 31 December 2016, write-down of inventories of approximately HK$1,788,000 (2015: HK$255,000) was recognised in the consolidated statement of profit or loss and other comprehensive income.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 5. FINANCIAL INSTRUMENTS

### (a) Categories of financial instruments:

*(i) Financial assets*

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| ***Loans and receivables*** | | |
| Loan and interest receivables | **13,061** | 10,864 |
| Deposits and other receivables | **6,523** | 12,207 |
| Amount due from a minority shareholder | **40** | – |
| Bank balances and cash | **15,838** | 10,073 |
| | **35,462** | 33,144 |

*(ii) Financial liabilities*

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| ***Other financial liabilities at amortised cost*** | | |
| Other payables and accruals | **3,582** | 2,607 |
| Amount due to a director | **27** | 2,003 |
| Amount due to a minority shareholder | **–** | 4,889 |
| Bank borrowing | **12,000** | – |
| | **15,609** | 9,499 |

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

The Group's major financial instruments include loan and interest receivables, deposits and other receivables, bank balances and cash, other payables and accruals, amount due from/to a director/ a minority shareholder and bank borrowing. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risks and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

*Market risk*

There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risks.

(i) Currency risk

The Group mainly operates in Hong Kong with most of the transactions denominated and settled in HK$. As such , the Group does not have material currency risk.

## 5. FINANCIAL INSTRUMENTS – *Continued*

### (b) Financial risk management objectives and policies – *Continued*

*Market risk – Continued*

(ii) Interest rate risk

The Group's exposure to the risk of changes in market interest rate relates primarily to the Group's bank balances and bank borrowing with floating interest rates which expose the Group to cash flow interest rate risk. Loan and interest receivables at fixed rates exposes the Group to fair value interest rate risk.

The interest rates of bank borrowing of the Group are disclosed in Note 25. The Group currently does not have an interest rate hedging policy. However, management monitors the Group's interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

Sensitivity analysis

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's net loss.

| | Increase/ decrease in interest rate (basis point) | Increase in post-tax loss HK$'000 |
|---|---|---|
| **2016** | **100** | **120** |
| 2015 | 100 | – |

*Credit risk*

Credit risk arises from the possibility that the counterparty to a transaction is unwilling or unable to fulfill its obligation with the results that the Group thereby suffers financial loss. The carrying amounts of loan and interest receivables, other receivables and bank balances and cash represent the Group's maximum exposure to credit risk in relation to financial assets. The carrying amounts of these financial assets presented in the consolidated statement of financial position are net of impairment losses, if any.

The Group expects that there is no significant credit risk associated with cash at bank since all the Group's bank balances and cash are deposited with major and creditworthy banks located in Hong Kong and the PRC.

The Group is exposed to credit risk attributable to loan and interest receivables from customers. Management has a credit policy in place and the exposures to credit risk are monitored on an ongoing basis. In respect of loan and interest receivables from customers, individual credit evaluations are performed on all customers. These evaluations focus on the customer's financial background and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Loan and interest receivables from customers are due as at the due date of corresponding loan agreements.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 5. FINANCIAL INSTRUMENTS – *Continued*

### (b) Financial risk management objectives and policies – *Continued*

*Credit risk – Continued*

As at 31 December 2016 and 2015, all loan and interest receivables from customers are secured by properties situated in Hong Kong. The Group closely monitors the ownership and value of the collaterals throughout the loan period. Further, as at 31 December 2016, approximately 36% (2015: 38%) of the total loan and interest receivables from customers were due from the largest customer and 94% (2015: 73%) of the total loan and interest receivables as at 31 December 2016 was due from the Group's five largest customers for the Group's money lending business. The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers.

In order to minimise the credit risk, the Directors have delegated a team responsible for determination of monitoring procedures to ensure that follow-up actions are taken to recover overdue debts. In addition, the Directors review the recoverability of each loan and interest receivables and other receivables at the end of the reporting period to ensure that adequate impairment losses are provided for irrecoverable amounts. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from loan and interest receivables from customers are set out in Note 19 to the consolidated financial statements.

*Liquidity risk*

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves and banking facilities, by continuously monitoring forecast and actual cash flows.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The tables have been drawn up based on the undiscounted cash flows of financial liabilities and based on the earliest date on which the Group would be required to pay. The tables include both interest and principal cash flows.

| | Weighted average interest rate % | Within 1 year or on demand HK$'000 | Total undiscounted cash flows HK$'000 | Carrying amounts HK$'000 |
|---|---|---|---|---|
| **2016** | | | | |
| Other payables and accruals | N/A | 3,582 | 3,582 | 3,582 |
| Amount due to a director | N/A | 27 | 27 | 27 |
| Bank borrowing | 3.5% | 12,005 | 12,005 | 12,000 |
| | | 15,614 | 15,614 | 15,609 |

## 5. FINANCIAL INSTRUMENTS – *Continued*

### (b) Financial risk management objectives and policies – *Continued*

*Liquidity risk – Continued*

| | Weighted average interest rate % | Within 1 year or on demand HK$'000 | Total undiscounted cash flows HK$'000 | Carrying amounts HK$'000 |
|---|---|---|---|---|
| 2015 | | | | |
| Other payables and accruals | N/A | 2,607 | 2,607 | 2,607 |
| Amount due to a director | N/A | 2,003 | 2,003 | 2,003 |
| Amount due to a minority shareholder | N/A | 4,889 | 4,889 | 4,889 |
| | | 9,499 | 9,499 | 9,499 |

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

*Fair value measurements of financial instruments*

The Directors considered that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their respective fair values.

## 6. REVENUE

Revenue represents the gross proceeds received and receivable from trading of motor vehicles and money lending business. The following is an analysis of the Group's revenue:

| | **2016 HK$'000** | 2015 HK$'000 |
|---|---|---|
| Trading of motor vehicles | **1,683** | 7,597 |
| Interest income from provision of loan financing | **3,219** | 3,388 |
| | **4,902** | 10,985 |

## 7. SEGMENT INFORMATION

Information reported to the board of directors of the Company (the "Board"), being the chief operating decision maker (CODM), for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group.

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

| | | |
|---|---|---|
| Trading of motor vehicles | – | Trading and distribution of motor vehicles |
| Money lending | – | Provision of financing services |

### Segment revenue 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**

| | Trading of motor vehicles HK$'000 | Money lending HK$'000 | Total HK$'000 |
|---|---|---|---|
| Revenue | 1,683 | 3,219 | 4,902 |
| Segment results | (10,933) | 2,601 | (8,332) |
| Unallocated corporate income | | | 104 |
| Unallocated corporate expenses | | | (4,617) |
| Finance costs | | | (13) |
| Share of loss of a joint venture | | | (8) |
| Loss before tax | | | (12,866) |

## 7. SEGMENT INFORMATION – *Continued*

For the year ended 31 December 2015

| | Trading of motor vehicles HK$'000 | Money lending HK$'000 | Total HK$'000 |
|---|---|---|---|
| Revenue | 7,597 | 3,388 | 10,985 |
| Segment results | (17,105) | 2,773 | (14,332) |
| Unallocated corporate income | | | 51 |
| Unallocated corporate expenses | | | (4,277) |
| Finance costs | | | (37) |
| Loss before tax | | | (18,595) |

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales for both years ended 31 December 2016 and 2015.

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 3. Segment results represent the profit earned by (loss from) each segment without allocation of central administration costs including directors' emoluments, other income, share of loss of a joint venture and finance costs. This is the measure reported to the CODM for the purposes of resource allocation and assessment of segment performance.

## 7. SEGMENT INFORMATION – *Continued*

### Segment assets and liabilities

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

**At 31 December 2016**

| | Trading of motor vehicles HK$'000 | Money lending HK$'000 | Total HK$'000 |
|---|---|---|---|
| Segment assets | **9,890** | **16,239** | **26,129** |
| Unallocated corporate assets | | | **30,452** |
| Total assets | | | **56,581** |
| Segment liabilities | **1,099** | **–** | **1,099** |
| Unallocated corporate liabilities | | | **14,814** |
| Total liabilities | | | **15,913** |

At 31 December 2015

| | Trading of motor vehicles HK$'000 | Money lending HK$'000 | Total HK$'000 |
|---|---|---|---|
| Segment assets | 25,185 | 19,933 | 45,118 |
| Unallocated corporate assets | | | 18,260 |
| Total assets | | | 63,378 |
| Segment liabilities | 4,907 | – | 4,907 |
| Unallocated corporate liabilities | | | 4,909 |
| Total liabilities | | | 9,816 |

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

- all assets are allocated to operating segments other than certain property, plant and equipment, prepaid lease payment, certain bank balances and cash, certain prepayments, deposits and other receivables and interest in a joint venture; and
- all liabilities are allocated to operating segments other than certain other payables and accruals, amount due to a director, bank borrowing and tax payable.

## 7. SEGMENT INFORMATION – *Continued*

### Other segment information

### For the year ended 31 December 2016

| | Trading of motor vehicles HK$'000 | Money lending HK$'000 | Unallocated HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|
| Amounts included the measure of segment profit or loss or segment assets: | | | | |
| Depreciation on property, plant and equipment | **690** | **3** | **57** | **750** |
| Additions to property, plant and equipment | **–** | **–** | **12** | **12** |
| Write-down of inventories | **1,788** | **–** | **–** | **1,788** |
| Amounts regularly provided to the CODM but not included in the measure of segment profit or loss or segment assets: | | | | |
| Capital contribution to a joint venture | **–** | **–** | **510** | **510** |
| Amortisation of prepaid lease payment | **–** | **–** | **381** | **381** |
| Bank interest income | **–** | **(2)** | **–** | **(2)** |
| Finance costs | **–** | **13** | **–** | **13** |
| Share of loss of a joint venture | **–** | **–** | **8** | **8** |

For the year ended 31 December 2015

| | Trading of motor vehicles HK$'000 | Money lending HK$'000 | Unallocated HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|
| Amounts included the measure of segment profit or loss or segment assets: | | | | |
| Depreciation on property, plant and equipment | 1,610 | 3 | 188 | 1,801 |
| Additions to property, plant and equipment | 1,380 | – | – | 1,380 |
| Write-down of inventories | 255 | – | – | 255 |
| Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets: | | | | |
| Amortisation of prepaid lease payment | – | – | 381 | 381 |
| Loss on written-off of property, plant and equipment | 230 | – | – | 230 |
| Bank interest income | – | (3) | – | (3) |
| Finance costs | – | 37 | – | 37 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 7. SEGMENT INFORMATION – *Continued*

### Geographical information

The Group's operations are in Hong Kong. All the revenue from external customer of the Group are generated from customers located in Hong Kong. All the non-current assets (excluding financial instruments) of the Group are located in Hong Kong.

### Information about major customers

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

| | **2016** | 2015 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Customer A[1] | **–** | 1,300 |
| Customer B[1] | **–** | 2,178 |
| Customer C[2] | **753** | – |
| Customer D[1] | **540** | – |
| Customer E[2] | **495** | N/A[3] |

1 Revenue from trading of motor vehicles
2 Revenue from money lending
3 The corresponding revenue did not contribute over 10% of the total revenue of the Group

## 8. OTHER INCOME

| | **2016** | 2015 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Bank interest income | **2** | 3 |
| Other income | **102** | 48 |
| | **104** | 51 |

## 9. FINANCE COSTS

| | **2016** | 2015 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Interest on bank borrowing | **13** | 37 |

## 10. INCOME TAX EXPENSE

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Current tax: | | |
| – Hong Kong | **28** | 340 |

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

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiary is 25%.

No profits tax have been provided for the subsidiaries which are operating outside Hong Kong as these subsidiaries have not generated any assessable profits in the respective jurisdictions in both years.

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

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| **Loss before tax** | **(12,866)** | (18,595) |
| Tax at the domestic income tax rate of 16.5% (2015: 16.5%) | **(2,123)** | (3,068) |
| Tax effect of expenses not deductible for tax purpose | **308** | 49 |
| Tax effect of different tax rate of subsidiaries operating in other jurisdictions | **(1)** | (1) |
| Tax effect of tax losses not recognised | **1,743** | 3,326 |
| Tax effect of temporary differences not recognised | **101** | 34 |
| **Income tax expense for the year** | **28** | 340 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 11. LOSS FOR THE YEAR

Loss for the year has been arrived at after charging:

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Auditor's remuneration | | |
| – Audit services | 429 | 428 |
| – Other services | 118 | 110 |
| | 547 | 538 |
| Cost of inventories recognised as an expense | 1,576 | 7,547 |
| Amortisation of prepaid lease payment | 381 | 381 |
| Depreciation of property, plant and equipment | 750 | 1,801 |
| Loss on written-off of property, plant and equipment | – | 230 |
| Write-down of inventories included in administrative expenses | 1,788 | 255 |
| Minimum lease payments under operating lease in respect of rented premises | 1,080 | 1,556 |
| Staff costs (including directors' emoluments) (Note 12) | 2,435 | 2,164 |

## 12. EMPLOYEES' EMOLUMENTS (INCLUDING DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS – NOTE 13)

| | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|
| Salaries, bonuses and allowances | 2,337 | 2,088 |
| Contributions to retirement benefits scheme | 89 | 81 |
| Provision (over-provision) for annual leave payments | 9 | (5) |
| | 2,435 | 2,164 |

The five highest paid employees of the Group during the year included two directors (2015: two directors), details of whose emoluments are set out in Note 13 below. Details of the emoluments for the year of the remaining three (2015: three) highest paid employees who are neither as director nor chief executive of the Company are as follows:

| | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|
| Salaries, bonuses and allowances | 955 | 854 |
| Contributions to retirement benefits scheme | 39 | 36 |
| | 994 | 890 |

The emoluments of each of the above employees were less than HK$1,000,000 during the two years ended 31 December 2016 and 2015.

During the two years ended 31 December 2016 and 2015, no emoluments was paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

Directors' and chief executive's remuneration for the years, disclosed pursuant to the Listing Rules and the CO, is as follows:

| | For the year ended 31 December 2016 | | | | |
|---|---|---|---|---|---|
| | Fees HK$'000 | Salaries, bonuses and allowances HK$'000 | Waived fees HK$'000 | Contributions to retirement benefit scheme HK$'000 | Total HK$'000 |
| **Executive director and chief executive** | | | | | |
| Mr. Chan Chun Choi *(Note iii)* | 6,500 | - | (6,500) | - | - |
| **Executive directors** | | | | | |
| Ms. Lo So Wa, Lucy | - | 428 | - | 18 | 446 |
| Mr. Chan Kingsley Chiu Yin | - | 300 | - | 15 | 315 |
| Sub-total | 6,500 | 728 | (6,500) | 33 | 761 |
| **Independent non-executive directors** | | | | | |
| Mr. Ip Ka Keung | 100 | - | - | - | 100 |
| Dr. Lam King Hang | 100 | - | - | - | 100 |
| Mr. Cheung Man Fu | 100 | - | - | - | 100 |
| Sub-total | 300 | - | - | - | 300 |
| Total | 6,800 | 728 | (6,500) | 33 | 1,061 |

## 13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS – *Continued*

| | For the year ended 31 December 2015 | | | | |
|---|---|---|---|---|---|
| | Fees HK$'000 | Salaries, bonuses and allowances HK$'000 | Waived fees HK$'000 | Contributions to retirement benefit scheme HK$'000 | Total HK$'000 |
| **Executive director and chief executive** | | | | | |
| Mr. Chan Chun Choi *(Note iii)* | 6,500 | – | (6,500) | – | – |
| **Executive directors** | | | | | |
| Ms. Lo So Wa, Lucy | – | 396 | – | 18 | 414 |
| Mr. Chan Kingsley Chiu Yin | – | 264 | – | 13 | 277 |
| Sub-total | 6,500 | 660 | (6,500) | 31 | 691 |
| **Independent non-executive directors** | | | | | |
| Mr. Ip Ka Keung | 100 | – | – | – | 100 |
| Dr. Lam King Hang | 100 | – | – | – | 100 |
| Mr. Cheung Man Fu | 100 | – | – | – | 100 |
| Sub-total | 300 | – | – | – | 300 |
| Total | 6,800 | 660 | (6,500) | 31 | 991 |

*Notes:*

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

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

(iii) Mr. Chan Chun Choi agreed to waive his emoluments of approximately HK$6,500,000 (2015: HK$6,500,000) for the year ended 31 December 2016.

(iv) During the two years ended 31 December 2016 and 2015, no emolument was paid by the Group to the Directors or chief executive as an inducement to join or upon joining the Group or as compensation for loss of office.

## 14. DIVIDEND

No dividend was paid or proposed for ordinary shareholders of the Company during the year ended 31 December 2016, nor has any dividend been proposed since the end of the reporting period (2015: Nil).

## 15. LOSS PER SHARE

The calculation of the basic loss per share attributable to owners of the Company is based on loss attributable to owners of the Company of approximately HK$12,177,000 (2015: HK$18,846,000) and the weighted average of 859,146,438 (2015: 859,146,438) ordinary shares of the Company in issue during the year.

No diluted loss per share has been presented as there was no dilutive potential ordinary share for the years ended 31 December 2016 and 2015.

## 16. PROPERTY, PLANT AND EQUIPMENT

| | Building | Leasehold improvements | Furniture and fixtures | Office equipment | Total |
|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **COST** | | | | | |
| At 1 January 2015 | 2,661 | 1,838 | 670 | 193 | 5,362 |
| Additions | – | 1,380 | – | – | 1,380 |
| Written-off | – | (1,838) | – | – | (1,838) |
| At 31 December 2015 | 2,661 | 1,380 | 670 | 193 | 4,904 |
| Additions | – | – | – | 12 | 12 |
| Written-off | – | – | – | (95) | (95) |
| **At 31 December 2016** | 2,661 | 1,380 | 670 | 110 | 4,821 |
| **ACCUMULATED DEPRECATION** | | | | | |
| At 1 January 2015 | 1,065 | 689 | 550 | 156 | 2,460 |
| Provided for the year | 49 | 1,609 | 118 | 25 | 1,801 |
| Eliminated on written-off | – | (1,608) | – | – | (1,608) |
| At 31 December 2015 | 1,114 | 690 | 668 | 181 | 2,653 |
| Provided for the year | 49 | 690 | 1 | 10 | 750 |
| Eliminated on written-off | – | – | – | (95) | (95) |
| At 31 December 2016 | 1,163 | 1,380 | 669 | 96 | 3,308 |
| **CARRYING VALUES** | | | | | |
| **At 31 December 2016** | **1,498** | **-** | **1** | **14** | **1,513** |
| At 31 December 2015 | 1,547 | 690 | 2 | 12 | 2,251 |

## 16. PROPERTY, PLANT AND EQUIPMENT – *Continued*

The above items of property, plant and equipment are depreciated over their estimated useful lives and after taking into account of their estimate residual value, using the straight-line basis at the following rates per annum:

| | |
|---|---|
| Building | Over the shorter of the unexpired term of lease and its estimated useful life |
| Leasehold improvements | Over their expected useful lives or the term of the relevant lease whichever shorter |
| Furniture and fixtures | 20%–30% |
| Office equipment | 20%–30% |

During the year ended 31 December 2016, the building with a carrying value of approximately HK$1,498,000 has been pledged to secure the Group's bank borrowing (Note 25).

The Directors appointed an independent qualified professional valuer, Roma, to perform property valuations based on prices realised on actual sales of comparable properties. Comparable properties of similar size, character and location are analysed and carefully weighted against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of values. No impairment loss on the building was recognised for the years ended 31 December 2016 and 2015.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 17. PREPAID LEASE PAYMENT

| | HK$'000 |
|---|---|
| **COST** | |
| At 1 January 2015, 31 December 2015 and **31 December 2016** | 20,945 |
| **ACCUMULATED AMORTISATION AND IMPAIRMENT** | |
| At 1 January 2015 | 8,378 |
| Amortisation for the year | 381 |
| At 31 December 2015 | 8,759 |
| Amortisation for the year | 381 |
| **At 31 December 2016** | 9,140 |
| **CARRYING VALUES** | |
| **At 31 December 2016** | **11,805** |
| At 31 December 2015 | 12,186 |

| | **2016** **HK$'000** | 2015 HK$'000 |
|---|---|---|
| Analysed for reporting purposes as: | | |
| Non-current asset | **11,424** | 11,805 |
| Current asset | **381** | 381 |
| | **11,805** | 12,186 |

During the year ended 31 December 2016, the prepaid lease payment with a carrying value of approximately HK$11,805,000 has been pledged to secure the Group's bank borrowing (Note 25).

The Directors appointed an independent qualified professional valuer, Roma, to perform property valuations based on prices realised on actual sales of comparable properties. Comparable properties of similar size, character and location are analysed and carefully weighted against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of values. No impairment loss on the prepaid lease payment was recognised for the years ended 31 December 2016 and 2015.

## 18. INVENTORIES

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Second hand left-hand-drive motor vehicles | 637 | 637 |
| Right-hand-drive motor vehicles | 4,641 | 11,358 |
| | 5,278 | 11,995 |

Inventories are stated at the lower of cost and net realisable value. At 31 December 2016, approximately HK$4,641,000 (2015: HK$7,066,000) were stated at net realisable value.

## 19. LOAN AND INTEREST RECEIVABLES

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Secured loan and interest receivables | 13,061 | 10,864 |
| Analysed as: | | |
| Current | 11,597 | 10,586 |
| Non-current | 1,464 | 278 |
| | 13,061 | 10,864 |

The secured loan and interest receivables arising from provision of financing services are secured by properties located in Hong Kong and bear fixed interest rate ranging from 8% to 30% (2015: 17% to 30%) per annum. The term of loans entered with customers ranges from 1 month to 60 months (2015: 2 months to 60 months).

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 19. LOAN AND INTEREST RECEIVABLES – *Continued*

The following table illustrates the ageing analysis, based on the loan drawn down dates, of the loan and interest receivables (net of accumulated impairment losses) outstanding at the end of the reporting period:

| | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|
| Less than 3 months | **7,900** | 8,004 |
| More than 3 months but less than 6 months | **3,600** | 508 |
| More than 6 months | **1,561** | 2,352 |
| | **13,061** | 10,864 |

The Group's loan financing customers included in the loan and interest receivables are due for settlement at the dates specified in the respective loan agreements.

As at 31 December 2016 and 2015, all of the loan and interest receivables are neither past due nor impaired. The Group holds properties as collateral over those balances.

The loan and interest receivables outstanding as at 31 December 2016 and 2015 are denominated in HK$.

During the years ended 31 December 2016 and 31 December 2015, no impairment loss on loan and interest receivables was recognised in the consolidated statement of profit or loss and other comprehensive income.

## 20. INTEREST IN A JOINT VENTURE

Details of the Group's interest in a joint venture is as follows:

| | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|
| Cost of investment in an unlisted joint venture in Hong Kong | 510 | – |
| Share of post-acquisition loss and other comprehensive expense, net of dividends received | (8) | – |
| | 502 | – |

Pursuant to a joint venture agreement entered into between a wholly-owned subsidiary of the Company and an independent third party in relation to the establishment of a joint venture company, Victory Investment Holdings Limited, the Group contributed HK$510,000 to Victory Investment Holdings Limited, which represented 51% of the equity interests in Victory Investment Holdings Limited. However, as the Group only have joint control over the composition of the board of directors of Victory Investment Holdings Limited, the Directors are of the opinion that Victory Investment Holdings Limited is therefore classified as a joint venture of the Group.

Details of the Group's joint venture at the end of the reporting period are as follow:

| Name of entity | Form of entity | Place of incorporation/ Principal place of business | Proportion of ownership interests held by the Group | | Proportion of voting rights held by the Group | | Principal activities |
|---|---|---|---|---|---|---|---|
| | | | 2016 | 2015 | 2016 | 2015 | |
| Victory Investment Holdings Limited | Incorporated | HK/HK | 51% | – | 50% | – | Trading of motor vehicles |

## 20. INTEREST IN A JOINT VENTURE – *Continued*

### Summarised financial information of joint venture

Summarised financial information in respect of the Group's joint venture is set out below. The summarised financial information below represents amounts shown in the joint ventures' financial statements prepared in accordance with HKFRSs.

The joint venture is accounted for using the equity method in these consolidated financial statements.

*Victory Investment Holdings Limited*

| | **2016** **HK$000** |
|---|---|
| Current assets | 985 |
| The above amounts of assets include the following: | |
| Cash and cash equivalents | 985 |

| | **13 January 2016 (date of incorporation) to 31 December 2016** **HK$000** |
|---|---|
| Revenue | **–** |
| Loss and total comprehensive expenses for the period | **(15)** |
| Dividends received from Victory Investment Holdings Limited during the period | **–** |

## 20. INTEREST IN A JOINT VENTURE – *Continued*

### Summarised financial information of joint venture – *Continued*

*Victory Investment Holdings Limited – Continued*

Reconciliation of the above summarised financial information to the carrying amount of the interest in Victory Investment Holdings Limited recognised in the consolidated financial statements:

| | **2016** |
|---|---|
| | **HK$'000** |
| Net assets of Victory Investment Holdings Limited | **985** |
| Proportion of the Group's ownership interest in Victory Investment Holdings Limited | **51%** |
| Carrying amount of the Group's interest in Victory Investment Holdings Limited | **502** |

## 21. PREPAYMENT, DEPOSITS AND OTHER RECEIVABLES

| | **2016** | 2015 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Prepayment (Note a) | | |
| – Non-current portion | **–** | 1,200 |
| – Current portion | **1,200** | 1,800 |
| | **1,200** | 3,000 |
| Other receivables (Note b) | **6,286** | 11,929 |
| Deposits | **237** | 278 |
| Other prepayments | **66** | 47 |
| Purchase deposits | **755** | 755 |
| Total prepayment, deposits and other receivables | **8,544** | 16,009 |
| Less: Prepayment classified as non-current assets | **–** | (1,200) |
| Prepayment, deposits and other receivables – current portion | **8,544** | 14,809 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 21. PREPAYMENT, DEPOSITS AND OTHER RECEIVABLES – *Continued*

*Notes:*

(a) During the year ended 31 December 2012, Sky Dragon (China) Trading Limited ("Sky Dragon"), a wholly-owned subsidiary of the Company, made advance payments to twelve PRC corporations/enterprises (collectively referred to as the "PRC Sale Representatives"). The prepayment was paid for the purpose of set-up sales desks for Sky Dragon to promote its brand name "汽車花園" in PRC, especially in the Guangdong Province. The services periods range from 3 to 5 years with services fee of HK$3,000,000 for each of the PRC Sale Representative, total of HK$36,000,000 has been paid during the year ended 31 December 2012. Service fee amounted to approximately HK$1,800,000 (2015: HK$7,717,000) has been recognised in the consolidated statement of profit or loss and other comprehensive income during the year ended 31 December 2016 using straight-line basis amortised over the service period.

(b) During the year ended 31 December 2012, the Group has entered into a sale and purchase agreement (the "Agreement") with Long Triumph Holdings Limited (the "Vendor") and Ms. Leung Oi Lan, Kit (the "Guarantor/ Ms. Leung") for acquiring the entire issued share capital of Jumbo Chance Holding Company Limited (the "Jumbo Chance"), at an aggregate consideration of HK$60,000,000 (the "Jumbo Chance Acquisition").

Pursuant to the Agreement, the Vendor and the Guarantor has jointly, severally, irrevocably and unconditionally warranted, guaranteed and undertaken to and with the Company that the consolidated net profits of the Jumbo Chance and its subsidiaries (collectively referred to as the "Jumbo Chance Group") for each of the one-year period from 1 April 2012 to 31 March 2013 (the "First Relevant Period") and the one-year period from 1 April 2013 to 31 March 2014 (the "Second Relevant Period") as to be shown in the audited consolidated financial statements of the Jumbo Chance Group for such period to be prepared by a certified public accountants acceptable to the Company shall not be less than HK$15,000,000 (the "Target Sum").

In the event that the net profits of the Jumbo Chance Group for each of the First Relevant Period and the Second Relevant Period is less than the Target Sum, the Company shall be entitled to a cash sum within seven business days after the issue of the audited consolidated financial statements of the Jumbo Chance Group of each of the First Relevant Period and the Second Relevant Period calculated as the Target Sum minus the net profits of the relevant year (the "Shortfall Amount").

At 31 December 2016, included in other receivables is the Shortfall Amount due from the Vendor with the amount of approximately HK$4,000,000 (2015: HK$4,000,000). The amount due is unsecured, non-interest bearing and repayment on demand.

At 31 December 2016, included in other receivables is amount due from Ms. Leung, a former beneficial owner of Jumbo Chance, with the amount of approximately HK$2,276,000 (2015: HK$7,916,000). The amount due is unsecured, non-interest bearing and repayable on demand.

The Group does not hold any collateral over these balances.

## 22. BANK BALANCES AND CASH

| | **2016** | 2015 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Bank balances and cash | **15,838** | 10,073 |

Cash at banks earn interest at floating rates based on daily bank deposits rates.

## 23. OTHER PAYABLES AND ACCRUALS

| | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|
| Other payables | **1,749** | 1,915 |
| Accruals | **1,833** | 692 |
| | **3,582** | 2,607 |

## 24. AMOUNT DUE FROM (TO) A DIRECTOR/A MINORITY SHAREHOLDER

The particular of amount due from a minority shareholder is as follows:

| Name of company | 2016 HK$ | Maximum amount outstanding during the year HK$ | 2015 HK$ |
|---|---|---|---|
| Hero Mark Inc Limited | **40** | **40** | * |

* Credit balance

The amount due from (to) a director/a minority shareholder is unsecured, non-interest bearing and repayable on demand.

## 25. BANK BORROWING

| | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|
| Secured borrowing – repayable within one year | **12,000** | – |

As at 31 December 2016, the bank borrowing is secured by a mortgage over the Group's building and prepaid lease payment (Notes 16 and 17) and personal guarantee to be executed by the directors, Mr. Chan Chun Choi and Mr. Chan Kingsley Chiu Yiu. The bank borrowing bears interest at HIBOR (1 month) + 3.25% per annum. The bank borrowing is denominated in HK$.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 26. DEFERRED TAXATION

At the end of the reporting period, the Group has unused tax losses of approximately HK$212,009,000 (2015: HK$201,447,000). No deferred tax assets have been recognised in respect of the unused tax losses due to the unpredictability of future profit streams of the Group. The tax losses can be carried forward indefinitely.

## 27. SHARE CAPITAL

| | Par value per share HK$ | Number of shares | Amount HK$'000 |
|---|---|---|---|
| Authorised: | | | |
| At 31 December 2015 and **31 December 2016** | 0.001 | 152,055,864,000 | 152,056 |
| Issued and fully paid: | | | |
| At 31 December 2015 and **31 December 2016** | 0.001 | 859,146,438 | 859 |

## 28. SHARE OPTION SCHEME

Pursuant to resolutions passed at the annual general meeting of the shareholders held on 26 May 2014, the Company adopted a share option scheme (the "Share Option Scheme"). The purpose of the Share Option Scheme is to motivate the eligible participants to optimise their performance and efficiency for the benefit of the Group; and attract and retain or otherwise maintain ongoing business relationship with the eligible participants whose contributions are, will or expected to be beneficial to the Group.

Under the terms of the Share Option Scheme, the Directors may, at their discretion, grant options to the participants fall within the definition prescribed in the Share Option Scheme including (i) directors, employees, consultant, professional, customer, supplier, agent, partner or adviser of or contractor to the Group or a company in which the Group holds an interest or a subsidiary of such company ("Affiliate"); or (ii) the trustee of any trust the beneficiary of which or any discretionary trust the discretionary objects of which include any director, employee, consultant, professional, customer, supplier, agent, partner or adviser of or contractor to the Group or an Affiliate; or (iii) a company beneficiary owned by any director, employee, consultant, professional, customer, supplier, agent, partner or adviser of or contractor to the Group or an Affiliate, to subscribe for shares in the Company at a price determined by the Board, and will not be less than the highest of (i) the nominal value of a share on the date of grant; (ii) the average closing price of a share as stated in the Stock Exchange's daily quotations sheet for the 5 business days immediately preceding the date of grant; and (iii) the closing price of a share as stated in the Stock Exchange's daily quotations sheet on the date of grant of the relevant option, which must be a business day.

## 28. SHARE OPTION SCHEME – *Continued*

The number of shares in respect of which options may be granted under the Share Option Scheme shall not, in aggregate, exceed 10% of the shares of the Company in issue as at the date of listing of the shares unless approved by the Company's shareholders.

Options granted to a substantial shareholder of the Company or an independent non-executive director or any their respective associates would result in the total number of the shares issued and to be issued upon exercise of the options granted and to be granted to such person in any 12-month period up to and including the date of the grant representing in aggregate over 0.1% of the shares in issue and having an aggregate value, based on the closing price of the shares at the date of each grant, in excess of HK$5,000,000 must be approved by the Company's shareholders.

The Share Option Scheme shall be valid and effective for a period of 10 years commencing on 26 May 2014, unless otherwise cancelled or amended.

A nominal consideration of HK$1 is payable on acceptance of the grant of an option.

No share option was granted under the Share Option Scheme since it has been adopted on 26 May 2014.

## 29. MAJOR NON-CASH TRANSACTION

During the year ended 31 December 2016, the inventories which represented the cost of two motor vehicles of approximately HK$4,929,000 had been returned to a minority shareholder and set off with the amount due to a minority shareholder of approximately HK$4,889,000.

## 30. OPERATING LEASES

### The Group as lessee

| | **2016**<br>**HK$'000** | 2015<br>HK$'000 |
|---|---|---|
| Minimum lease payments paid under operating leases during the year: | | |
| – Premises | **1,080** | 1,556 |

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancelable operating leases which fall due as follows:

| | **2016**<br>**HK$'000** | 2015<br>HK$'000 |
|---|---|---|
| Within one year | **–** | 1,080 |

## 30. OPERATING LEASES – *Continued*

The Group leases premises under an operating lease. As at 31 December 2016, the group had no commitments under operating leases. As at 31 December 2015, the lease runs for an initial period of 2 years, with an option to renew the lease at the expiry date or at dates mutually agreed between the Group and the landlord. The lease does not include contingent rental.

## 31. MATERIAL RELATED PARTY TRANSACTIONS

### (a) Balances with Directors:

| | **2016** **HK$'000** | 2015 HK$'000 |
|---|---|---|
| Non-trade balances due to directors | **27** | 2,003 |

### (b) Transaction with minority shareholder

During the year ended 31 December 2016, the inventories which represented the cost of two motor vehicles of approximately HK$4,929,000 had been returned to a minority shareholder and set off with the amount due to a minority shareholder of approximately HK$4,889,000.

### (c) Key management personnel compensation

The key management personnel of the Group comprises all Directors, details of their emolument are disclosed in Note 13 to the consolidated financial statement. The emolument of Directors is determined by the Remuneration Committee having regard to the performance of individual and market trends.

## 32. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of net debt which includes bank borrowing, amount due to a director and amount due to a minority shareholder, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital and reserves and accumulated losses.

The Directors review the capital structure on a regular basis. As part of this review, the Directors consider the cost of capital and the risks associates with each class of capital. Based on recommendations of the Directors, the Group will balance its overall capital structure through new share issues as well as the issue of new debt.

## 33. PARTICULARS OF SUBSIDIARIES

Particulars of the Group's subsidiaries at the end of the reporting period are as follows:

| Name | Place of incorporation/ operations | Class of shares held | Issued and fully paid share capital | Proportion of ownership interest held by the Company Directly 2016 | Directly 2015 | Indirectly 2016 | Indirectly 2015 | Proportion of voting power held by the Company Directly 2016 | Directly 2015 | Indirectly 2016 | Indirectly 2015 | Principal activities |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Victory Group (BVI) Limited | British Virgin Islands/Hong Kong | Ordinary | HK$100,000 | **100%** | 100% | **-** | – | **100%** | 100% | **-** | – | Investment holding |
| Victory Motors Centre Limited | Hong Kong | Ordinary | HK$1,000 | **-** | – | **100%** | 100% | **-** | – | **100%** | 100% | Investment holding |
| | | Non-voting deferred | HK$3,000,000 | | | | | | | | | |
| Victory Realty Limited | Hong Kong | Ordinary | HK$10,000 | **-** | – | **100%** | 100% | **-** | – | **100%** | 100% | Inactive |
| Hong Kong Waho Development Limited | Hong Kong | Ordinary | HK$1,000,000 | **-** | – | **100%** | 100% | **-** | – | **100%** | 100% | Property holding |
| Victory Capital Holdings Limited | Hong Kong | Ordinary | HK$2 | **-** | – | **100%** | 100% | **-** | – | **100%** | 100% | Money lending |
| Victory H-Tech Company Limited | Hong Kong | Ordinary | HK$100,000 | **-** | – | **100%** | 100% | **-** | – | **100%** | 100% | Inactive |
| 華利亞科技(深圳)有限公司 | PRC | Paid up registered capital | HK$10,000,000 | **-** | – | **100%** | 100% | **-** | – | **100%** | 100% | Inactive |
| Victory Credit Service Limited | Hong Kong | Ordinary | HK$10,000 | **67%** | 67% | **-** | – | **67%** | 67% | **-** | – | Inactive |
| Wakit Motors Limited | Hong Kong | Ordinary | HK$100,000 | **-** | – | **60%** | 60% | **-** | – | **60%** | 60% | Trading in motor vehicles |
| Jumbo Chance | British Virgin Islands/ Hong Kong | Ordinary | US$1 | **-** | – | **100%** | 100% | **-** | – | **100%** | 100% | Investment holding |
| Sky Dragon | Hong Kong | Ordinary | HK$10,000 | **-** | – | **100%** | 100% | **-** | – | **100%** | 100% | Trading and distribution of second hand left-hand-drive motor vehicles |
| Express Luck Limited | Hong Kong | Ordinary | HK$10,000 | **-** | – | **100%** | 100% | **-** | – | **100%** | 100% | Inactive |
| AC Cars World Limited ("AC Cars") *(Note)* | Hong Kong | Ordinary | HK$10,000 | **-** | – | **100%** | 100% | **-** | – | **100%** | 100% | Trading in motor vehicles |

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

*Note:*

During the year ended 31 December 2015, the Group further acquired 50% equity interest of AC Cars at a consideration of HK$5,000 from a minority shareholder. The loss between the cash consideration paid and the carrying net assets acquired of approximately HK$4,000 was recognised in equity as other reserve and the derecognition of non-controlling interest of approximately HK$1,000 was recognised as a decrease in the non-controlling interests.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 33. PARTICULARS OF SUBSIDIARIES – *Continued*

### Details of non-wholly owned subsidiaries that have material non-controlling interests

The table below shows details of non-wholly-owned subsidiaries of the Group that have material non-controlling interests:

| Name | Place of incorporation and principal place of business | Proportion of ownership interests and voting rights held by non-controlling interests | | Loss allocated to non-controlling interests | | Accumulated non-controlling interests | |
|---|---|---|---|---|---|---|---|
| | | **2016** | 2015 | **2016 HK$'000** | 2015 HK$'000 | **2016 HK$'000** | 2015 HK$'000 |
| Wakit Motors Limited | Hong Kong | **60.00%** | 60.00% | **(716)** | (88) | **(1,336)** | (620) |
| Individually immaterial subsidiary with non-controlling interest | | | | **(1)** | (1) | **(26)** | (25) |
| | | | | **(717)** | (89) | **(1,362)** | (645) |

Summarised financial information in respect of the Group's subsidiary that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

## 33. PARTICULARS OF SUBSIDIARIES – *Continued*

*Wakit Motors Limited*

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Current assets | **4,786** | 11,465 |
| Current liabilities | **(8,125)** | (13,014) |
| Equity attributable to owners of the Company | **(2,003)** | (929) |
| Non-controlling interests | **(1,336)** | (620) |
| Revenue | **–** | 2,177 |
| Expenses | **(1,790)** | (2,397) |
| Loss and total comprehensive expenses attributable to owners of the Company | **(1,074)** | (132) |
| Loss and total comprehensive expenses attributable to non-controlling interests | **(716)** | (88) |
| Loss for the year | **(1,790)** | (220) |

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Dividends paid to non-controlling interests | **–** | – |
| Net cash outflow from operating activities | **(1)** | (620) |
| Net cash outflow from investing activities | **–** | – |
| Net cash outflow from financing activities | **–** | – |
| Net cash outflow | **(1)** | (620) |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 34. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

| | Notes | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Plant and equipment | | **11** | 7 |
| Interests in subsidiaries | *a* | **35,025** | 39,238 |
| | | **35,036** | 39,245 |
| **CURRENT ASSETS** | | | |
| Prepayments | | **30** | 32 |
| Amount due from a director | | **591** | 857 |
| Bank balances and cash | | **285** | 500 |
| | | **906** | 1,389 |
| **CURRENT LIABILITIES** | | | |
| Other payables and accruals | | **774** | 712 |
| **NET CURRENT ASSETS** | | **132** | 677 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **35,168** | 39,922 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | | **859** | 859 |
| Reserves | *b* | **34,309** | 39,063 |
| **TOTAL EQUITY** | | **35,168** | 39,922 |

The Company's statement of financial position was approved and authorised for issue by the board of directors on 27 March 2017 and are signed on its behalf by:

**Chan Chun Choi**
*DIRECTOR*

**Lo So Wa Lucy**
*DIRECTOR*

## 34. STATEMENT OF FINANCIAL POSITION OF THE COMPANY – *Continued*

*Notes:*

### (a) Interests in subsidiaries

| | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|
| Investments at cost | | |
| Unlisted shares | 76,316 | 76,316 |
| Less: Accumulated provision for impairment | (76,316) | (76,316) |
| | – | – |
| Amounts due from subsidiaries due within one year | | |
| Interest bearing at 4% per annum (2015: 4%) | 20,245 | 21,850 |
| Non-interest bearing | 152,124 | 150,746 |
| | 172,369 | 172,596 |
| Less: Accumulated provision for impairment | (137,344) | (133,358) |
| | 35,025 | 39,238 |

Amounts due from subsidiaries are unsecured and repayable on demand.

### (b) Reserves

| | Share premium HK$'000 | Contributed surplus HK$'000 *(Note)* | Accumulated losses HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| At 1 January 2015 | 158,099 | 64,809 | (181,453) | 41,455 |
| Loss and total comprehensive expense for the year | – | – | (2,392) | (2,392) |
| At 31 December 2015 | 158,099 | 64,809 | (183,845) | 39,063 |
| Loss and total comprehensive expense for the year | – | – | (4,754) | (4,754) |
| **At 31 December 2016** | **158,099** | **64,809** | **(188,599)** | **34,309** |

*Note:*

The contributed surplus represents the excess of the fair value of the subsidiary's shares acquired pursuant to the reorganisation on 22 January 1998, over the nominal value of the Company's shares issued in exchange.

# Summary Financial Information

## RESULTS

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2016** | 2015 | 2014 | 2013 | 2012 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Revenue | **4,902** | 10,985 | 30,216 | 29,963 | 71,735 |
| (Loss) profit before tax | **(12,866)** | (18,595) | (22,495) | (29,812) | 38,784 |
| Income tax expense | **(28)** | (340) | (52) | – | – |
| (Loss) profit for the year | **(12,894)** | (18,935) | (22,547) | (29,812) | 38,784 |
| (Loss) profit attributable to | | | | | |
| Owners of the Company | **(12,177)** | (18,846) | (21,967) | (29,796) | 38,791 |
| Non-controlling interests | **(717)** | (89) | (580) | (16) | (7) |
| | **(12,894)** | (18,935) | (22,547) | (29,812) | 38,784 |

## ASSETS AND LIABILITIES

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | **2016** | 2015 | 2014 | 2013 | 2012 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Non-current assets | **14,903** | 15,534 | 20,810 | 25,231 | 46,567 |
| Current assets | **41,678** | 47,844 | 68,987 | 87,303 | 106,432 |
| Current liabilities | **(15,913)** | (9,816) | (17,295) | (17,485) | (24,938) |
| Net current assets (liabilities) | **25,765** | 38,028 | 51,692 | 69,818 | 81,494 |
| Total assets less current liabilities | **40,668** | 53,562 | 72,502 | 95,049 | 128,061 |
| Non-current liabilities | **–** | – | – | – | (3,245) |
| Net assets (liabilities) | **40,668** | 53,562 | 72,502 | 95,049 | 124,816 |